Risk management

The Group is exposed to a variety of risks in the daily business. Vestas works actively to ensure that such risks are understood, monitored and, to the extent possible, mitigated so as to ensure that they do not adversely impact the realisation of Vestas' strategic and financial targets.

In order for the Group to take risk-adjusted decisions, Vestas has integrated a group-wide enterprise risk management framework. This framework focuses on identification, evaluation, treatment, monitoring, and communication of risks, where risk owners are responsible for managing risks within their area of responsibility.

The risks are reported on a quarterly basis and consolidated into a Group report, which is discussed in the Group Risk Management Committee each quarter. The Group Risk Management Committee is chaired by Vestas' CFO and includes other senior management members from relevant parts of the business.

Key risks are reviewed and considered, by the Executive Management and presented to the Board of Directors on a semi-annual basis. Key risks include risks related, but not limited, to product development, changes to legislation, intellectual property rights, product quality, supply chain management, and entering new markets.

Financial risks, including risks related to currency, interest rate, tax, credit and commodity exposures are addressed in the notes to the consolidated financial statements. These risks are also reported to the Board and evaluated by the Audit Committee.

The main risks of the Group are:

- Continued uncertainty for regulatory financial support for wind energy.
- Adapting to markets with greater complexity.
- Ramp-up for growth.

Risk management

Continued uncertainty for regulatory financial support for wind energy

Description
Government support for expansion of wind power is uncertain in the light of tightened government spending and budgets resulting in lack of clarity in a number of markets.

The EU shows a continued commitment to renewable energy, however, with a focus on transitioning support mechanism to more market-based systems, which could, express or implied, reduce the level of financial support.

In the USA, the American Production Tax Credit (PTC) was renewed for a five year period with a gradual reduction of the incentive offered over that period. On short to medium term, this will create a more stable and predictable business environment. On the longer term it may continue to put pressure on Vestas ability to stay competitive compared to other energy sources.

In Asia Pacific, a reduction of the financial support mechanisms in China has been announced, while the build-out target for wind power has been increased, thus the Chinese market looks set to remain an attractive wind energy market.

Potential impact
Changes and/or reductions to support mechanisms may negatively impact order intake due to uncertainties or withdrawal of incentive schemes, which may discourage potential customers from investing in wind power plants.

Mitigations
Vestas will continue to focus on product development to further reduce the cost of energy for wind power. This will further reduce the dependency on regulatory financial support to the wind power industry.

Vestas' global footprint and continued global expansion further serves as mitigant as broad, diversified market access assist in reducing the dependency on single markets with varying degrees of financial support.

Adapting to markets with greater complexity

Description
As part of Vestas' strategic objective to grow profitably in both mature and emerging markets, Vestas does on a regular basis enter into and operate in markets with dynamics that are different from what is observed in more mature markets.

The main areas of complexity typically found within such areas would include, but not be limited, to:

- Political or economic instability or unrest.
- Differences and changes to regulatory requirements and exposure to political and economic conditions; local customers' preference for local providers; local content rules, tariffs, or other protectionist policies.
- Restrictions on the withdrawal of non-Danish investments and earnings, including potential tax liabilities if Vestas repatriates any of the cash generated by its international operations back to Denmark.
- Nationalisation or expropriation of assets as well as reduced ability to legally enforce Vestas' contractual rights in less developed legal systems.
- Differences in contractual provisions in different markets with which Vestas may have difficulty monitoring and complying.

Potential impact
If unable to sustainably adapt to the challenges posed by entering into complex markets, Vestas may experience reduced order intake and reduced revenue in these markets.

Mitigation actions
It is important that Vestas has the capabilities and knowledge to evaluate and understand these dynamics.

Thorough risk assessment including country-specific mitigation plans are normally initiated and implemented prior to market entry. This is facilitated by Vestas' Emerging Markets Risk Mitigation Group that monitors the mitigation plans related to these markets.

Based on the assessments made by Vestas, the company may for instance adapt its products to comply with local conditions. Vestas' manufacturing and supply chain may be adjusted to local requirements.

Ramp-up for growth

Description
Vestas' current order intake as well as the requirement for local content necessitates an expansion of Vestas' production and sourcing capabilities.

In some cases, the combination of a relatively short time frame for delivery of projects combined with long lead time for sourcing of certain components create additional pressure on the Vestas organisation.

Thus, serious disruptions to the production or supply chain will have a negative impact on Vestas' performance, including the company's ability to achieve its strategic and financial targets.

Potential impact
Disruptions to the production and supply chain may lead to financial impact in the form of reduced or delayed revenue and/or additional costs being incurred. Furthermore, Vestas may be subject to loss of market confidence if Vestas is not able to deliver in accordance with contractually agreed timetables and delivery plans.

Mitigation actions
Vestas allocates significant resources to supply chain and production planning activities which is expected to secure adherence to production plans and delivery schedules. Tight control and following up with key suppliers of important components furthermore supports Vestas' ability to operate its supply chain as planned.

Finally, in 2015, Vestas has increased the use of outsourcing of key components, such as blades, in several geographic areas, thereby further diversifying its supply of this type of components.