Strategy and ambitions

Corporate strategy

Today, the world is faced with two primary energy challenges: meeting the growing global energy needs with clean and affordable energy and addressing climate change by making the existing energy system sustainable. As a consequence, the world has taken steps to fight climate change that make a 4°C warming of the planet much less likely than it was a decade ago.[1] At the same time, renewables have become the cheapest source of electricity, making wind and solar the preferred source of new energy capacity. In fact, today's renewable energy solutions are at a scale and cost that can meet both the world's energy demand and bring the world to the 1.5°C warming scenario that will limit impact from climate change.[2]

Creating the energy system for future generations

Vestas has been and continues to be a cornerstone in making the world's energy mix sustainable and with growing global energy needs and the 1.5°C warming scenario far away, renewable energy's growth potential is enormous.

In this environment, Vestas wants to drive the necessary change of the existing energy system and create a sustainable energy system for future generations. By doing so, Vestas aspires to be the global leader in sustainable energy solutions and will develop and offer the sustainable energy solutions that can replace fossil energy and meet the growing electricity demand across the globe.

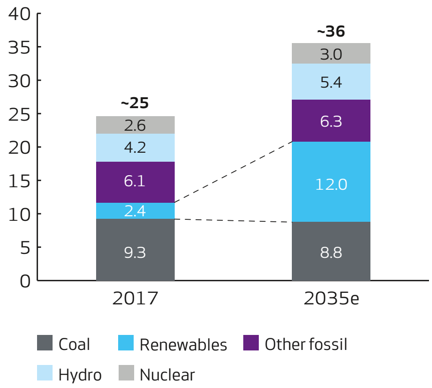
The planet's sustainable development is therefore both an integral part of Vestas' business and a tremendous growth opportunity for the renewables industry as energy demand increases. Compared to 2017, this demand is set to increase by more than 40 percent in 2035 due to population growth and electrification of transport, industrial processes as well as heating and cooling.[3]

At the same time, more than 30 percent of all current electricity generation capacity is expected to be retired by 2040, which equals around 1,500 GW of coal, oil, gas, and nuclear plants alone.[4] Moreover, renewables will grow from around 10 percent today to more than 30 percent of the world's electricity demand by 2035.[3]

Due to renewables' progress, developing countries added more renewables than fossil fuels in 2017, highlighting renewables' competitiveness, and societal benefits.[5] In total, Bloomberg New Energy Finance projects around USD 4.5tr to be invested in onshore and offshore wind energy up to 2050.[6]

As such, Vestas' vision, Global Leader in Sustainable Energy Solutions, sets a clear purpose and direction for Vestas' employees and fuels its ambitions for the global energy transition: Vestas wants to lead the industry on volume, revenue, and margins, and together with its key stakeholders wants to make the positive impact on the planet Vestas has the potential to create.

Global electricity consumption
PWh



Renewables to dominate future energy mix
In 2035, renewables are set to account for more than 30 percent of the global electricity generation.

Source: Bloomberg New Energy Finance: New Energy Outlook 2018. June 2018.

Leading from the front: Business areas and unparalleled market position

To create a world entirely powered by renewable energy and reap the associated growth opportunities, the Group continues to consolidate and expand its strong position within each of its business areas, while investing in the solutions and commercial capabilities that meet future market demand. Specifically, the Group leverages its competitive differentiators: global reach, technology and service leadership, unparalleled scale, and proven execution. These differentiators are leveraged from more than 105 GW of installed wind turbines, as well as more than 90 GW under service, to offer market leading solutions within the Group's three business areas: onshore wind, onshore service, and offshore wind. Based on market-leading profitability, the Group also sustains industry-leading research and development capabilities and investment levels across the three business areas that allows it to repeatedly introduce more efficient sustainable energy solutions.

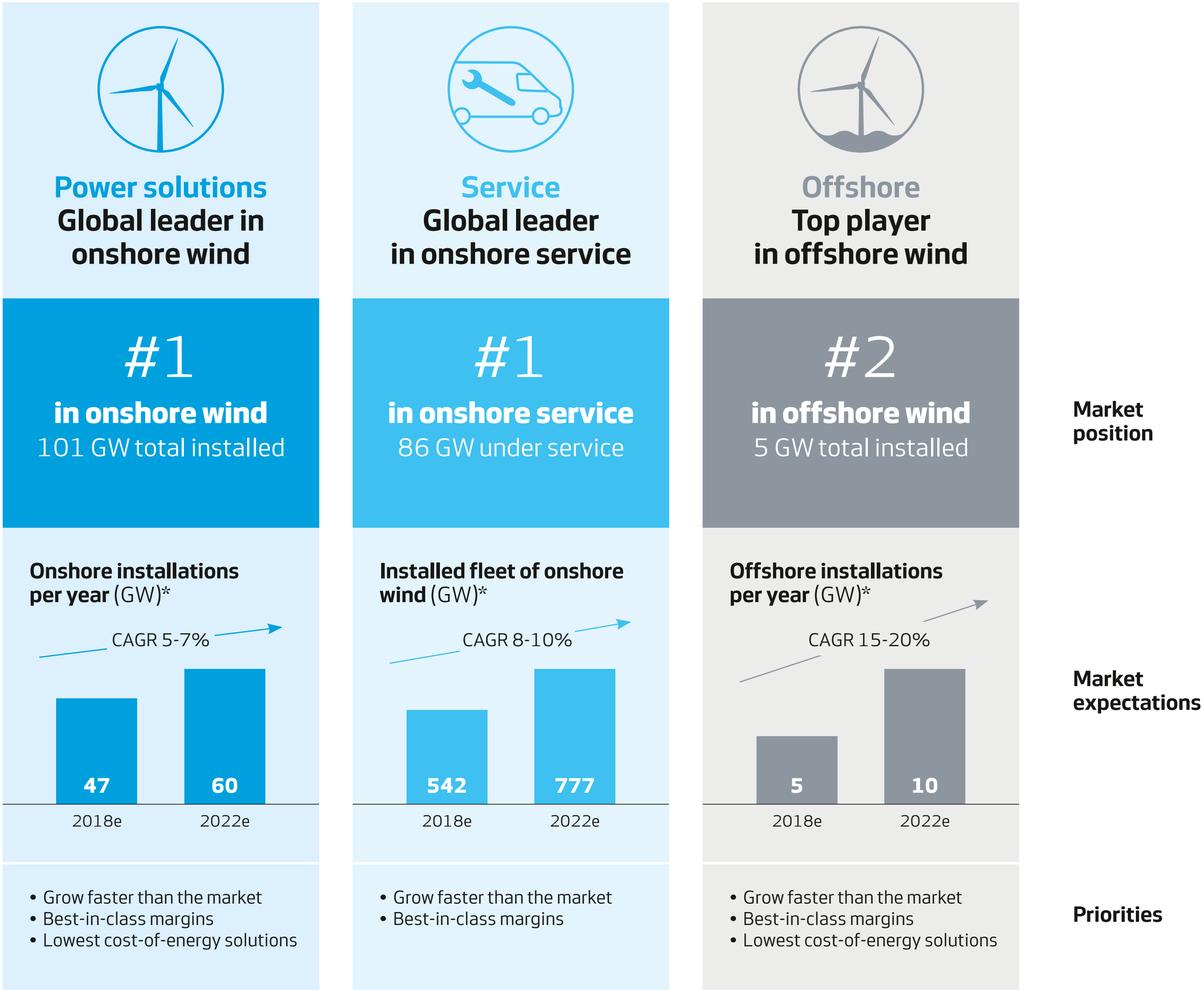
Connecting future and legacy in onshore wind – Onshore outlook and priorities

As the cheapest source of energy in several parts of the world, onshore wind energy will play a key role in the planet's sustainable development and unlock growth opportunities in new markets and segments for Vestas.

Towards 2022, global onshore markets are expected to increase 5-7 percent annually from the 2018 base.[7] In mature markets, new installations are primarily driven by the need to decarbonise the energy sector, while rapidly increasing electricity demand is driving strong growth in emerging markets. At the same time, repowering of older wind turbines with new and more efficient solutions grows as the global wind turbine fleet's average age increases, while hybrids are emerging as a grid-friendly and cost-effective solution to increase the penetration of onshore wind.

1) Source: UN Environment: Emissions Gap Report 2018. November 2018.
2) Source: The Boston Consulting Group: The Economic Case for Combating Climate Change. September 2018.
3) Source: Bloomberg New Energy Finance: New Energy Outlook 2018. June 2018.
4) Source: International Energy Agency (IEA): World Energy Outlook 2018. November 2018.
5) Source: Bloomberg New Energy Finance: Emerging Markets Outlook 2018 – Climatescope. November 2018.
6) Source: Bloomberg New Energy Finance: Data Viewer. June 2018.
7) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2018.

Group main business areas



* Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2018.

Vestas' mid-term objective is to strengthen its position as global leader in wind power plant solutions, which Vestas seeks to achieve by:

- Growing faster than the market by continuing to expand Vestas' market share and presence, especially in the fastest growing emerging markets.
- Expanding Vestas' focus on full-scope solutions such as Engineering, Procurement and Construction (EPC), hybrids, and co-/development, which tap into the increasing demand changes in the renewable value chain.
- Introducing new products to continue to offer the lowest cost-of-energy solutions while delivering industry-leading margins.

The leading service provider in a growing market – Onshore service outlook and priorities

The wind turbine service market remains a key priority for Vestas due to its growth and profitability potential and predictable nature. Cumulative onshore installations are expected to increase 8-10 percent annually until 2022[8], driven by increasing annual installations, digitalisation, as well as customers' and societies' need for predictable energy production from renewables.

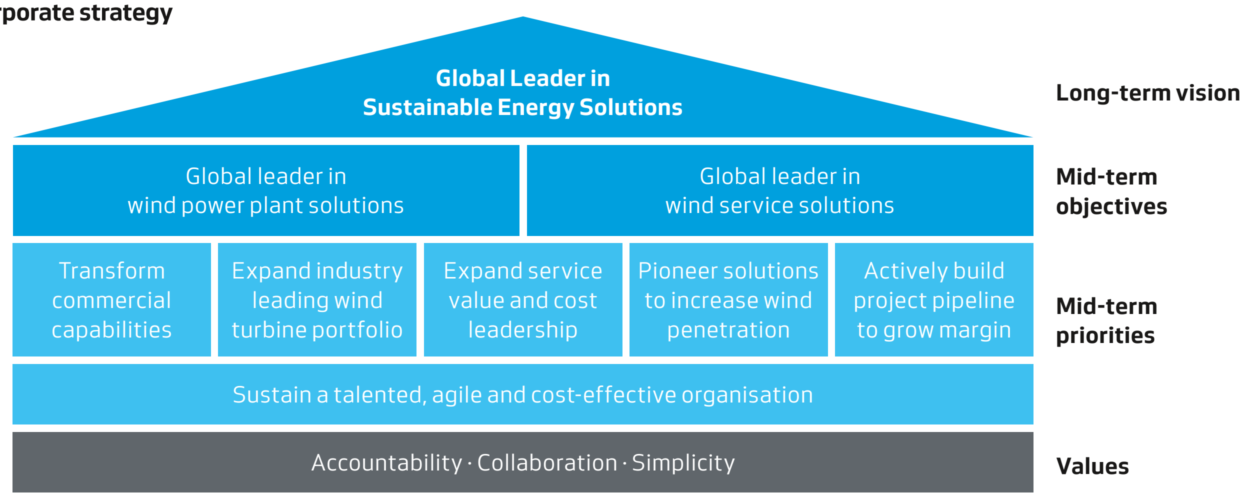
To that end, service innovation to support customers' changing needs, operational excellence across the entire service value chain, as well as strong digital tools and services are key to being successful in the growing service market.

The mid-term objective is to extend and fully leverage Vestas' global leadership in wind turbine service solutions, growing the service business faster than the market while delivering industry-leading margins. Vestas seeks to achieve this by:

- Capturing the full benefit of scale in Vestas' operating model, including leveraging artificial intelligence and automation to optimise operations.
- Delivering volume growth through cost competitive solutions, high renewal rates and multi-brand solutions.
- Innovating Vestas' service offering through digitalisation and solutions that optimise customers' output and asset management.

8) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2018.

The building blocks of the corporate strategy



Creating a top player in offshore wind – Offshore outlook and priorities

The positive outlook for offshore wind power has been reaffirmed as more countries outside the North Sea area such as the USA and Taiwan have made final decisions to include offshore wind power in their future energy mix.

Based on the global expansion and reductions in levelised cost of energy, offshore installations are expected to grow 15-20 percent annually towards 2022 from a base of 5 GW installed in 2018[9], with the service business growing simultaneously, delivering stable and predictable revenue.

Through its joint venture, MHI Vestas Offshore Wind, Vestas wants to be a market-leader in offshore wind, offering the market-leading V164 platform, which includes the industry's most powerful turbine: the V164-10 MW™. The joint venture seeks to achieve this by:

- Executing on the solid position achieved in today's robust core markets while expanding reach into new markets such as Taiwan, USA, and Japan.
- Innovating the V164 platform and services which enable MHI Vestas Offshore Wind to grow in both established and emerging markets.

Updating the mid-term objectives to ensure Vestas stays in the lead

While Vestas' strategy has delivered industry-leading profitable growth and shareholder value since 2013, it is important that Vestas both understands and adapts to the mid-to-long term changes in the markets for renewable energy.

Technologies, policies, and markets are maturing, which means that the success parameters and business models along the renewable energy value chain are expected to adapt. The key underlying trends include increasingly market-based remuneration for renewable projects, an expanding set of low-cost renewable technologies and hybrids, a focus on delivering high system-value, and shifting patterns in types and sources of funding for new renewable installations. To reflect this reality, Vestas' 2019-2021 strategy update includes a new set of mid-term strategic objectives and priorities.

The mid-term objectives, Global leader in wind power plant solutions and Global leader in wind service solutions, entail:

- Leading in innovating products, services, and digital solutions that deliver the lowest cost of energy, increase the penetration of renewables, and help customers fully optimise value from renewable power plants.
- Being the preferred solutions provider and partner to customers.
- Leading by market share in established markets, and competing for leadership in emerging markets.
- Leading in profitability to enable Vestas to reinvest into future innovation and competitiveness.

Mid-term priorities, the route to continuing leadership in sustainable energy solutions

Transform commercial capabilities:
- Combining all of Vestas' strengths to help customers win in auctions and achieve the optimal business case.
- Develop more advanced solutions, with hybrids and digital solutions.

Expand industry-leading wind turbine portfolio:
- Continuously develop technology to be competitive in all priority wind markets globally.
- Take full advantage of Vestas' global scale and operational excellence to deliver lowest cost of energy.

Expand service value and cost leadership:
- Expand customer value and continue to deliver service at the lowest cost utilising scale, processes, and new tools.
- Further develop digital solutions that improve internal efficiency and output from installed wind turbines creating customer value.

Pioneer solutions to increase wind penetration:
- Constantly addressing the challenges created by the intermittency of wind.
- Ease the integration of wind energy into electrical grids by using solutions like hybrids and storage facilities that can store and release renewable energy into the grid when it is needed.

Actively build project pipeline to grow margin:
- Accelerate the replacement of older wind turbines with new, more productive ones.
- Selectively engage in co-/development of projects to grow the pipeline of future projects.

In order to achieve the mid-term priorities, Vestas will need an organisation that is talented, agile, and cost-effective. Vestas' organisation is inspired by its values of Accountability, Collaboration, and Simplicity. These reflect guiding principles in terms of how Vestas' employees work and engage with each other internally and with the full range of stakeholders externally.

9) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2018.

Capital structure strategy

Priorities and capital allocation in 2018

1st priority
Organic growth
Investments
Research and development
EUR 603m

2nd priority
Acquisitions
Bolt-on acquisitions
EUR 81m

3rd priority
Dividend
25-30 percent of the net result of the year after tax
EUR 205m*

4th priority
Share buy-back
From time to time to adjust capital structure
EUR 402m

* Based on recommended dividend for the financial year 2018.

Capital structure targets

Vestas' capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company.

The main priority is to invest in Vestas' corporate strategy and use capital resources for required investments and research and development to realise this strategy.

As a player in a market where projects, customers, and wind turbine investors are becoming larger, Vestas aims to be a strong financial counterpart. Capital resources will be maintained to secure compliance with the capital structure targets:

- Net interest bearing debt/EBITDA ratio below 1x at any point in the cycle.
- Solvency ratio of minimum 25 percent by the end of each financial year.

Capital allocation priorities

Available capital resources may also be used for bolt-on acquisitions to accelerate or increase profitable growth prospects.

Any decision to distribute cash to shareholders will be made in appropriate consideration of the capital structure targets and availability of excess cash. Determining the level of excess cash will be based on the company's growth plans and liquidity requirements.

The dividend policy reflects the general intention of the Board of Directors of Vestas Wind Systems A/S (the Board) to recommend a dividend of 25-30 percent of the year's net result after tax, which will be paid out following the approval by the shareholders at the annual general meeting.

In addition, Vestas may from time to time supplement with share buy-back programmes to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major investments, most of the free cash flow may be distributed to shareholders through dividends and share buy-backs.

The Board continuously evaluates to what extent the company's capital structure, share structure, and capital resources are reasonable, in consideration of Vestas' operations and the stakeholders' interests.

The Board and Executive Management consider that the current capital and share structure of Vestas serves the interests of the shareholders and the company well, providing strategic flexibility to pursue Vestas' vision.