# Board of Directors' report

## Highlights 2015
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### The year 2015

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Highlights 2015

Wärtsilä’s performance in 2015 was in line with the targets set for the year. Supported by a solid fourth quarter and continued growth in service volumes, net sales increased by 5% and profitability reached 12.2%.

The operating environment was challenging in both the energy and marine markets. Macro-economic development uncertainty limited investments in new power plant capacity, while the demand for new vessels was burdened by overcapacity and depressed oil prices. Order intake for both Marine and Energy Solutions declined from the previous year, although activity improved sequentially during the second half of the year. Service markets developed favourably, supported by increased demand for maintenance work and propulsion system upgrades in the marine markets as well as the increased utilisation of power plant installations. Services’ development was clearly the highlight of the year. A focused sales approach and an enhanced value proposition, together with the increasing willingness of customers to invest in performance optimising services, resulted in double digit growth in both orders and sales.

During the year, Wärtsilä continued to develop its business by expanding its product and solutions offering, as well as by pursuing growth opportunities through acquisitions. R&D investments represented 2.6% of net sales. The acquisition of L-3 Marine Systems International was finalised in June and the integration programme is proceeding well. The acquisition considerably strengthens Wärtsilä’s position in automation, navigation and electrical systems, and expands the company’s digital presence.

Net sales

<table>
<thead>
<tr>
<th>MEUR</th>
<th>2015</th>
<th>2014</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Solutions</td>
<td>1 126</td>
<td>1 138</td>
<td>-1%</td>
</tr>
<tr>
<td>Marine Solutions</td>
<td>1 720</td>
<td>1 702</td>
<td>1%</td>
</tr>
<tr>
<td>Services</td>
<td>2 184</td>
<td>1 939</td>
<td>13%</td>
</tr>
<tr>
<td>Group</td>
<td>5 029</td>
<td>4 779</td>
<td>5%</td>
</tr>
</tbody>
</table>

Strategy

Wärtsilä aims at profitable growth by providing advanced technologies and lifecycle solutions to its marine and energy market customers.

Increasing environmental awareness and changing energy needs are affecting the way that our customers operate. With our integrated products and services, we are well positioned today to respond to the need for energy efficient and flexible solutions. We will meet the increasing demand for gas based technologies with our industry leading multiple fuel products and LNG solutions. We will leverage our project management and engineering competences to achieve growth by offering our customers new and innovative solutions. Our growth ambitions are supported by our superior global service network.

With our production and supply chain management, we constantly seek ways to provide high quality and maintain cost

This document is a section of Wärtsilä’s Annual Report. To view the report in full, please visit www.wartsila.com/ar2015
efficiency – often in co-operation with leading industrial partners in our key growth markets. Our market driven investments in R&D and our focus on digitalisation create a strong foundation for securing and strengthening our position at the forefront of technological innovation. This innovative culture, together with our constant emphasis on safety, diversity, and high ethical standards, attract skilled and committed people and lead to a high performing organisation. Our entrepreneurial drive, customer focus, and passion for doing right not only create new opportunities and environmentally sustainable solutions, but also bring value to all our stakeholders.

**Strategy implementation in 2015**

The importance of fuel efficiency is increasing in both the marine and energy markets. Wärtsilä’s launch of the new generation Wärtsilä 31 engine was a milestone achievement in product efficiency improvement. The Wärtsilä 31 has been recognised by Guinness World Records as being the world’s most efficient 4-stroke diesel engine; its diesel fuel consumption being as low as 165 g/kWh. Within the Services business, customer emphasis on optimising efficiency drove the demand for propulsion system upgrades, as well as for long-term service agreements.

The transition to natural gas fuelled applications in the power generation market is evident, with gas and multi-fuel applications accounting for 71% of Energy Solutions’ quotation activity and 46% of its order intake. Gas based contracts included several orders for peaking and renewable support power plants from the USA. Furthermore, Wärtsilä Services received orders to convert power plants to operate on natural gas, among the more significant of these being the Maltese Delimara Power Station. Gas is of interest also in the marine markets. Gas carriers continued to be the largest segment in terms of Marine Solutions’ order intake, partly due to the increasing use of Wärtsilä 34DF engines for auxiliary applications in the LNG carrier segment. Wärtsilä maintained its position as a leading supplier of gas handling systems to the marine markets, and received orders to deliver similar equipment to land-based installations as well.

The development of Wärtsilä’s digital presence was a key theme during 2015. A new digital service portfolio, Wärtsilä Genius services, was launched, and Wärtsilä’s digitalisation competences were further strengthened by the acquisition of L-3 Marine Systems International.

Wärtsilä continued to invest in technology development in order to maintain the competitiveness of its product portfolio, and to secure a leading position in sustainable innovation. The R&D related expenditure totalled EUR 132 million or 2.6% of net sales, with the areas of emphasis being efficiency improvement, fuel flexibility, and the reduction of environmental impact.

To promote a high performance culture, Wärtsilä arranged leadership development programmes, as well as learning solutions for core competence areas in sales, project management, and technology. Wärtsilä employees attended a total of 55,620 training days, which represents on average 3.0 training days per employee. Diversity continued to be a focus area during 2015, the emphasis being on local diversity action planning and implementation. Additionally, Wärtsilä participated in the Dialogi 2015 programme with the aim of developing and promoting female leadership and careers in business. Wärtsilä was also one of the main sponsors of the bi-annual Women in Tech event. Personnel safety is a priority for Wärtsilä and during the year the company moved steadily closer to its on-going target of zero lost-time injuries. Wärtsilä also introduced a WeCare mobile application with the aim of increasing near miss and hazard reporting.
Financial targets and guidance realisation

Wärtsilä’s long-term financial target is to grow faster than global GDP and to maintain its operating profit margin between 14% at the peak of the cycle and 10% at the trough. Furthermore, the target is to maintain gearing below 0.50, and to pay a dividend of at least 50% of earnings per share over the cycle.

Wärtsilä’s performance in 2015 was in line with the Company’s long-term targets and with the guidance set for the year. On 29 January 2015, Wärtsilä estimated its net sales for 2015 to grow by 0-10% and operational profitability to be 12.0-12.5%. The expectations were revised on 17 July to include the impact of the L-3 Marine Systems International (MSI) acquisition, whereby net sales were expected to grow by 5-10% and profitability was estimated to be around 12.0-12.5%. MSI was expected to contribute approximately EUR 250 million to sales and EUR 9 million to the operating result during 2015. Excluding purchase price allocation amortisation, MSI’s operating result was estimated to reach EUR 16 million.

Net sales for 2015 increased by 5%, while the IMF estimates global real GDP to have increased by 3.1%. Profitability improved to 12.2%. Gearing was 0.17 and the Board of Directors’ proposed dividend of EUR 1.20 per share represents 53% of operational earnings.

Long-term financial targets

<table>
<thead>
<tr>
<th>Target</th>
<th>Development in 2015</th>
<th>Development in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales growth faster than global GDP</td>
<td>5% growth</td>
<td>4% growth</td>
</tr>
<tr>
<td>Operating profit margin between 10% and 14%</td>
<td>12.2%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Gearing below 0.50</td>
<td>0.17</td>
<td>0.05</td>
</tr>
<tr>
<td>Dividend payment at least 50% of earnings per share over the cycle</td>
<td>53%(^1)</td>
<td>65%</td>
</tr>
</tbody>
</table>

\(^1\) Proposal of the Board of Directors.

Market development

Challenging conditions in power generation markets

The power generation markets were challenging throughout 2015, as global macro-economic uncertainty limited investments in new power plant capacity. Market volumes remained at a relatively low level, despite the slight increase in global orders for natural gas and liquid fuel power plants. Growth in the emerging markets and the availability of financing continued to support demand. In the industrialised world, electricity consumption was on a low level and economic growth is needed to boost power plant investments. Excess manufacturing capacity as a result of low demand in the marine industry has caused engine manufacturers to focus more on the power plant sector, resulting in increased competition in several markets. Wärtsilä’s quotation activity was at a high level in 2015, and remained concentrated on multi-fuel and natural gas based power plants.
Energy Solutions market share

During the first nine months of 2015, global orders for natural gas and liquid fuel power plants up to 500 MW totalled 17.0 GW (16.5), an increase of 3% from the corresponding period of 2014. Wärtsilä’s market share was 9.9% (10.5). Global orders include all gas turbine and Wärtsilä orders of prime movers over 5 MW.

Contracting of new vessels remains low

During the period January-December 2015, 1,371 contracts for new vessels were registered (1,711). Newbuilding prices have been under pressure throughout the year due to the low demand for new vessels. Contracting activity in the conventional merchant markets was slow. Weak freight rates and overcapacity adversely affected the ordering of container vessels and bulkers, while low oil prices and improved earnings supported tanker contracting. Gas carrier orders remained below the strong volumes seen in 2014, with a total of 92 vessel contracts registered in 2015 (173). Demand in the offshore market declined from the previous year, as depressed oil prices continued to limit investments in exploration and development. There was a good level of contracting for cruise vessels and ferries.

The top three shipbuilding countries continued to control contracting activity in terms of compensated gross tonnage. China and South Korea each secured 30% of the confirmed contracts. Japan’s share of the confirmed contracts improved to 27%, thanks to increased domestic ordering activity. Other countries improved their share from the previous year, with 292 orders placed outside the top three shipbuilding countries.

Marine Solutions market shares

Wärtsilä’s share of the medium-speed main engine market was 59% (63% at the end of the previous quarter). The market share in auxiliary engines increased to 12% (9% at the end of the previous quarter).

Strong development in the service markets

Service market activity developed favourably in 2015, with volume growth accelerating during the first half and demand continuing to be high throughout the rest of the year. Activity in the marine industry improved globally. Lower operating costs due to lower fuel prices and the release of pent up demand supported investments in maintenance activities, especially in the merchant segment, while increased demand for propulsion upgrades and thruster retrofits created growth in service projects. Power plant service activity developed well, thanks to increased utilisation of installations under contract and the demand for spare parts in specific regions resulting from the ageing installed base. Customer focus on the optimisation of maintenance and performance has increased interest in long-term service agreements in both end markets.

At the end of 2015, Wärtsilä’s installed base totalled 181,000 MW. Four-stroke engines accounted for approximately 60% of the installed base and two-stroke engines for approximately 40%.
Order intake and order book

Order intake

Wärtsilä’s order intake for the financial period January-December 2015 was EUR 4,932 million (5,084), which represents a decrease of 3% compared to the corresponding period in 2014. The book-to-bill ratio for the financial period was 0.98 (1.06).

Order intake for Energy Solutions totalled EUR 1,009 million (1,293), a decrease of 22% from the corresponding period last year. Of the orders received, measured in MW, 46% were for gas based power plants. Turkish owners contributed to the high level of activity in Europe, while in the USA several orders were received for peaking and renewable support power plants.

Marine Solutions’ order intake declined by 8% to EUR 1,599 million (1,746). Considering the general slowdown in vessel contracting and the further weakening of the offshore market, this was a satisfactory result. Order intake for Marine Systems International, acquired during the financial period, developed well. The gas carrier segment represented 38% of the order intake, while the conventional merchant share was 18% and cruise & ferry accounted for 15%. The special vessels segment represented 10%, the offshore segment 8%, and navy 4%. Other orders accounted for 8%. In line with the Marine Solutions strategy, Wärtsilä received several orders for the delivery of integrated solutions. Highlights included the contract to supply engines, controllable pitch propellers, transverse thrusters, and an LNGPac gas supply and storage system to the world’s first duel-fuelled dredger being built for DEME Group. Other strategically significant orders included the first order for the new generation Wärtsilä 31 engine, which was launched in June. Interest in environmental solutions continued to increase during 2015. A noteworthy order in this respect was the contract to retrofit eleven container vessels owned by Bernhard Schulte GmbH & Co. KG with Wärtsilä Aquarius Ballast Water Management Systems. The development in exhaust gas cleaning systems orders was stable. During 2015, the Wärtsilä 34DF engine strengthened its market position, with three major South Korean shipyards supporting the use of this engine for auxiliary applications in the LNG carrier segment.

Services’ order intake increased by 14%, totalling EUR 2,324 million (2,045), supported by increased demand for service projects and long-term agreements. Larger service projects included an order from Shanghai Electric Power to convert the Maltese Delimara Power Station to operate on natural gas, as well as several propulsion system upgrade projects. Customers with gas fuelled vessels showed particular interest in signing long-term agreements. The signed contracts included a 5-year technical management agreement with Golar Management Oslo for its LNG carrier fleet, and a maintenance agreement with GasLog LNG Services Limited to ensure the reliable operation of GasLog’s seven LNG carriers. Power plant related service agreements included a 10-year operations and maintenance agreement for Central Generadora Electrica Huinala’s flexicycle power plant, located near Monterrey, Mexico.

Order intake in joint ventures

Order intake in the Wärtsilä Hyundai Engine Company Ltd joint venture company in South Korea, and in the Wärtsilä Qiyao Diesel Company Ltd and CSSC Wärtsilä Engine (Shanghai) Co. Ltd joint venture companies in China totalled EUR 182 million (306) during the financial period January-December 2015. The results of these companies are reported as a share of the result of associates and joint ventures.
Order book

The total order book at the end of the financial period amounted to EUR 4,882 million (4,530), an increase of 8%. The Energy Solutions order book decreased by 7%, totalling EUR 1,366 million (1,475). The Marine Solutions order book increased by 16% to EUR 2,558 million (2,213). The Services order book totalled EUR 958 million (842), an increase of 14%.

Net sales and profitability

Net sales

Net sales for January-December 2015 developed in line with guidance, increasing by 5% to EUR 5,029 million (4,779), primarily due to improved service volumes. Net sales development for the Energy Solutions and Marine Solutions businesses was stable, totalling EUR 1,126 million (1,138) and EUR 1,720 million (1,702) respectively. Net sales from the Services business increased by 13% to EUR 2,184 million (1,939), supported by good development in all areas. Of the total net sales, Energy Solutions accounted for 22%, Marine Solutions for 34%, and Services for 43%.

Of Wärtsilä’s net sales, approximately 64% was EUR denominated, 21% USD denominated, with the remainder being split between several currencies.
Operating result and profitability

For the financial period January-December 2015, the operating result (EBIT) before non-recurring items was EUR 612 million (569). This represents 12.2% of net sales (11.9), which is within the guided 12.0-12.5% range. The increase in the operating result was primarily due to higher service volumes, the acquisition of L-3 Marine Systems International, and internal cost reductions. Including non-recurring items, the operating result was EUR 587 million (522) or 11.7% of net sales (10.9). The operating result (EBITA) excluding non-recurring items and purchase price allocation amortisation was EUR 643 million (594), or 12.8% of net sales (12.4). Non-recurring items amounted to EUR 25 million (47) during the financial period, of which EUR 19 million related to the restructuring measures announced in June and EUR 6 million to acquisitions and other costs. Purchase price allocation amortisation amounted to EUR 32 million (26).

Financial items amounted to EUR -34 million (-28). The increase in financial items is due to an intragroup loan denominated in Brazilian real, which resulted in unrealised exchange rate losses. Net interest totalled EUR -12 million (-9). Profit before taxes amounted to EUR 553 million (494). Taxes amounted to EUR 124 million (106), implying an effective tax rate of 22.5% (21.4). The profit for the financial period amounted to EUR 451 million (351). Earnings per share were EUR 2.25 (1.76) and the equity per share was EUR 11.16 (9.94). Return on investments (ROI) was 21.0% (20.3). Return on equity (ROE) was 20.2% (20.0).
Balance sheet, financing and cash flow

For January-December 2015, the operating cash flow totalled EUR 255 million (452). Working capital totalled EUR 543 million (251) at the end of the financial period. The increase was mainly due to the Energy Solutions business, where the timing of deliveries resulted in inventory build-up and increased receivables. Furthermore, advances received at the end of the period declined to EUR 564 million (673) due to lower order intake in the equipment businesses. Cash and cash equivalents at the end of the period amounted to EUR 334 million (571) and unutilised Committed Credit Facilities totalled EUR 679 million (629).

Wärtsilä had interest-bearing debt totalling EUR 724 million (666) at the end of December 2015. The total amount of short-term debt maturing within the next 12 months was EUR 232 million. Long-term loans amounted to EUR 492 million. Net interest-bearing debt totalled EUR 372 million (94) and gearing was 0.17 (0.05). The increase in gearing relates mainly to working capital build up and the acquisition of L-3 Marine Systems International.
### Liquidity preparedness

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>334</td>
<td>571</td>
</tr>
<tr>
<td>Unutilised committed credit facilities</td>
<td>679</td>
<td>629</td>
</tr>
<tr>
<td>Liquidity preparedness</td>
<td>1 013</td>
<td>1 200</td>
</tr>
<tr>
<td>% of net sales (rolling 12 months)</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Less Commercial Papers</td>
<td>130</td>
<td>-</td>
</tr>
<tr>
<td>Liquidity preparedness excluding Commercial Papers</td>
<td>883</td>
<td>1 200</td>
</tr>
<tr>
<td>% of net sales (rolling 12 months)</td>
<td>18</td>
<td>25</td>
</tr>
</tbody>
</table>

On 31 December 2015, the average maturity of the total loan portfolio was 35 months and the average maturity of the long-term debt was 43 months.

#### LOANS

![Diagram showing Loans]

- **Fixed Rate Loans**
- **Floating Rate Loans**

% = Fixed portion of loans (incl. derivatives).
MATURITY PROFILES OF LONG-TERM LOANS

Annual repayments of long term loans.

COMMITTED REVOLVING CREDIT FACILITIES (END OF PERIOD)
**GEARING**

* Restated due to the revised IAS 19.

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**SOLVENCY RATIO**

* Restated due to the revised IAS 19.
Capital expenditure

Capital expenditure related to intangible assets and property, plant, and equipment amounted to EUR 79 million (92) during the financial period January-December 2015. The comparison figure includes continuing operations. Capital expenditure related to acquisitions and investments in securities totalled EUR 267 million (2). Depreciation, amortisation, and impairment for the financial period amounted to EUR 124 million (115).

In 2016, capital expenditure related to intangible assets and property, plant, and equipment is expected to be below depreciation and amortisation.

Strategic projects, acquisitions joint ventures and expansion of the network

The agreement between Wärtsilä and China State Shipbuilding Corporation (CSSC) for the take-over of Wärtsilä’s 2-stroke engine business was finalised in January. Winterthur Gas & Diesel Ltd is owned 70% by CSSC and 30% by Wärtsilä.

The acquisition of L-3 Marine Systems International (MSI) from the NYSE-listed L-3 Communications Holdings Inc. was finalised and control of the company transferred to Wärtsilä with effect from 1 June 2015. Integration is proceeding
according to plan and MSI’s financial development in 2015 was somewhat better than expected. Further information on
the acquisition can be found in the financial statements.

In July, Wärtsilä established a subsidiary to trade spare parts for classic 4-stroke Wärtsilä engines. QuantiParts B.V., fully
owned by Wärtsilä, operates from the Netherlands and serves customers in the marine, locomotive, and power plant
industries worldwide.

In October, Wärtsilä Services expanded into a new market segment, offering a comprehensive package of seals,
bearings, and associated solutions to hydropower installations and industrial plants worldwide.

Construction of the CSSC Wärtsilä Engine (Shanghai) Co. Ltd factory in Lingang, Shanghai is proceeding according to
plan. The ground breaking ceremony for the erection of the factory took place on the 28th of October. The first engines
are expected to be ready for delivery by the end of 2016.

Research and development, product launches

Wärtsilä has placed a strong emphasis on both product and solution innovation during 2015, particularly in the areas of
efficiency improvement, fuel flexibility, and the reduction of environmental impact. The R&D related expenditure totalled
EUR 132 million, which represents 2.6% of net sales.

During the first half of 2015, Wärtsilä launched several new innovative ship designs for anchor handling tug supply and
platform supply vessels, for various sizes of container feeder vessels and for a new series of LNG carriers. Each design
emphasizes fuel economy and performance, and come with optional versions to meet specific needs and the flexibility to
choose particular features and solutions.

In May, Wärtsilä announced that the market leading Wärtsilä 50DF engine had been successfully tested and certified to
run on ethane (LEG) fuel. The extensive test programme was carried out by Wärtsilä in close collaboration with Evergas,
a world renowned owner and operator of seaborne petrochemical and liquid gas transport vessels.

The Wärtsilä 31 engine was launched in June. The new engine model has significant reduced maintenance requirements,
while raising fuel efficiency, fuel flexibility, and operational optimisation to levels beyond anything else currently available.
The Wärtsilä 31 has been recognised by Guinness World Records as being the world’s most efficient 4-stroke diesel
ingine, with diesel fuel consumption as low as 165 g/kWh.

In September, Wärtsilä introduced the latest addition to its thruster product portfolio, the Wärtsilä WST-14 steerable
thruster, aimed primarily at inland waterway cargo vessel applications. The space-saving compact design will provide
increased reliability and efficiency, while also lowering costs.

In October, Wärtsilä announced that a consortium comprised of Wärtsilä, GoodFuels Marine, and Boskalis will head a
two year pilot programme to accelerate the development of sustainable, scalable, and affordable marine bio-fuels. The
programme’s focus will be on identifying suitable marine biofuels, securing industry certification, and preparing the
building blocks for large-scale production.
Also in October, Wärtsilä introduced a new LNG storage and regasification barge concept. This innovative solution provides a flexible means of meeting small to medium scale requirements where pure land-based LNG options are limited. The Wärtsilä Mobile LNG can easily be combined with a barge-mounted power plant having an output capacity of up to 250 MW. Alternatively, it can be used to supply conventional land-based power plants. The Wärtsilä Mobile LNG solution will make LNG available to new consumer segments, bringing clean energy to areas with limited or no access to the national electricity grid.

In November, Wärtsilä announced the expansion of its Smart Power Generation portfolio by introducing the capability to use propane as fuel for power generation. Replacing heavy fuel oil with propane enables significant reductions in carbon dioxide and other emissions from power plants.

Also in November, Wärtsilä launched Wärtsilä Genius services, a new digital service portfolio. The new portfolio will enable real-time optimisation of customers’ assets, improve predictability, and help the solving of issues through the use of digital solutions and data analytics. Wärtsilä also introduced an innovative new seal for stern tubes and thrusters that can be fully serviced underwater, thereby offering customers increased uptime and lifecycle efficiency.

### Megawatts delivered

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Solutions engines</td>
<td>2 269</td>
<td>2 409</td>
<td>-6%</td>
</tr>
<tr>
<td>Marine Solutions, own engines</td>
<td>1 634</td>
<td>2 206</td>
<td>-26%</td>
</tr>
<tr>
<td>Wärtsilä total</td>
<td>3 903</td>
<td>4 615</td>
<td>-15%</td>
</tr>
<tr>
<td>By licensees</td>
<td>2 107</td>
<td>1 902</td>
<td>11%</td>
</tr>
<tr>
<td>By joint ventures</td>
<td>789</td>
<td>1 010</td>
<td>-22%</td>
</tr>
<tr>
<td>Engine deliveries total</td>
<td>6 799</td>
<td>7 527</td>
<td>-10%</td>
</tr>
</tbody>
</table>

### RESEARCH AND DEVELOPMENT EXPENDITURE

*Restated, figures include continuing operations.*
Personnel

Wärtsilä had 18,856 (17,717) employees at the end of December 2015. The number of personnel has declined by 381 from the end of the previous quarter as a result of the ongoing restructuring measures. On average, the number of personnel for January-December 2015 totalled 18,565 (18,042). Marine Solutions employed 6,847 (5,603) people, Energy Solutions 959 (978), and Services 10,592 (10,692). The increase in the number of Marine Solutions employees relates mainly to the acquisition of L-3 Marine Systems International.

Of Wärtsilä’s total number of employees, 19% (20) were located in Finland and 39% (34) elsewhere in Europe. Personnel employed in Asia represented 28% (31) of the total, personnel in the Americas 10% (10), and personnel in other countries 4% (4).

Restructuring programmes

The organisational adjustments in Marine Solutions announced in July, whereby approximately 600 jobs were planned to be reduced globally, are progressing according to plan. In taking these measures, Wärtsilä seeks annual savings in the region of EUR 40 million, which are expected to materialise fully by the end of 2016. The non-recurring costs related to the restructuring measures will be approximately EUR 25-30 million, of which EUR 19 million was recognised in 2015.
Changes in management

Wärtsilä’s Board of Directors appointed Mr Jaakko Eskola (57) M.Sc. (Eng.) as the new President and CEO of Wärtsilä Corporation. He assumed the position on 1 November 2015, succeeding Mr Björn Rosengren who left the company to become the CEO of Sandvik.

Mr Roger Holm (43) M.Sc. (Econ.) was appointed President of Marine Solutions, Executive Vice President and a member of the Board of Management, effective from 1 November 2015.

Mr Pierpaolo Barbone (58) M.Sc. (Eng.) was appointed Deputy to the CEO as of 1 November 2015. He assumed this responsibility in addition to his existing position as President of Services, Executive Vice President.

Mr Javier Cavada Camino (40) Ph.D. (Eng.) was appointed President of Energy Solutions, Executive Vice President and a member of the Board of Management, effective from 4 November 2015. The previous President of Energy Solutions, Mr Rakesh Sarin (60), retired having reached his statutory retirement age earlier in the year.

Sustainable development

Thanks to its various technologies and specialised services, Wärtsilä is well positioned to reduce exhaust emissions and the use of natural resources. Wärtsilä’s R&D efforts continue to focus on the development of advanced environmental technologies and solutions. The Company is committed to supporting the UN Global Compact and its principles with respect to human rights, labour, the environment, and anti-corruption. Wärtsilä’s share is included in several sustainability indices.

Shares and shareholders

During January-December 2015, the volume of trades on Nasdaq Helsinki was 113,736,958 shares, equivalent to a turnover of EUR 4,529 million. Wärtsilä’s shares are also traded on alternative exchanges, such as Chi-X, Turquoise, and BATS. The total trading volume on these alternative exchanges was 76,773,406 shares.
Shares on Nasdaq Helsinki

<table>
<thead>
<tr>
<th>31.12.2015</th>
<th>Number of shares and votes</th>
<th>Number of shares traded 1-12/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>WRT1V</td>
<td>197 241 130</td>
<td>113 736 958</td>
</tr>
</tbody>
</table>

1.1. - 31.12.2015

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
<th>Average&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>44.97</td>
<td>33.22</td>
<td>39.83</td>
<td>42.15</td>
</tr>
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<sup>1</sup> Trade-weighted average price

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<tr>
<td>MEUR</td>
<td>8 314</td>
<td>7 315</td>
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<tr>
<td>%</td>
<td>51.9</td>
<td>48.1</td>
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Flagging notifications

During the financial period, Wärtsilä was informed of the following changes in ownership:

On 10 September, BlackRock, Inc. increased its holding in Wärtsilä. Following the transaction BlackRock, Inc. owned 10,019,838 shares or 5.08% of Wärtsilä’s share capital and total votes.

Decisions taken by the annual general meeting

Wärtsilä’s Annual General Meeting held on 5 March 2015 approved the financial statements and discharged the members of the Board of Directors and the Company’s President & CEO from liability for the financial year 2014. The Meeting approved the Board of Directors’ proposal to pay a dividend of 1.15 euro per share. The dividend was paid on 16 March 2015.

The Annual General Meeting decided that the Board of Directors shall have eight members. The following were elected to the Board: Maarit Aarni-Sirviö, Kaj-Gustaf Bergh, Sune Carlsson, Tom Johnstone, Mikael Lilius, Risto Murto, Gunilla Nordström, and Markus Rauramo.

The firm of public auditors KPMG Oy Ab was appointed as the Company’s auditor for the year 2015.

Authorisation to repurchase and distribute the Company’s own shares

The Board of Directors was authorised to resolve to repurchase a maximum of 19,000,000 of the Company’s own shares. The authorisation to repurchase the Company’s own shares shall be valid until the close of the next Annual General Meeting, however no longer than for 18 months from the authorisation of the shareholders’ meeting.

The Board of Directors was authorised to resolve to distribute a maximum of 19,000,000 of the Company’s own shares. The authorisation for the Board of Directors to distribute the Company’s own shares shall be valid for three years from
the authorisation of the shareholders’ meeting and it cancels the authorisation given by the General Meeting on 6 March 2014. The Board of Directors is authorised to resolve to whom and in which order the Company’s own shares will be distributed. The Board of Directors is authorised to decide on the distribution of the Company’s own shares other than in proportion to the existing pre-emptive right of the shareholders to purchase the Company’s own shares.

**Organisation of the Board of Directors**

The Board of Directors of Wärtsilä Corporation elected Mikael Liljus as its chairman and Sune Carlsson as the deputy chairman. The Board decided to establish an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appointed from among its members the following members to the Committees:

**Audit Committee:**

Chairman Markus Rauramo, Maarit Aarni-Sirviö, Risto Murto

**Nomination Committee:**

Chairman Mikael Liljus, Kaj-Gustaf Bergh, Sune Carlsson, Risto Murto

**Remuneration Committee:**

Chairman Mikael Liljus, Maarit Aarni-Sirviö, Tom Johnstone

**Risks and business uncertainties**

Slow decision-making in areas with limited or no economic growth represents the primary risk for demand development in the power generation markets. Delays in customers’ investments decisions can occur also in regions with geopolitical tension or significant currency fluctuations. Low oil prices continue to affect the national infrastructure developments in oil and gas producing economies, especially in the Middle East and Russia. Although oil importing countries benefit from low oil prices, short-term price swings do not trigger investment decisions as power plant investment decisions are based on long-term fuel price forecasts. In the industrial segment, investment decisions are impacted by commodity price and demand developments. Competition from engine manufacturers continues to create price pressure.

The business environment for the shipping and shipbuilding industry remains challenging. The weak short-term global economic outlook, overcapacity, and low demand for cargo tonnage are the main obstacles for recovery in the conventional shipping markets. Low oil prices, an oversupply of oil and gas, and reduced capital expenditure from oil companies continue to limit offshore investments. Reduced newbuild prices may push yards to squeeze suppliers on price. Vessel owners are negotiating extensions to existing delivery contracts, which represents a risk to shipyard order books. The risk of cancellations appears to be more limited.

In the Services business, the slow economic growth and political instability in specific regions are the main risks for demand development. The challenging conditions in specific marine market segments are also seen as a potential risk.
The Group is a defendant in a number of legal cases that have arisen out of, or are incidental to, the ordinary course of its business. These lawsuits mainly concern issues such as contractual and other liability, labour relations, property damage, and regulatory matters. The Group receives from time to time claims of different amounts and with varying degrees of substantiation. There is currently one unusually sizeable claim. It is the Group’s policy to provide for amounts related to the claims, as well as for litigation and arbitration matters, when an unfavourable outcome is probable and the amount of the loss can be reasonably estimated.

The Risks and risk management section of the Annual Report contains a more detailed description of Wärtsilä’s risks and business uncertainties.

Market outlook

The market for liquid and gas fuelled power generation is expected to remain challenging as economic uncertainty continues. Despite slower economic growth in the emerging markets, growth in electricity demand, and the availability of international funding for infrastructure projects will continue to support power plant investments. In the OECD countries, low economic growth continues to limit demand for new power plants, and in Europe the unfinished new electricity market design is delaying investments. Low gas prices and positive developments in electricity market designs are driving the demand in North America. The megatrend towards distributed, flexible, gas-fired power generation continues to gain ground globally. The increasing deployment of intermittent renewable power, such as wind and solar, requires investments in flexible solutions to balance the power systems. Electricity markets are being developed to reward the necessary flexibility, thereby enabling new profitable investments. Wärtsilä’s systematic market development work in these markets will continue to bring forward the benefits of Smart Power Generation.

The outlook for the shipping and shipbuilding markets remains challenging, with oversupply limiting demand for newbuild vessels and low oil prices continuing to impact investments in offshore exploration and development. Gas carrier contracting is expected to remain at a normalised level due to the continued demand for LPG in Asia. The outlook for the cruise and ferry segment remains positive thanks to economic recovery in Europe and the United States, as well as increased interest for cruises in Asia. The importance of fuel efficiency and environmental regulations are clearly visible. Increased environmental awareness and the regulatory environment is driving interest in gas as a marine fuel in the broader marine markets.

The service market outlook is positive with growth opportunities in selected regions and segments. An increase in the installed base of medium-speed engines and propulsion equipment, as well as the shift to gas based technology, offsets the slower service demand for older installations and uncertainty regarding short-term demand development in the merchant marine segment. The favourable impact of low oil prices on operating costs is expected to continue to support the demand for service work on installations operating on oil based fuels. In the offshore segment, the growth in the installed base during recent years is expected to partially compensate for the challenging outlook in certain regions. The service outlook for gas fuelled vessels remains favourable. Service demand in the power plant segment continues to be good with an especially positive outlook in the Middle East and Africa. Customers in both the marine and power plant markets continue to show healthy interest in long-term service agreements.
Wärtsilä's prospects for 2016

Wärtsilä expects its net sales for 2016 to grow by 0-5% and its operational profitability (EBIT% before non-recurring items) to be 12.5-13.0%.

Board of Directors' dividend proposal

The Board of Directors proposes that a dividend of 1.20 euro per share be paid for the financial year 2015. The parent Company's distributable funds total 1,052,581,243.14 euro, which includes 276,747,007.02 euro in net profit for the year. There are 197,241,130 shares with dividend rights. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the record date, which is 7 March 2016. The dividend payment date proposed by the Board is 14 March 2016.