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Manufacturing footprint, outsourcing and cost out

by Jean-Marc Lechêne, COO

Agenda

1. Personal background
2. New Manufacturing and Global Sourcing setup in place
3. Key priorities and achievements

Introducing your speaker

Jean-Marc Lechêne

- Executive Vice President of Manufacturing and Global Sourcing (COO).
- Member of Vestas' Executive Management team.
- Joined Vestas in July 2012.
- MBA from INSEAD and Master's degree from École des Mines de Paris.
- 15 years of experience managing multi billion business units with Lafarge and Michelin in China, North America and Europe.
- Live in Denmark with my wife.



What I bring to the table

Past experience...

- Major cost reduction and restructuring programs in global companies.
- General management in process and manufacturing industries.
- Strategist and doer: *Delivering change to the bottom line.*

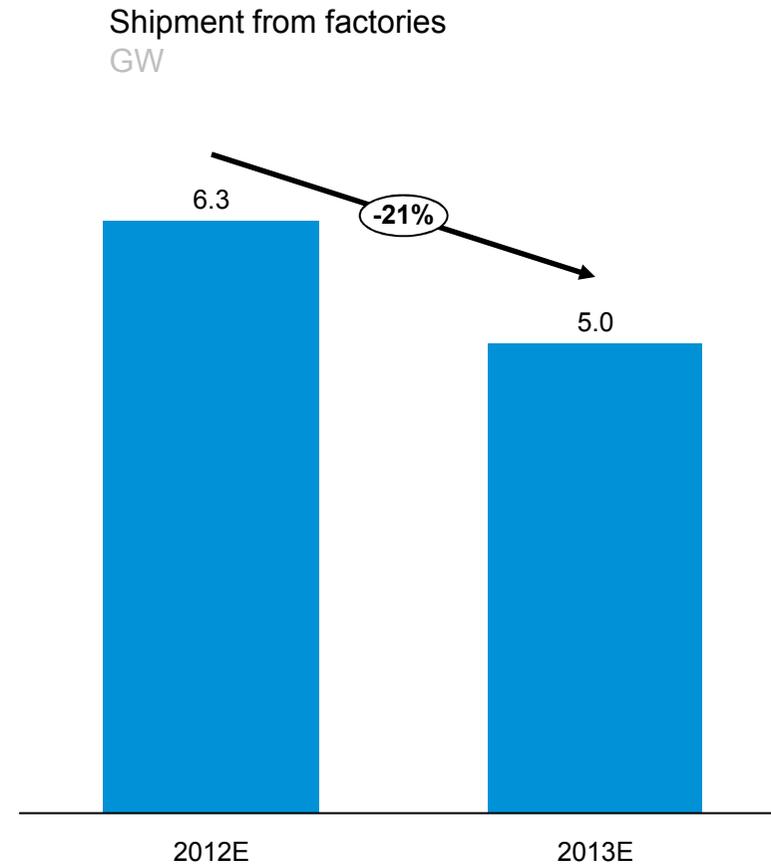


Today's challenges...

- Implementing a lean, flexible and asset light production setup without compromising safety and quality.
- Eliminating unnecessary costs and complexity out of products and the whole value chain.
- Reinforcing the alignment between Sales, R&D, Manufacturing, Sourcing and Service.

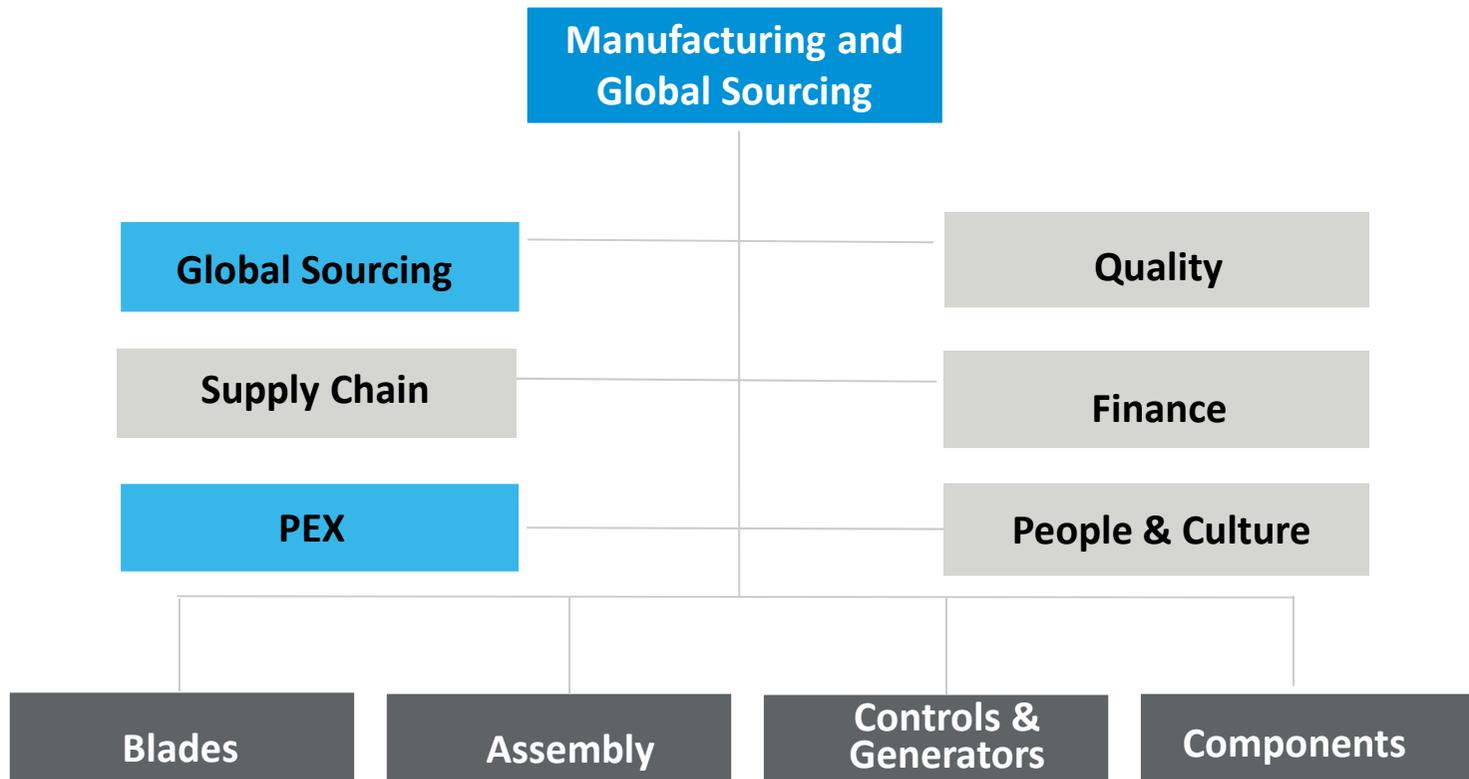
Key priorities

1. 5 GW shipment run rate in 2013
2. Product cost out
3. Identification of outsourcing opportunities
4. Global sourcing



New Manufacturing and Global Sourcing setup in place

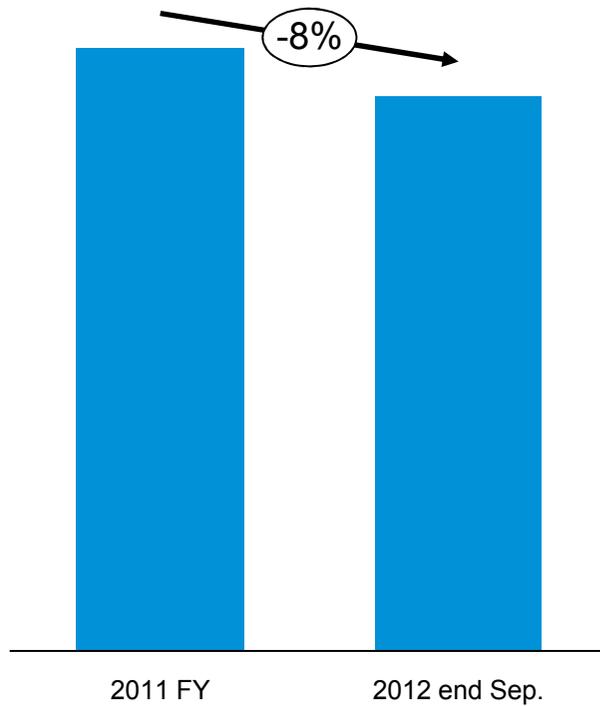
A streamlined organisation



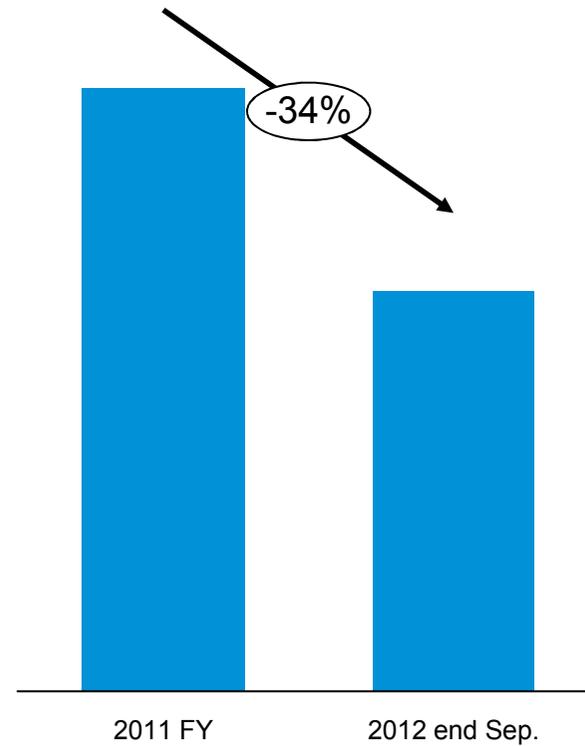
A leaner Manufacturing organisation

Reductions in number of employees

Hourly paid employees in Manufacturing
Number of employees



Salaried employees in Manufacturing
Number of employees



A leaner Manufacturing organisation

Implemented adjustments

- Sale of tower factory in Varde (DK) ➤ 13 June 2012
- Closure factory in Hohhot (CH) ➤ 25 June 2012
- Reduction of manufacturing work force at tower factory in Pueblo, Colorado (US) ➤ 13 August 2012
- Reduction of manufacturing work force at nacelle assembly in Brighton, Colorado (US) ➤ 20 August 2012
- Cease of production at the controls factory in Ólvega (ES) ➤ 1 October 2012
- Reduction of production capacity at the blade factory in Damiel (ES) ➤ 1 October 2012

North America highlights

The challenge

- US market uncertainties*
- Sustained activities in Canada and Mexico
- Lay-off costs
- Rehire, training and ramp-up costs
- Mouth-balled plant costs
- Logistics costs

**Ongoing
evaluation of and
decision on our
manufacturing
footprint**

* On 2 August 2012, the Senate Finance Committee approved “The Family and Business Tax Cut Certainty Act of 2012” bill. The bill includes a one-year extension of the PTC. In addition, the bill includes a five-per cent “under construction” threshold for projects that begin in 2013. The final bipartisan vote in support of reporting the bill was 19-5.

Product cost out

- Multi-functional teams (R&D, Manufacturing, Sourcing)
- Best selling 2 MW and 3 MW platforms
- Scope: Bill of Material (BOM)
- Many projects completed
- EUR 30m EBIT impact in late 2012
- Significantly larger impact in 2013

Identification of outsourcing opportunities

- Many parameters in the economic equation:
 - ✓ Sales proceeds
 - ✓ Supply agreements (volume, price, quality, warranties, etc.)
 - ✓ Direct savings
 - ✓ Indirect savings
 - ✓ Supplier quality management
- Various forms of divestment considerations
- In parallel, commercial discussions with external customers to increase utilisation
 - E.g. the US duties imposed on towers imported from China and Vietnam increases the competitiveness of Vestas' tower factory in Colorado, USA.

A new way of working with our suppliers

Fewer suppliers, but deeper relationships

Objective

- To eliminate any unnecessary costs from products and the whole activity chain

How

- Increased supplier involvement in development
- More systems, less parts
- More outsourcing:
 - Production
 - Value adding services

Consequence

- A more strategic win-win relationship
- Fewer suppliers
- Higher expectations in terms of accountability

Summary

Manufacturing and Global Sourcing

1

We are **adjusting our production capacity** to the lower level of activity expected next year and we evaluate our manufacturing footprint accordingly.

2

We have a **leaner structure** that increases **flexibility, transparency and agility**, and which is more **cost efficient**.

3

We are **on track** in taking costs out of our **products**.

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Thank you for your attention

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