In 2017, Vestas produced and shipped 11,237 MW and delivered 8,779 MW to its customers.

Enterprise **Risk Management**

Enterprise Risk Management at Vestas

Being a multinational company and global leader in sustainable energy solutions, Vestas is exposed to a variety of risks in the daily business.

To create shareholder value and achieve its strategic objectives, Vestas must take risks and at the same time actively ensure that such risks are understood, monitored, and managed to ensure that they do not adversely impact the realisation of Vestas' strategic and financial targets.

In order to support decision making in the Group, Vestas has integrated a group-wide Enterprise Risk Management (ERM) framework. The ERM framework is a structured, consistent, and continuous approach to managing Vestas' risk exposure and covers all types of risks across the entire organisation. ERM is not only about identification, evaluation, and response to the individual risks, but also about communication and providing the necessary foundation for making decisions that are affected by combinations of risks.

Enterprise Risk Management governance

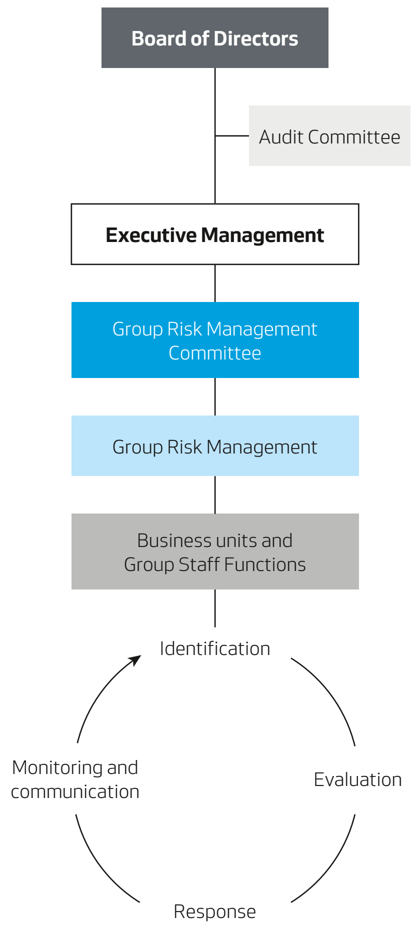
Risk management is the responsibility of everyone at Vestas and all parts of the organisation work with risk management as part of daily operation. According to the Vestas ERM framework the risk reporting is conducted on a quarterly basis. Relevant risks across all business units and Group functions are formally identified, assessed and reported to Group Risk Management using the Vestas Group risk criteria in line with the risk management framework.

Key risks are discussed in the Group Risk Management Committee and mitigation activities are evaluated for potential implementation. The Committee is chaired by Vestas' CFO and includes other senior management members from relevant parts of the business.

On a semi-annual basis, the Executive Management as well as the Board of Directors review the Group's key risks. These reviews are based on the ongoing work in the Group Risk Management Committee and focuses on the main risks of the Group.

Financial risks, including risks related to currency, interest rate, tax, credit, and commodity exposures are addressed in the notes to the Consolidated financial statements, see page 096.

Risk management



Main Group risks

The main risks of the Group are:

- Transition to auction-based markets
- Risk connected with higher share of renewable energy
- Cyber risks
- Adapting to markets with greater complexity, hereunder sanctions and social performance

Transition to auction-based markets

Description

While renewable energy continues gaining in importance in the global energy mix, this is increasingly happening through competitive bidding and auctions and in some markets combined with demands for local content, which in turn is pressuring support levels down. This increased focus on cost of energy creates a pressure on the wind power industry in general to live up to the new dynamics of the competitive landscape.

Impact

Auction and tender systems differ from market to market and can, depending on their design, create uncertainties in relation to market size, timing of order intake, and profitability. While the intensity of competition in countries with market-based policies varies significantly based on individual market characteristics, a common feature is the relentless demand for lowering the cost of energy.

Mitigation

Vestas monitors the developments in the different markets and works closely with its customers to continuously adapt sales strategies and product offerings to meet the different auction criteria. With its strategic objective to lower the cost of energy faster than anyone in the wind power industry by offering high-performing products and services, Vestas is well prepared to live up to the new market dynamics.

Risk connected with higher share of renewable energy

Description

With the economics of wind and solar photovoltaic energy on par or even below the cost of fossil fuel based technologies in more and more markets, policy makers start looking at phasing out subsidies to make renewables fully compete in merchant power markets. In parallel, the increasing penetration of renewable energy in many markets is posing challenges to the current way power systems and markets are operated.

Impact

In markets with a high share of wind and solar in the energy mix, a further increase of renewables in the longer term will increasingly hinge on appropriate market design and the ability to expand the current cost focus to increase the value of the produced electricity and open up new revenue streams for Vestas' customers. On the other hand, operating in merchant power markets will significantly lower policy risks through reducing reliance on support systems. Merchant competition has furthermore the potential to open up larger market volumes as renewable energy is increasingly outbeating fossil energy on costs.

Mitigation

Vestas is proactively working on turning the forthcoming challenges into business opportunities. Vestas' advanced wind turbine design and hybrid projects for example allow not only increasing full load hours (thus increasing the market value of the produced electricity) but contribute to easing system integration by firming power production compared to classical wind turbines. Furthermore, Vestas engages with its partners to create the future market frameworks to enable its customers to successfully compete in merchant conditions – turning challenges into business opportunities.

Cyber risks

Description
As many other corporations, Vestas' dependence on its commercial, technical, and operational IT infrastructure is significant and hence, Vestas is exposed to potential loss or harm related to this.

Impact
Risks include economical theft and theft of intellectual property rights or personal data, which may result in monetary losses in the form of lost business opportunities or fines and penalties from authorities.

Malicious hacking activities can in addition harm the infrastructure and create physical loss of property and consequential difficulties for Vestas to meet its contractual obligations.

Mitigation
Vestas works systematically to educate its organisation in methods to address exposure and is continuously working on improving the technical ability to protect against, detect and to respond to any attempts to enter its commercial, technical, and operational IT infrastructure.

Adapting to markets with greater complexity, hereunder sanctions and social performance

Description
A number of the markets in which Vestas is exploring business opportunities have characteristics, that differ from the more mature markets in Europe and the USA. Some of the main differing areas and risks to be understood and addressed are:

- Security in relation to employees and subcontractors
- Corporate social responsibility in relation to local communities
- Corruption in the country or sector
- Sanctions and export control according to international law
- Protection of intellectual property rights

Impact
The adverse impacts related to risks in complex markets are many and different but amongst others, adverse reputational impact or legal implications may occur if risks are not mitigated.

Risks related to intellectual property rights may amongst others lead to reductions in the competitive positioning of Vestas, whereas other risks may prevent Vestas from engaging in business relationships or undertaking projects.

Mitigation
To prevent and mitigate potential risks within these areas, Vestas uses a stage gate-based process to systematically evaluate and adapt the project offering during the contracting, construction, and servicing phases of the projects.