

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the annual report 2014.)

Strategic objectives

In the beginning of 2014, Vestas launched its mid-term strategy, Profitable Growth for Vestas and as part of its annual strategy process, the strategic plan has been updated to reflect developments occurring during 2014.

This process confirmed Vestas' strong global reach in both the wind turbine and service segments and also confirmed the relevance of Vestas' ambition to continue to build its strength in those segments in 2015 and beyond.

Thus, the overall strategic ambition to ensure profitable growth for Vestas remains, as does Vestas' ambition to maintain and expand its global leadership and create an even more flexible and robust company, able to consistently deliver best-in-class margins.

To achieve this, Vestas must balance and utilise its three key differentiators:

- Expand global reach (i.e. by increasing market presence and further localising manufacturing).
- Increase technology and service leadership (i.e. by reducing levelised cost of energy across product portfolio and by strengthening product and service offerings).
- Leveraging global scale (i.e. by utilising installed base and sourcing opportunities).

To this end, Vestas has defined four strategic objectives which provide the operational basis for the implementation of the strategy.

1. Grow profitably in mature and emerging markets

Vestas will leverage on its strong position in mature markets such as Europe and North America. These markets have historically been the strongholds of Vestas. The product portfolio has a strong fit for these markets, the brand is well established and recognised, and an experienced sales force is in place.

Simultaneously, Vestas plans to further reduce costs and capital expenditure requirements in these markets by offering tailored, technologically advanced product variants based on innovation of existing wind turbine platforms, targeting an even higher market share.

Vestas has already established a strong track record of winning orders in new wind turbine markets in Eastern Europe, Asia, Africa, and Latin America. Furthermore, Vestas expects to improve its regional competitiveness and presence in the specific markets China, India, and Brazil. Plans have been developed for those markets and are now being implemented.

Building on its global presence, Vestas will also continue to pursue opportunities in markets, where wind energy is set to expand, such as for instance Chile, Costa Rica, Kenya, Slovenia, Vietnam, and Thailand.

Consequently, Vestas will amplify the agility and competencies of its sales organisation and deepen the partnerships with its customers through the expansion of its key account programme. Furthermore, Vestas has established a Customer Advisory Board, involving key customers in the development of new wind power technologies and services.

To win more and larger orders, Vestas seeks to partner with potential customers early in the project development phase. Through advanced services such as SiteHunt® and SiteDesign®, providing transparency and business case certainty for its customers, Vestas is able to unlock value and enhance customer relationships at an early stage of project planning. Thus, Vestas has increasingly become an opportunity originator by helping both established and new customers and investors to step up their commercial focus on wind power as well as enter new and promising wind power markets with a high return on their investments.

Through its unrivalled track record and close customer relationships, Vestas has developed a clear understanding of the customers' requirements and how to optimise projects to maximise value. Combined with Vestas' unparalleled capabilities within siting, operation, and servicing of wind power plants, Vestas has a competitive advantage which will be utilised even further going forward, where the ambition is to grow faster than the market.

2. Capture full potential of the service business

Having delivered an accumulated amount of more than 71 GW of wind power – a significantly higher amount than the closest competitor – Vestas has a unique platform from which to grow its service business, which today, is already the largest in the wind power industry.

As the majority of Vestas' wind turbine contracts are sold with service agreements, typically running for five or ten years, the stable revenue stream from the service business is set to continue its growth as the installed base of wind turbines increases.

In 2014, the service business was established as a separate division and a head of Global Service was appointed. Following this appointment, the global service organisation was implemented later in the year and the division is now set to capture the full potential of the service business.

Vestas intends to expand its service business further by offering new and value-adding service solutions and a variety of upgrades of existing wind power plants to its customers. This is made possible through the use of the wind power industry's most powerful supercomputer and a body of unrivalled wind data.

Vestas aims to increase the value of its customer offerings through further development and upselling of service solutions, product improvements, and services like Vestas PowerPlus™ and VestasOnline®.

Due to its size and global presence, Vestas is well-positioned to offer its customers the most effective service at the lowest cost. It is thus an ongoing and unchanged ambition to continue to reduce the underlying cost structures in the service division. Simultaneously, Vestas intends to improve supply chain delivery performance within the service business through optimisation of distribution networks, better forecasting, and local sourcing.

The ambition to grow the service business by more than 30 percent mid-term remains unchanged.

3. Reduce levelised cost of energy

Based on two wind turbine platforms, Vestas' comprehensive product portfolio will continue to be customer and market driven whilst simultaneously improving cost structures.

An example is the increased integration of standard components and modularisation across Vestas' product platforms which reduces the technical complexity and thereby the cost of the wind turbines.

In addition, the product strategy based on two platforms is designed to accelerate and streamline product development, thereby reducing the time it takes to bring new products to market, while maintaining a broad product offering.

The recent technological improvements to the existing 2 MW and 3 MW wind turbine platforms have resulted in significantly increased Annual Energy Production (AEP), among other things, enabling Vestas to defend its strong position in market segments characterised by constraints in terms of grid compliance, tip-height, and noise. In these often highly complex markets, Vestas will further leverage on its vast expertise within site and power plant optimisation to maintain its already dominant position.

For markets with less challenging requirements, cost per wind turbine is often more of a decisive factor. Consequently, Vestas will further utilise its proven 2 MW platform by developing new variants, targeted at reducing costs by means of design optimisations and sourcing of lower cost components.

Combined with prioritising further development of existing, well-proven wind turbine technology over the costly development of entirely new platforms, Vestas is able to lower the cost of energy for its customers year after year. The intention is to reduce the cost of energy faster than the market.

4. Improve operational excellence

Cost savings remain a priority for Vestas, and Vestas will continue its journey towards lower costs through further site simplification, shared service centres and

increased efficiency by leveraging on the scale of its operations. The goal is to achieve cost leadership within the wind power industry.

The size of Vestas provides a competitive foundation for lowering costs at every stage of the value chain. Through the Accelerated Earnings programme, launched at the end of 2012, Vestas has successfully lowered the costs of products delivered and the programme has helped Vestas consolidate its leading position in a competitive market. More value can be captured through further capability building, and the next generation of the programme, Accelerated Earnings Pro, is now in place.

Optimisation of the supply chain and increased use of standard components also decrease Vestas' need for investments, reduce lead time, and keep inventories low. Yet, the growing degree of outsourcing must never compromise Vestas' leading position within the areas of safety, quality, and technology.

Finally, working capital management remains an area of high priority for Vestas. Consequently, the focus remains on improving the cash conversion cycle and lowering the working capital tied up while transporting and installing the wind turbine projects.

Financial and capital structure targets and priorities

Vestas' financial and capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company. Financial stability and structural strength of the balance sheet remain key priorities for the company. Both the Board of Directors as well as Executive Management believe that strong financial performance and stability are prerequisites for delivering excellent commercial results, and therefore adopt a conservative approach to the structure of the company's balance sheet, whilst at the same time ensuring that management focuses on delivering strong financial results.

Mid-term financial targets

By increasing earnings and keeping investment and net working capital requirements low, Vestas aims to generate a double-digit return on invested capital (ROIC) each year over the cycle. Vestas expects to be able to finance its own growth and thus the free cash flow is expected to be positive each financial year.

Capital structure targets

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. Consequently, the target for the net debt/EBITDA ratio remains unchanged at less than 1 by the end of each financial year, and the solvency ratio target remains a minimum level of 35 percent, in line with the company's prudent balance sheet approach.

Dividend policy and priorities for excess cash allocation

Vestas has the following priorities for excess cash:

1. Repayment of debt if the net debt/EBITDA ratio is above target.
2. Allocation to shareholders if the solvency ratio is above target.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year. However, pay-out of dividends will always take into consideration the Group's plans for growth and liquidity requirements.

For the financial year 2014, a dividend payout ratio of 29.5 percent was thus adopted by the annual general meeting on 30 March 2015.