Capture full potential of the service business

Christian Venderby, Group SVP and Head of Service

Aarhus, 12 June 2014
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Agenda

1. Introduction

2. The successful transformation of the service business

3. Capturing the full service potential
Introducing your speaker

Christian Venderby

• Group Senior Vice President and Head of Service.

• Joined Vestas in 2006 as CFO for North America and was appointed COO in 2010 with responsibility for Construction, Service, Supply Chain and Technology.

• Degree in Finance from Copenhagen Business School and E-MBA from INSEAD, Paris.

• 15 years with FLSmidth, leading finance and construction teams in Japan, Brazil, Egypt and India.

• 20 years of international business experience.
My Vestas journey

Christian Venderby

- **CFO** during the US wind industry’s boom and burst years 2006-10.


- P&L responsibility for > 8,000 turbines under long-term service agreement.

- Managed the **US restructuring** in 2012-13.

- Won > 1.5 GW large and complex North American wind turbine and service deals in 2013.

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**USA annual wind installations**

GW

| 2005 | 2 |
| 2006 | 3 |
| 2007 | 5 |
| 2008 | 8 |
| 2009 | 10 |
| 2010 | 5 |
| 2011 | 7 |
| 2012 | 13 |
| 2013 | 1 |

Source: AWEA.

**North America key figures**

- 13,820 MW installed in USA and Canada.
- 10,061 MW under Vestas service (162 sites).
- ~80% service renewal rate.

**U.S. & Canada Figures**

- Megawatts: 13,900+
- Turbines: 13,800+
- Employees: 2,500+

Source: Vestas, January 2014.
Service customers, create value and acquire fair share of it

Building on our strong performance and long-term customer relationships

• Always delivering a high level of safety performance.

• Being transparent to our customers and having an open dialogue and collaboration about performance and opportunities.

• Closer integration with our strategic customers to optimise value creation across the value chain.

• Deliver high-quality service solutions in order to lower the Levelised Cost of Energy irrespective of the customers’ preferred service strategy.

• Growing our knowledge and insight from the installed base of Vestas wind turbines in order to offer optimised turbine performance throughout the entire turbine life cycle.

• Continuously improving service maintenance and spare parts solutions to support optimised maintenance costs.
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The service business today

Today, Vestas has more than 45 GW under service from a total installed base of more than 61 GW

MW under service and track record end 2013
Satisfactory development in service business’ financials…
Continuous growth in revenue and order backlog while earnings have improved significantly

Service revenue and EBIT margin
mEUR and percentage

Service order backlog
bnEUR

... driven by successful transformation of service activities

Improved operational performance, leverage and customers’ demand for business case certainty

Lost Production Factor (LPF)
Percentage

![Graph showing the percentage decrease in LPF from Dec 2009 to Dec 2013]

Leverage and improved performance
MW serviced per service technician

![Graph showing the increase in MW serviced per service technician from 2010 to 2013 with a +16% increase]

Average duration of service contracts
Number of years

<table>
<thead>
<tr>
<th>Year</th>
<th>Average duration BNEF sample*</th>
<th>Average duration Vestas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>4.5</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>4.9</td>
<td>6.0</td>
</tr>
<tr>
<td>2011</td>
<td>4.8</td>
<td>6.5</td>
</tr>
<tr>
<td>2012</td>
<td>5.4</td>
<td>6.9</td>
</tr>
<tr>
<td>2013</td>
<td>7.1</td>
<td>7.6</td>
</tr>
</tbody>
</table>


Size of service fleet (acc. Q1 2014)
Percentage

![Pie chart showing 74% of MW under service and 26% of MW not under service]

<table>
<thead>
<tr>
<th>MW not under service</th>
<th>MW under service</th>
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</thead>
<tbody>
<tr>
<td>26%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Total installed base +61 GW
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Grow the service business by more than 30 per cent
Leverage on the installed base and establish a new service organisation

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>OBJECTIVE</th>
<th>MID-TERM AMBITIONS &amp; INITIATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Grow profitably in mature &amp; emerging markets</td>
<td></td>
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<tr>
<td>2</td>
<td>Capture full potential of the service business</td>
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<td>3</td>
<td>Reduce the Levelised Cost of Energy</td>
<td></td>
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<tr>
<td>4</td>
<td>Improve operational excellence</td>
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</tbody>
</table>

- Capture full potential of the service business
- Reduce the Levelised Cost of Energy
- Improve operational excellence

Grow the service business by more than 30 per cent
- Capture service business on all new orders.
- Establish a new service organisation, with direct report to the CEO.
- Grow revenue through new service solutions and products.
- Efficiency from knowledge and scale.

Leverage on the largest installed base in the world.
Current growth drivers in the service business

Current trend in performance indicators and value drivers point in the direction of growth

1. Keep the existing service renewal level

2. Ensure a stable price development

3. Continue the cost-out efforts

4. Grow with the market in terms of installations
Capture full service sales potential
Examples: Recapture share of the lost GW; and increase current renewal rate

Recapture opportunity (acc. Q1 2014)
GW

Accumulated installed base

Accumulated installed base under service

16.2 GW recapture opportunity
≈ EUR 340m yearly business value

Renewal opportunity (acc. Q1 2014)
GW

Accumulated installed base

Accumulated installed base under service

11.3 GW recapture opportunity
≈ EUR 34m*
 yearly business value

* With 75 per cent renewal rate and an average duration of seven years.
<table>
<thead>
<tr>
<th>Service solution</th>
<th>Customer value</th>
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</thead>
<tbody>
<tr>
<td><strong>Power Uprate</strong></td>
<td>• Vestas is able to increase AEP, generally by 1.0-4.0 per cent.</td>
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<tr>
<td>• Modify control parameters</td>
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<tr>
<td>that allows the wind turbines to</td>
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<tr>
<td>increase their maximum power</td>
<td></td>
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<tr>
<td>output.</td>
<td></td>
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<tr>
<td><strong>Extended Cut Out</strong></td>
<td>• Vestas is able to increase AEP, generally by 0.5-2.0 per cent.</td>
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<tr>
<td>• Modify control parameters</td>
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<td>that allows wind turbines to</td>
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<tr>
<td>capture more wind at higher</td>
<td></td>
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<tr>
<td>speeds by extending the</td>
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<tr>
<td>maximum wind speed limit.</td>
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<tr>
<td><strong>Aerodynamic Upgrades</strong></td>
<td>• Vestas is able to increase AEP, generally by up to 0.8 per cent.</td>
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<tr>
<td>• Vortex Generators</td>
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<td>a cost-effective solution</td>
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<tr>
<td>using small fins that optimise</td>
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<td>air flow over the blades to</td>
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<tr>
<td>improve the aerodynamics.</td>
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**Vestas value**

• Vestas will share the additional upside with the customer through a revenue sharing model or an upfront payment.
Initiatives to grow the service business
Aligning full scope service offerings to match a liberalised energy market

- Variable input
- Variable production

- Gas turbine
- Solar
- 3rd party

Vestas

Power plant portfolio management

- Aligning full scope long-term contracts to customers’ operational and commercial model.
- Inclusion of customers’ commercial model into availability guarantees.
- Vestas’ variable fee linked to customers’ revenue streams.

- Liberalised energy markets
- Variable energy prices

Capture full potential of the service business – CMD 2014
Summary
What have we learned

1. We have a large and profitable service business with an order backlog of approx EUR 7bn.

2. We have a significant growth potential to be captured with a robust commercial strategy.

3. We have an opportunity to improve our service delivery model leveraging our size and creating synergies.
Thank you for your attention