Letter from the CEO

In 2013 the whole wind energy sector faced strong economic and political headwinds. LM Wind Power, along with its customers, was no exception. However, tough cost containment and cash management measures maintained the company's profitability and improved its cash generation. Meanwhile the management was also able to focus on strengthening the business for the longer term in many areas, to capture the predicted return to growth. Clear indications of a more positive outlook began to show by the year end as evidenced by a much improved order book.

Introduction

In 2013, LM Wind Power maintained profitability despite enduring significant commercial impacts reflecting the challenges in the wind sector and the wider global economy. This was thanks in large part to careful cash management and a disciplined and systematic cost-cutting regime. Throughout the year, the emphasis was on dealing with each situation at hand while keeping our eyes fixed on the horizon. We focused on understanding the different, complex challenges, economic, political and technical, and addressed each in turn.

During the year, we researched, drafted and agreed a new, forward-looking strategy with the support of the whole management team. We renewed our focus on quality and strengthened our customer focus, while dealing with continuous change. Long term growth in the market is widely expected and the company is positioned better by almost every measure, for the medium and long term growth opportunities. By the end of the year there were already signs of significant and positive trends and a more promising commercial outlook.

A difficult context

The wind market in 2013 experienced its first year of absolute reduction in the last 14 years. This was a temporary reduction mainly driven by delays in the renewal of regulatory support in two key markets, the United States and India. Both of these support structures were renewed, providing stability for two years in the US and five years in India.

LM Wind Power's key markets all experienced change and challenge in different ways. Full year revenue including Svendborg Brakes was EUR 550 million, reduced by EUR 203 million from 2012. Without taking Svendborg Brakes into account, full year revenue was EUR 488 million versus 687 million in 2012. This was due to the delay in the extension of Production Tax Credit (PTC) in the USA and the Generation Based Incentive (GBI) in India. China also continued to remain highly competitive with intense price pressure. However, dialogue with key players remained open and we continued to export blades from our manufacturing facilities in the country. In Europe the market remained relatively flat but we sustained production in every country where we have a presence. We also took tactical decisions to reduce sales to customers which struggled to pay, focusing on managing cash in the business, while ensuring we provided continued support to measures preparing the company for the future.

Cost reduction

One significant area of improvement was direct costs, which were reduced versus previous years, due in part to significant savings achieved on direct materials, some restructuring in Denmark and a more favorable customer and product mix.

Despite the overall volume reduction, EBITDA before special items including Svendborg Brakes, at EUR 73 million was only EUR 2 million below 2012. EBITDA before special items (excluding Svendborg Brakes) of EUR 64 million, was EUR 5 million below the prior year. Overall, however, EBITDA margins increased from 10% to 13% as a result of effective operational control and the aforementioned rigorous cost reduction measures. The sale of Svendborg Brakes, announced in November, also reflects the drive to renew the management's intense focus on the core blade manufacturing business.

Research and Development

Despite financial pressures, the company continued to conduct extensive research and development initiatives with leading research institutions and with customers. LM Wind Power participates in a number of major, international and multi-stakeholder programs that seek to create breakthrough innovations for wind energy and ensures the company's continued leadership in reducing cost of energy. With longer LM blades in prototype and serial production, there is clear evidence that the company maintains a leading edge in blade manufacturing technology as the whole sector continues to move closer still, towards parity with conventional energy sources. New markets for wind power are also emerging and the company has demonstrated its capability of growing and adapting its global manufacturing footprint to seize such opportunities. A notable example is the opening of our new joint-venture factory in Suape, Brazil.

Market presence

In 2013, LM Wind Power remained the leading supplier of wind turbine blades worldwide as measured by megawatts installed. The group maintained a 14% market share, approximately twice that of its nearest competitor (as measured by megawatts installed), ahead of independent companies and those which manufacture their own blades in house. A trend towards more outsourcing by major wind turbine manufacturers reflected their own drive to reduce capital expenditure and the necessity to introduce more flexibility into their supply chains. This promises to increase the scope and scale of LM Wind Power's addressable market.

Increasing flexibility

During 2013, the company has continued to become more focused and strengthened its resilience. One signal is increased flexibility. The pace of innovation is increasing and customers seek to rapidly introduce new, more efficient turbines to secure a competitive edge. Blade development from concept stage to market, has had to accelerate. The company has invented and introduced new manufacturing technologies (Manufacturing 2.0) which, as it has already demonstrated, can rapidly improve productivity. In addition, LM Wind Power's product family approach is targeted at certain expanding megawatt market segments. New modular products platforms also enable local production.

Customers not markets

While the company continues to scrutinize the overall global market for wind, to align with growth and future opportunities, a key strategic change in 2013 was the switch to focusing on individual customers not markets. The customer base comprises a broad geographic range and a strong representation of the key players across the whole sector. Closer relationships are proving invaluable in terms of overall commercial performance in the short term but more importantly, the resulting technical partnerships secure their engagement over the long term.

Cost structure

LM Wind Power continues to show significant resilience and the ability to flex its cost structure. Savings measures have resulted in EUR 89 million in cumulative cuts over the past three years which indicates the company's ability to weather market shifts but is also aligned with the drive of the industry as a whole to reduce the total cost of wind energy. Constant focus on cash, required pressing for continuous control of overdue payments. A set of clearly-defined initiatives on the procurement side also delivered results with scaled cost reductions across the board. The adoption of a more strategic partnership approach with suppliers also ensured that open dialogue was maintained and that production was unaffected, ensuring better management of working capital.

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

Leo Schot
Chief Executive Officer