

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the annual report 2015).

Strategic objectives

Since the launch of its mid-term profitable growth strategy in the beginning of 2014, Vestas has taken a large step forward and, as evident from the strong performance in recent years, is now more than ever capable of delivering profitable growth to its shareholders.

The 2015 annual strategy planning cycle once again had an aim to secure alignment of strategic priorities across the organisation, while at the same time ensuring that adequate adjustments are made. The strategic review has not given reason to materially change any parts of the Vestas strategy, neither have the vision and mission been changed.

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 the 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 continue to focus on profitable growth in mature and emerging markets, partnering more closely with its customers, expanding its key account programme, involving customers in product development, and working closely with them to deliver tailored solutions.

With its strong global footprint, Vestas has a competitive edge, allowing it to grow profitably in both mature and emerging markets. Vestas will continue to scale production up and down in accordance with the level of demand in the different regions. Building on its long-standing global presence, Vestas will continue to pursue opportunities in markets where wind energy is set to expand.

To win additional business, Vestas seeks to partner with potential customers earlier in the project development phase through various measures and thereby potentially lock deals earlier than what would in some cases otherwise be possible whilst simultaneously offering significant value to the customer.

The mid-term ambition is to grow faster than the market.

2. Capture full potential of the service business

Having installed an accumulated amount of more than 78 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. With the acquisitions of independent service providers UpWind Solutions, Inc. in 2015 and Availon Holding GmbH in 2016, Vestas has further accelerated that part of the strategy.

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.

The mid-term ambition to grow the service business by more than 30 percent has been increased to 40 percent as a result of higher than anticipated growth in the service business.

3. Reduce levelised cost of energy

Vestas wants to remain the technology leader of the wind power industry. Continuing the recent years' focus on improvement and optimisation of the product and service offerings will be one of the most important enablers for Vestas to continue to hold that position in the future.

While complexity has been reduced and offerings simplified as part of that journey, Vestas is now able to even better meet the demands of its customers and markets.

Also, Vestas will further reduce the levelised cost of energy (LCOE) by outsourcing and using standard components. With this, Vestas reduces manufacturing costs and time-to-market, and thereby lowers the cost of energy for its customers.

The mid-term ambition is to reduce LCOE faster than the market average.

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.

Launched at the end of 2012, the first Accelerated Earnings programme was concluded by the end of 2014

with a considerable achievement in the area of short-term cost-out. The next phase, called Accelerated Earnings Pro, is planned to run until 2017, and will aim at a sustainable optimisation of the total cost of the full value chain.

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

The ambition is to achieve cost leadership within the wind power industry.

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. In line with the prudent balance sheet approach, the target for the net debt/EBITDA ratio remains unchanged at below 1 at any point in the cycle. In addition, the target is a solvency ratio in the range of 30-35 percent by the end of each financial year.

Dividend policy and priorities for excess cash allocation

Any decision to distribute cash to shareholders will be taken in appropriate consideration of capital structure targets and availability of excess cash. Determining excess cash will be based on the company's growth plans and liquidity requirements, thus securing adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year after tax.

For the financial year 2015, a dividend payout ratio of 29.9 percent was thus adopted by the Annual General Meeting on 30 March 2016.

In addition, Vestas may from time to time supplement with share buy-back programmes, as highlighted by the EUR 150m buyback programme launched and completed in the latter part of 2015 as well as the EUR 400m programme for 2016 launched in connection with the 2016 second quarter results.

Share buy-backs are intended to be used from time to time to adjust the capital structure and/or if excess cash arises. Any such decision will be taken in appropriate consideration of capital structure targets, while still maintaining adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.