Letter from the CEO

While overall, the commercial outlook for the wind sector over the mid to long term remains positive, difficult market conditions prevailed throughout 2012 and additional factors like regulatory uncertainty in key markets contributed to a volatile picture.

A difficult context

There were difficult market conditions to contend with during most of 2012 caused in part by the overall turbulence in the global economy which affected each of LM Wind Power's key markets in different ways. An additional factor, particularly visible in the US and India, was uncertainty around the extension of financial measures supporting wind energy growth.

Overall, economic conditions were challenging, with concerns throughout major economies reflected most clearly in the financial markets where general uncertainty is still affecting lending and liquidity. However, throughout the year, there was clear evidence that fundamentals of the wind energy business remained strong and the outlook remains positive for the medium to long term.

Wind continues to increase its share of overall renewable energy generation capacity and in both environmental policy and fiscal measures we saw that strong political support remains in place at both global and national levels.

The long-term drivers for wind energy development remain unchanged as the technology moves closer still towards parity with conventional energy sources.

Growth continues

LM Wind Power adopts more prudent market forecasts than the key industry analysts. However, even with additional gas resources becoming available which have held prices low, our projection is 3% Cumulative Annual Growth Rate (CAGR) for the coming years, which is considerably more conservative than forecasted by most respected market analysts. We see particularly strong growth in emerging markets where the company can leverage its global footprint which it is already expanding in Brazil and offshore where the company can demonstrate a unique track record. Macroeconomic fundamentals driven by growing energy demand, water shortages, energy security concerns and of course, the continuing political will to address global climate change lead us to have firm faith in the future of this business. Through continued advances in technology and improved performance, wind energy is becoming increasingly competitive with conventional energy sources, we are moving closer to grid parity and ultimately we expect wind energy development will become much less dependent on government financial support.

Clear direction

The core strengths of LM Wind Power remain in place despite considerable external pressures. The foundation of our success is our global manufacturing footprint and continued advances in blade technology, with rotors becoming larger to meet demand in lower wind areas onshore and ultimately offshore. We have demonstrated our ability to leverage this flexibility in our manufacturing footprint to serve market demand wherever it exists. While competition has increased, our market offering remains robust and continues to underpin our financial performance versus the competition.

New leadership, new focus
Under new leadership in 2012, the company has become more focused and strengthened its resilience. In addition to swift restructuring, we developed and implemented strategic programs to manage the short-term challenges while keeping our eyes fixed on the horizon. These programs were implemented with the discipline and rigor necessary to deliver long-term enterprise value in response to changing market conditions. The leadership team continues to demonstrate that it can act swiftly to control costs, improve manufacturing performance and increase customer focus while implementing long-term strategic measures based on sound analysis.

Cost control culture
Headcount reductions were significant in 2012 as manufacturing capacity was reconfigured to serve reduced overall demand. However, the measures we applied across the group were applied with the utmost care, maintaining our short-term viability while reconfiguring the business to ensure that the functional support and capability we have shown in the past is aligned with realistic and clearly defined plans for the future. There is no end to this process, as a cost control culture is now installed throughout the group with commensurate improvements evident in almost every area of the business.

"We care"
New leadership presents opportunities to reappraise the overall picture and to refresh approaches to persistent shortcomings. It also provides fresh input to the long term view of the business, its viability and its vulnerability. There was rapid evidence of the benefits from reorganization. A leaner organization structure compells working more closely and a high level of motivation continues among the management team based on the implementation of renewed discipline in financial operations, cost reduction, sourcing, manufacturing and sales.

Focus on cash maintains performance
We were compelled to reappraise our financial targets at the end of the first half of 2012 but were nonetheless able to keep our promises in the second half of the year with full year revenue of EUR 753 million and EBITDA of EUR 75 million. Our performance was affected by significant reductions in turnover in China and India and the delayed renewal of the Production Tax Credit, a financial incentive to the industry in the United States, which resulted in a slower than expected fourth quarter in that important market.

All regions were affected by much more significant reductions than predicted. A combination of planned measures and intense financial controls together helped to steer our course to the year end. Cost reduction programs and innovative responses to customer requirements combined to ensure continued profitability. Among the most significant challenges was the constant focus on cash, which required engaging customers continuously to reduce overdue payments.

A renewed approach to sourcing contributed to cost control. Continuous dialogue and a partnership approach with key suppliers enabled better working capital management.

Further improvements
The focus on safety which intensified during 2011 continued with additional momentum in 2012 with notable results in all geographies. Safety improved by most key measures and this was achieved despite an increased challenge in production with the management of change. The drive combines new processes, better sharing of internal knowledge and lessons learned alongside specific overall management and personal targets to increase motivation and awareness.

More progress on the implementation of LEAN production principles and process optimization in the manufacturing facilities also contributed significant improvements realized in efficiencies and cost savings. Improved quality control measures showed effects at every stage in the manufacturing process. Meanwhile new technical innovation, leading-edge protection solutions, structural design and components were introduced. These measures will enable the company to deliver blades of increasing stiffness and length. We launched new rotors and continued to ramp up the Globlade® technology with the majority of revenue deriving from the newest blades.

On the Service and Logistics side of the business, further restructuring and focus delivered a major increase in warranty resolution.

In the Brakes business we have seen impressive growth in the industry market segment. During the year, we have also strengthened the Brakes organization in order to improve the market share in wind while continuing the growth of the industry sector.

Potential in the coming year
While the exceptionally challenging market conditions will continue, the strategic programs the company presently has in place will be implemented with discipline and rigor. Customers continue to emphasize the necessity for high-quality products, with higher performance, available where they want them. The industry is moving towards an increasingly project-orientated model as financial and political uncertainty continues. Nonetheless our flexibility and global footprint are exceptional strengths and enable us to adapt to changing circumstances. In a market characterized by overcapacity, slower demand and volatility, we remain focused on continuing our efforts in cash management and cost-saving initiatives to ensure we can deliver new blades at competitive prices. We are also able at the same time to find innovative solutions which will position us among the industry leading customers to generate long term value and growth.

Leo Schot
Chief Executive Officer