**Strategy**

Wärtsilä’s purpose is to enable sustainable societies with smart technology. The demand for clean and flexible energy and the need for efficient and safe transportation are increasingly affecting the way that customers operate. This forms the basis for Wärtsilä’s Smart Marine and Smart Energy visions.

Wärtsilä’s profitable growth ambitions are supported by its strong presence in key markets and a superior global service network. An integrated portfolio of services, systems, and products that covers customer needs throughout the full lifecycle positions Wärtsilä well to respond to the demand for energy efficient and innovative solutions. Emphasis is given to optimising performance through upgrades, modernisations, fuel conversions, and safety solutions, and by using data analytics and artificial intelligence to support customer business decisions. The utilisation of connectivity and smart technologies plays a key role in the optimisation of assets and in providing strategic input to customers in order to enhance their business growth. Asset management will drive future growth in lifecycle solutions and enable new “as-a-service” business models.

Wärtsilä’s digital transformation provides enhanced customer value through an increased focus on collaboration and knowledge sharing. With its flexible production and supply chain management, Wärtsilä constantly seeks new ways to maintain high quality and cost efficiency – often in co-operation with customers and leading industrial partners. Investments in research and development, and specifically in digitalisation, create a strong foundation for securing and strengthening the company’s position at the forefront of market innovation.

This innovative culture, together with a constant emphasis on safety, diversity, and high ethical standards, attracts skilled and committed people and creates the basis for a high performing organisation. The focus on operational excellence ensures that Wärtsilä is a company easy to do business with and drives increased productivity and efficiencies for its customers.
Strategy implementation in 2019

2019 saw the introduction of several new concepts and solutions to support the realisation of Wärtsilä’s strategy. These included navigation solutions for the marine markets, a new hybrid solution for the energy markets that pairs engines with storage technology, as well as service solutions leveraging advanced diagnostics to optimise performance.

Wärtsilä’s Smart Marine and Smart Energy initiatives resulted in a number of important orders that validated the commercial feasibility of this approach. Among the most notable of these orders was one to equip Anglo-Eastern’s fleet of over 600 vessels with a fleet optimisation solution. Wärtsilä also secured its first order for the SmartDock system, making it the world’s first commercially available auto-docking solution. The need for flexible power solutions to support the expansion of renewable energy and secure grid reliability was illustrated by the strong growth in energy storage and optimisation orders. Another order reflecting the benefits of flexibility was the contract awarded to Wärtsilä to supply a 200 MW engine power plant to Cambodia. In addition to adding much needed capacity to the grid, the plant will provide fast-starting, balancing flexibility to enable the future integration of increased levels of renewable energy into the power system.

Collaboration with industry stakeholders is an essential element in the development of technologies needed to meet the changing market requirements, and Wärtsilä signed several new partnership agreements during the year. Among these were agreements aimed at accelerating the development and commercialisation of renewable fuels in the energy markets, and joint initiatives to promote the decarbonisation of shipping.

Several major milestones were reached during 2019 with regards to the construction of the Smart Technology Hub, a new centre of research, product development and production. The project progressed from planning to implementation, with excavation work and construction started in August, and the first partners selected for the Smart Partner Campus.

Wärtsilä has continued its leadership development programmes in many areas. Increased emphasis is being placed on establishing virtual learning solutions, since these can ease and offer greater flexibility in accessing learning opportunities, while also saving time and cost. A new leadership development programme for senior managers was launched mid-2019, with the focus on creating a Wärtsilä culture that builds and sustains high performance. The programme contains elements related to leading high performing teams, leadership and performance excellence, and customer centricity.

The health and safety of personnel is a priority for Wärtsilä, and zero lost-time injuries continues to be the company’s global target. Lost-time injury frequency was 2.25 in 2019, which represents a decrease of 10% compared to the previous year. Proactive measures to further strengthen the safety culture within Wärtsilä continued throughout the year. As a highlight, management safety walks increased by 56%, and near miss reporting by 14% compared to the previous year. Furthermore, altogether 3,900 persons completed ‘Champions in Safety’, a new training programme for front line employees. Wärtsilä’s fifth global safety day was arranged in March, the objective being to raise awareness of Wärtsilä’s lifesaving rules.

Financial targets and outcome in 2019

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 net sales for 2019 was in line with that of the previous year, bringing Wärtsilä’s five-year compound annual growth rate to 2%. The global real GDP is estimated to have increased by 3% in 2019, giving a five-year compound annual growth rate of 1.9%. The comparable operating result amounted to EUR 457 million, which represents 8.8% of net sales. Profitability was below the long-term target, as cost overruns in a handful of complex marine and energy projects and lower than anticipated energy equipment deliveries weakened the operating result. Gearing increased to 0.30, largely due to the implementation of the new IFRS 16 Leases standard. Excluding the impact of
lease liabilities, gearing amounted to 0.22. The Board of Directors’ proposed dividend of EUR 0.48 per share represents 130.8% of operational earnings.

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<thead>
<tr>
<th>Target</th>
<th>Development in 2019</th>
<th>Development in 2018</th>
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<tbody>
<tr>
<td>Net sales growth faster than global GDP</td>
<td>0%</td>
<td>5% increase</td>
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<tr>
<td>Comparable operating result margin between 10% and 14%</td>
<td>8.8%</td>
<td>11.2%</td>
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<tr>
<td>Gearing below 0.50</td>
<td>0.30</td>
<td>0.14</td>
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<tr>
<td>Dividend payment at least 50% of earnings per share over the cycle</td>
<td>130.8%(^1)</td>
<td>73.7%</td>
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\(^1\) Proposal of the Board of Directors