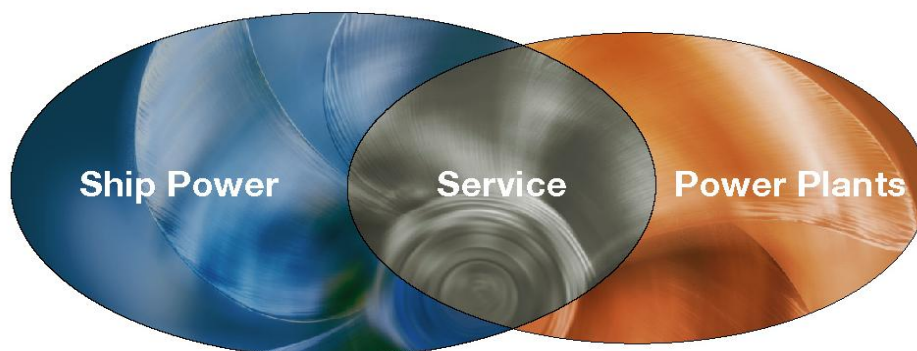


Welcome to Wärtsilä

Wärtsilä is The Ship Power Supplier for builders, owners and operators of vessels and offshore installations. We are the only company with a global service network to take complete care of customers' ship machinery at every lifecycle stage.

Wärtsilä is a leading provider of power plants, operation and lifetime care services in decentralized power generation.



Among the customers of Wärtsilä are the leading companies in the world in the Marine and Power Generating business, which are served by Wärtsilä all over the world.

One of the competitive advantages of Wärtsilä in the market is the highly committed supplier network created around the products of Wärtsilä. Wärtsilä has the strategy to concentrate on its core-business and to rely on the supply chain build up with its suppliers. Wärtsilä regards this network essential for its success, it will guarantee high quality, optimal cost efficiency and effective logistics.

Many suppliers have already taken the challenge to join and work together with Wärtsilä.

These suppliers experience that being a member of the Wärtsilä supplier network offers many advantages. They benefit from the fact that Wärtsilä puts a lot of effort in supporting the suppliers and help these suppliers to discover best practices to become better every day. Naturally the advantages are also used by these suppliers to make their position in the market stronger.

Of course Wärtsilä is constantly searching for new suppliers who meet the demands and who like to join and like to enter this stimulating Wärtsilä supplier network.

In this guide it is explained for the suppliers how Wärtsilä works together with its supplier network.

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1. Introduction

A more detailed description of Wärtsilä, including the strategy and the main financial data, is given in the brochure **“Wärtsilä in brief”** or on the website of Wärtsilä www.wartsila.com.

The purpose of this Supplier Guide is to describe the policies of Wärtsilä and its Supply Management organization. This Supplier Guide states the way Wärtsilä co-operates with its suppliers and the requirements a supplier of Wärtsilä has to meet.

These requirements will be the basis for the assessment of suppliers. Wärtsilä will actively monitor the supplier performance against these requirements to continuously improve the performance and optimize the relation.

It is important that the Supplier gets familiar with this guide and uses it as a part of the training program in its organization.

2. Wärtsilä Policies

2.1. Quality Policy in Wärtsilä

"Our goal is Operative Excellence in our business."

Customer Focus

The objective is to identify continually customer expectations and requirements and ensure that they are met during all the phases of our business. By using Wärtsilä products and services the customer is able to produce the energy needed for different purposes in a way, which is both economical and environmentally sound.

Innovative Products and Services

Wärtsilä aims to stay ahead of competitors by continually improving our products, services and operations to the greater satisfaction of all stakeholders. Wärtsilä develops new products and services to achieve a high level of customer perceived product quality and optimized total costs. Environmentally sound and safe products are key considerations in our processes.

Continuous Improvement of Processes and Business Relations

The operation of the organization shall be carried out through established efficient processes, which are directed towards the Customer Satisfaction. The processes are continuously improved and regularly monitored against the set goals with the Performance Indicators.

Wärtsilä works closely and continuously with suppliers and consultants as partners to find cost-effective and environmentally friendly solutions and to continuously improve our products and services.

Emphasis on People

The high quality of Wärtsilä products and services is achieved by skilled and dedicated people. The quality improvement efforts boost our company's competitiveness and stimulate the constant replacement of old ways of working in a rapidly changing business environment.

The responsibility for quality lies with everyone in the organization and it is every employee's duty to be vigilant against deviations of required standards.

The company strives to stimulate an inspiring atmosphere in order to motivate, learn and use new skills as well as to share best practice. The company further strives to offer and continuously improve good occupational health and safety for the employees.

2.2. Environmental Policy

Wärtsilä provides environmentally advanced energy system solutions and services based on customers' needs. We strive to reduce the adverse environmental impacts of our operations and products.

The Environmental Management System used by Wärtsilä is in accordance with the ISO 14001, with defined responsibilities and supported by detailed work instructions. Compliance with the EMS is ensured by third party auditing in all of our companies.

Our minimum requirement when considering operational solutions is compliance with the laws and regulations related to both environmental and health and safety issues. It is our aim to cover the whole supply chain and support our suppliers and customers in developing efficient and sound procedures for environmental management.

Environmental performance is developed according to the continuous improvement principles. The management of Wärtsilä sets objectives and targets for environmental issues and regularly monitors how these are achieved.

Our company presidents are responsible for ensuring that the environmental management of the companies complies with our environmental policy and ISO 14001 standard. However, responsibility in environmental issues is a matter of everyone. We inform and educate our personnel on environmental care and protection as well as risk management within their areas of responsibility.

2.3. Occupational health and safety policy

Wärtsilä provides environmentally advanced energy system solutions and services based on customers' needs. The Group values and respects human life and consequently strives to provide a safe and hazard free work environment and to minimize the adverse occupational health and safety impacts of our operations and products.

The OH & S management system used by Wärtsilä is in accordance with the OHSAS 18001 standard with defined responsibilities and supported by work instructions. Compliance with the OH & S standard is ensured by auditing in all of our organizations. Our minimum requirement when considering operational solutions is compliance with the laws and regulations, specific to each Wärtsilä site, related to occupational health and safety issues.

The management of Wärtsilä sets objectives for OH & S issues and regularly monitors how these are achieved. Occupational health and safety performance is developed according to the continuous improvement principles (CIP).

It's our aim to cover the whole supply chain and support our suppliers, customers and contractors in developing efficient and sound procedures for occupational health and safety management.

Wärtsilä Corporation management is responsible for ensuring that the OH & S management of the organizations complies with local laws and regulations, Wärtsilä Occupational health and safety policy, directive and OHSAS 18001 standard.

However, responsibility in OH & S issues is a matter of everyone. We inform and educate our personnel on OH & S care and protection as well as risk management within their areas of responsibility.

3. Purchasing philosophy

To produce its products Wärtsilä works closely together with a large network of reliable and dedicated suppliers.

It is the production philosophy of Wärtsilä to concentrate on the assembly of the engines and installations and the manufacturing of vital and critical products. All other products and systems are bought from suppliers in the market.

The task of the Purchasing Organization is to develop this network of suppliers, where the know-how of the supplier and the know-how of Wärtsilä together form the most competitive combination.

The policy of Wärtsilä is to aim for a business relation with suppliers for a longer period, given the nature and the production processes of the products. This business relation must be well established, this means that it is supported by regular supplier assessments and approvals and annual agreements.

Wärtsilä, as a global market player, operates in a competitive environment and supplies to highly demanding customers. This is reflected in the approach of its suppliers. Results can only be achieved through an optimum supply chain with the target to create value for all parties, enabling the suppliers to grow sustainable together with Wärtsilä.

A profitable growth requires excellence in all operations, cost efficiency and continuous improvement in all activities. Wärtsilä builds its relations with the supplier on the following cornerstones:

- zero defect quality
- on time deliveries
- competitive costs.

Premise for co-operation is also that supplier shall comply with all laws and local regulations and other requirements as stated in chapter 5 of this Supplier Guide in all its activities.

Supplier assessment

Before the beginning of delivery cooperation Wärtsilä will carry out a pre-assessment. The most important things during evaluation are:

- structure and organization of the supplier
- expertise of employees
- Available tools and production facilities
- Capacity and flexibility
- Quality assurance and documentation control

Special attention will be given to the implementation of the quality system and the measuring devices and testing tools in use. Supplier must have a systematic method for servicing and calibration of measuring devices.

During the co-operation the performance of supplier is followed on a regular basis take into account the important aspects of the business relation and the delivery performance. An audit of the supplier can be part of this follow-up.

Supplier co-operation

Wärtsilä is committed to invest in the co-operation with a supplier as this is the key to success for both parties.

The Wärtsilä way of working to reach an optimal co-operation is based on the principal of setting objectives and continuous improvement:

The well-known Deming-circle (**Plan – Do – Check – Act**) is a used as a framework for this way of working.

Clear business objectives and target setting

It is in the interest of Wärtsilä and the supplier to share the business trends and the market views, as these will give input for the strategy and hence direct the decision making process. These trends and the resulting predicted revenues are translated in cost and delivery time targets for the products of Wärtsilä.

On a more detailed level this process leads to cost and delivery targets for products, which are shared with the suppliers and are the basis for the co-operation.

Non-disclosure

As every other Manufacturer of advanced products of high quality it is important for Wärtsilä to take special care of the knowledge that it has developed over the years. It goes without saying that Wärtsilä remains the owner of all supplied drawings, documents, data etc. It is practice to share such information only on a need to know basis in the organization of the supplier.

As a practice all business relations including request for quotations can only start after Wärtsilä and the supplier have agreed on the confidentiality and on the non-disclosure of all the information the supplier receives from Wärtsilä.

Requests For Quotations (RFQ)

Offers of suppliers are based on written requests for quotations from Wärtsilä.

These RFQ's will provide the following information:

- the scope of supply, meaning the product to be quoted, including the technical specifications (drawings and other technical requirements)
- the quality requirements
- the delivery requirements
- the scope of the business (project and expected volumes)

Offers of suppliers are expected to be clear and as detailed as possible and covering all aspects of the request.

Series prices must be quoted for at least a period of one year.

Contracts

Wärtsilä has as a rule that all business relations with suppliers are formalized with a contract. In this contract the basic obligations of Wärtsilä and the supplier and the terms and conditions for the supply of the products are agreed:

- Scope of the contract and scope of the supply
- Ordering, price & delivery and payment terms
- Quality assurance, inspection, acceptance and non-conformity
- Warranty & Liability
- Ownership and non-disclosure of information
- Validity

Communication

The communications policy of Wärtsilä is open and business like.

In a complex organization it is essential that actions are executed as agreed and on time.

To support this it is standard practice to confirm verbal communication, agreements and commitments in writing, e.g. e-mail, fax or letter.

To make the communication as efficient as possible the communication channels must be clear, preferable short lines from Wärtsilä expert to the supplier expert with assigned contact persons.

All communications will be in the English language.

Development of the supplier

In order to further develop the relation and to reach the quality, delivery and cost targets, continuous improvement must be in every day's business. It is expected from the supplier that resources are made available for these continuous improvement activities.

If necessary Wärtsilä will give its input and support to improvement projects started by the supplier, by providing general expertise and expert advice and/or involvement.

Relation management

The overall management of the relation is the responsibility of the purchasing manager. He will be responsible for the execution and administration of the contract with the supplier. It is expected that the supplier shall also nominate a contact person responsible for the relation.

On a regular basis meetings will be held to review the relation and to update the targets and define development and improvement areas.

4. Wärtsilä requirements for Suppliers:

General requirements

1. Compliance with relevant legislation

Any and all business transactions and other activities of the supplier shall be carried out strictly in compliance with applicable laws and under the requirements of good citizenship in each jurisdiction where such activities take place. This includes, but is not restricted to, laws and regulations on competition, corporate governance, taxation, financial disclosure, occupational health and safety, employee rights and environmental protection. Strong attention must be paid to the integrity of each business transaction.

Neither the supplier nor any of its employees may solicit, accept or offer bribes or kickbacks of any kind. This includes money, benefits, services and anything beyond nominal value. Such payments and favours may be considered bribery, which violates local legislation and internationally recognized principles for combating corruption and bribery.

2. Submitting the necessary information

The supplier shall provide necessary information to Wärtsilä in order for Wärtsilä to assess the supplier's compliance with these supplier requirements. The supplier shall also inform Wärtsilä of any gaps in its performance. Wärtsilä handles this information confidentially and does not use the information publicly without the permission of the supplier.

3. Confidentiality

The supplier shall sign a written commitment regarding confidentiality/non-disclosure. The supplier shall keep the confidential information of Wärtsilä in confidence and shall not use it for any other purpose than the one determined by Wärtsilä. The supplier shall comply with the specific requirements of the applicable Confidentiality/Non-Disclosure Agreement.

Technical and safety requirements

The supplier specific requirements shall be determined in the agreement.

1. Technical capabilities

The supplier shall have the design and manufacturing capabilities required by Wärtsilä.

2. Technical performance and compliance

The supplier's product quality shall fulfil Wärtsilä's performance and compliance requirements. The supplier shall also secure that the product complies with all the safety regulations and requirements.

3. Communication and claim handling

In case the supplier or its sub-supplier owns the design of its product and performs any changes to the design and/or the production process, the supplier shall, before implementing any changes, inform Wärtsilä in order to discuss and/or find out what kind of consequences the changes may have to Wärtsilä. The supplier shall handle Wärtsilä's claims professionally and without any delays.

Quality

1. Certified quality management system

The supplier shall have a certified quality management system created according to ISO9001 latest edition at the minimum.

2. Inspections on supplier's premises

The supplier shall allow Wärtsilä to make inspections at supplier's premises. The supplier shall ensure that Wärtsilä is allowed to make inspections also at the sub-suppliers' premises if needed.

3. Process mapping and quality plans

The supplier shall have the processes mapped and implemented as well as the quality plans for Wärtsilä components, equipments, systems and services.

4. Corrective and preventive actions

The supplier shall have a system for components, equipments, systems and services follow up, as well as for corrective and preventive actions for nonconformities.

Environment

1. Certified environmental management system

The supplier shall have a certified environmental management system created according to ISO14001 or EMAS.

2. Reporting of packing materials

The supplier shall record annually the amounts of packing materials submitted to Wärtsilä companies and report the annual figures to Wärtsilä when required.

Occupational health and safety

1. Occupational health and safety program

The supplier shall have management approved occupational health and safety programs implemented the aim of which is to create hazard-free workplace for its employees.

2. Safety plan

The supplier shall have a valid safety plan for emergency situations with trained personnel.

3. Safety equipments

The supplier shall have sufficient safety equipment in all significant premises for the emergency situations.

Social issues

1. Human rights

The supplier shall support and respect the protection of internationally proclaimed human rights, as defined in United Nation's Universal Declaration on Human Rights (www.un.org).

2. Freedom from discrimination

The supplier shall promote equal working opportunities and freedom from any discrimination based for example on race, nationality, sex, religion and/or age.

3. Freedom of association and collective bargaining

The supplier shall support basic labour rights as stated by the International Labour Organization (www.ilo.org). In this respect the suppliers shall uphold the freedom of association and the effective recognition of the right to collective bargaining. In case these rights are restricted by local law, the supplier shall offer its personnel alternative methods to present their views.

4. Compensation

Wages paid for regular working hours, overtime hours and overtime differentials shall meet at least the legal minimums. Illegal or unauthorised deductions from wages shall not be made.

5. Child labour

Any kind of use of child labour is strictly prohibited.

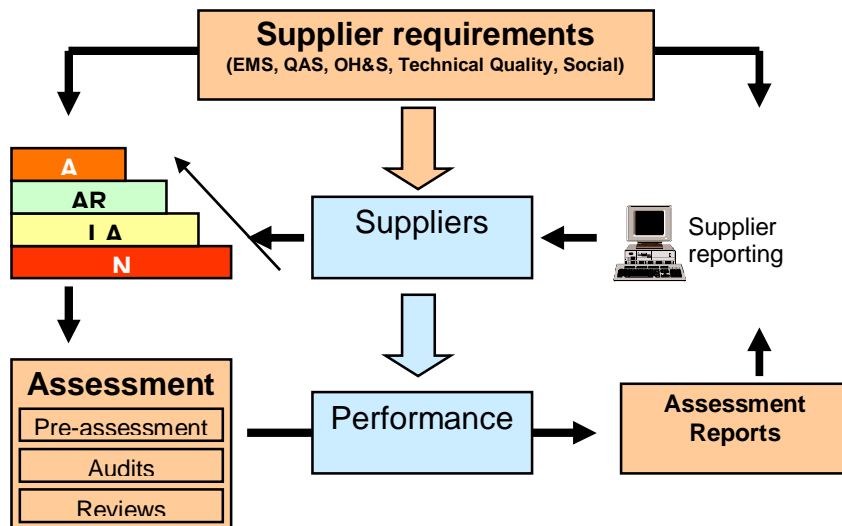
6. Forced labour

The use of forced and compulsory labour of any form is strictly prohibited.

Supplier assessment

4.1. General principles

The Wärtsilä supplier assessment is method used to evaluate new and current supplier to Wärtsilä. The evaluation will identify strength and weaknesses in order to develop the supplier performance and the supplier will be aware of Wärtsilä requirements and Wärtsilä way of working. The supplier assessment is based on the requirements of Wärtsilä for the suppliers. Wärtsilä communicates the requirements to its suppliers and more detailed requirements are agreed in supplier agreements. Wärtsilä monitors and assess the supplier performance by performance indicators and by using the relevant assessment tools: pre-assessment, audit and performance reviews. Based on results of performance indicators and various assessments Wärtsilä rates its suppliers. The rating result will have an impact on the delivery volume.



Picture: The principles of Wärtsilä Supplier Assessment

4.2. Classification of suppliers and application of procedures

Because of the wide range of suppliers, the Wärtsilä has divided suppliers into four groups, which helps to determine the scope of application of supplier assessment.

- Group I Suppliers, which deliver listed components, equipment or systems to Wärtsilä products.
- Group II Suppliers, which deliver other components, equipment or systems than specified for Group I.
- Group III Suppliers, which deliver components, equipment, systems or services that are not connected to Wärtsilä products.
- Group IV Suppliers, which deliver other components, equipment or systems locally to the projects of Wärtsilä

Currently the procedures are applied to the groups as follows:

Tools	Group I	Group II	Group III	Group IV
Requirements	•	•	•	•
Pre-assessment	•	•		
Audits	•			
Performance review	•	•	•	•
Rating	•			

4.3. Assessment tools

4.3.1. Pre-assessment

All new Wärtsilä suppliers (group I and II) will be pre-assessed before a real supplier relationship can be started. The purpose of the pre-assessment is to establish the possibilities of the supplier to fulfill the requirements of Wärtsilä and to inform the supplier of the procedures of Wärtsilä. The pre-assessment questionnaire can be sent to the supplier beforehand for familiarization. The procurement organization will be responsible for carrying out the pre-assessment.

4.3.2. Audit

Auditing connected to Supplier Assessment will be carried out by a Wärtsilä appointed auditor. The suppliers will be audited against Wärtsilä requirements. Currently only suppliers belonging to Group I will be audited. The auditing list consists of new suppliers who have passed the pre-assessment and test deliveries, of suppliers who have been asked to take corrective actions on the basis of previous auditing, and of suppliers whose performance has weakened considerably. If the supplier fully complies with the Wärtsilä requirements, it will not be audited.

4.3.3. Performance review

Performance review is a tool for solving an occasional problem or for improving efficiency of the function. Performance review is carried out if, for instance, a quality problem in a delivery occurs or if there is a need to reduce the cost of the component. The Purchasing organization is responsible for the Performance review, but it can also be carried out by the local quality organization.

4.3.4. Supplier rating and delivery volumes

Wärtsilä monitors the performance of its suppliers continuously. The suppliers are rated regularly and based on the performance of the supplier the relevant approval status and delivery volumes are determined. The rating system includes minimum requirements for various statuses, that the supplier is expected to reach in order to gain the relevant status.

i. Approved (A)

In order to reach the approved status, the supplier is to fulfill all the minimum requirements specified in Wärtsilä's supplier rating system. The principle is that every supplier should reach the approved status.

ii. Approved with remarks (AR)

In order to reach the approved with remarks status, the supplier is to fulfill all the minimum requirements specified in Wärtsilä's supplier rating system. "Approved with remarks" means that the delivery volumes of the suppliers are limited. The limitation is defined by the rating system. Supplier having approved with remarks status must take all the necessary corrective actions in order to reach the approved status. The action plans and time-schedules are agreed with the responsible strategic purchaser of Wärtsilä.

iii. Limited approval or first project (LA)

In order to reach the Limited approval or first project status, the supplier is to fulfill all the minimum requirements specified in Wärtsilä's supplier rating system. All the necessary action plans are to be approved by Wärtsilä. Supplier having limited approval status must take all the necessary corrective actions in order to reach the approved status. The action plans and time-schedules are agreed with the responsible strategic purchaser of Wärtsilä.

iv. Banned (N)

If the supplier does not fulfill the requirement of Wärtsilä or any of the rating indicators indicates banning level, the supplier is banned from delivering any goods to Wärtsilä. Supplier having banned status must take all the necessary corrective actions in order to reach the approved status. The action plans and time-schedules are agreed with the responsible strategic purchaser of Wärtsilä.