Risk Management

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, Vestas has integrated a corporate Enterprise Risk Management (ERM) framework. The ERM framework is a holistic, consistent, and continuous approach to managing Vestas' risk exposure and covers risks across the entire organisation, structured and sorted between three types of risks – persistent, current, and risks related to Vestas' Corporate Strategy. ERM is not only about identification, evaluation, and management of the individual risks, but also about communication and providing the necessary foundation for making business decisions.

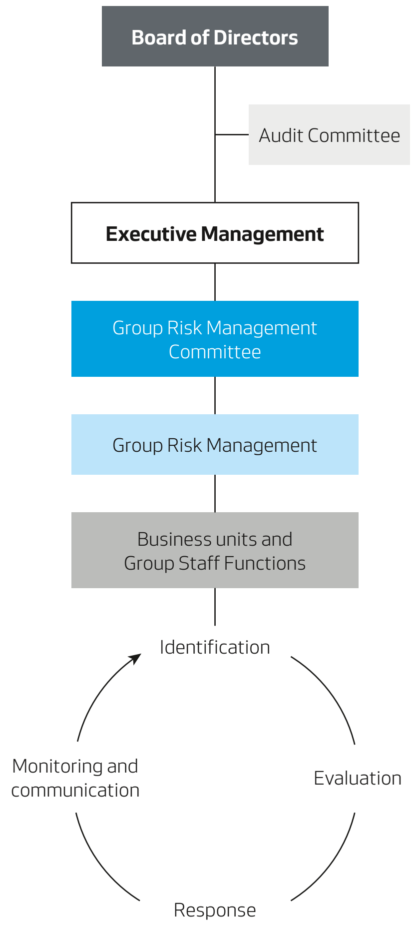
Governance

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

Each quarter, key risks are discussed in the Group Risk Management Committee, including the status and risk exposure of each risk, and an evaluation of mitigation activities for potential implementation. The committee is chaired by the Executive Vice President and CFO of Vestas Wind Systems A/S and includes other senior management members from relevant parts of the business.

A summary of the key risks is presented to the Executive Management three times a year, and on a semi-annual basis the Board of Directors reviews the key risks.

Risk management



CONTENTS
IN BRIEF
WHO WE ARE
STRATEGY AND AMBITIONS
GROUP PERFORMANCE
SUSTAINABILITY
GOVERNANCE
CONSOLIDATED FINANCIAL STATEMENTS
STATEMENTS
VESTAS WIND SYSTEMS A/S

Defined risks for the financial year 2018

As mentioned, Vestas is exposed to a number of financial risks and main risks, why the monitoring and control of these risks is important for Vestas.

Financial risks

In 2018, the management has assessed the following as Vestas' key financial risks: liquidity risk, credit risk, market risk (foreign exchange), market risk (interest risk), and market risk (commodity price) all addressed in the notes to the Consolidated financial statements, see page 078.

Main risks

The management has assessed several risks which are monitored closely. Out of these risks three have been defined as main risks for the financial year 2018:

- cyber risks,
- adapting to markets with greater complexity, and
- trade wars.

These risks are further described below.

Cyber risks

Description

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 respond to any attempts to enter its commercial, technical, and operational IT infrastructure.

Adapting to markets with greater complexity

Description

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

- Security in relation to employees and subcontractors
- Impacts to local communities near construction of wind farms
- 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.

Trade wars

Description

During 2018, several countries have imposed tariffs on traded goods. Among these, the USA has implemented tariffs both on commodities, as well as on specific imported goods coming into the USA. Considering the amount of steel and many key parts in a wind turbine, Vestas is naturally not immune to those kinds of tariffs.

Impact

As a consequence of the implementation of tariffs, prices of both domestically sourced material and imported components are expected to go up. This could lead to increased energy costs.

Mitigation

Vestas continuously works to minimise the impact from existing and potential tariffs by leveraging its global footprint and procurement options as well as the entire value chain. The eventual impact obviously depends on numerous factors and with details changing daily, Vestas continues to monitor and explore multiple avenues of mitigating the impacts.