

Letter from the CEO

Growth across the entire wind sector combined with LM Wind Power's tough cost containment and reduction measures enabled the company to return to growth in 2014.

2014 saw significant growth across the entire wind sector globally, and at LM Wind Power we benefited accordingly as a market leader in the sector. As a result of the improvement programs initiated in 2012 and continued in 2013, the company was well positioned to embrace the opportunities. Tough cost containment and reduction measures continued relentlessly throughout 2014 along with management's strict focus on day-to-day cash control. Overall, the company returned to growth while strengthening in many areas. Together, these factors have supported the improved performance with clearly visible results and created a strong platform for future growth.

Platform for growth

The company successfully completed a EUR 130 million high yield bond issue and put in place a new EUR 35 million revolving credit facility. This gives a stable, long-term base to enable the business to continue to grow. In addition, new innovative manufacturing processes were introduced which increase the productivity of existing plants. In blade design, new technologies and new materials are supporting the introduction of new products to support customer requirements. And finally a new plant in Brazil expands the company's presence in high growth emerging markets.

A new Chief Financial Officer, Nick Smith, was appointed on June 16, 2014 and further, careful reorganization of management functions took place, to ensure the flexibility and capability needed to execute the increasing number of opportunities.

Improved market outlook

The global wind industry is growing strongly again and record annual installations were achieved in 2014, according to the Global Wind Energy Council (GWEC). Following a slowdown in 2013, 51,477 megawatts (MW) of new wind generating capacity were added during the year. The record-setting figure represents a 44% increase in the annual market, and a solid indication of the scale of the recovery of the industry. Total cumulative installations of wind power worldwide now stand at 369,553 MW as at the end of 2014.

Government policy has been highly influential in supporting this growth. Many governments in key markets have made significant commitments to take steps to mitigate carbon emissions in their energy mix. Increasingly, wind, as the most viable and available form of renewable energy, is being seen as the leading approach to mitigating carbon emissions in the battle against climate change.

Wind energy technology is maturing - it is reliable and competitive. Increasingly wind is an attractive option for utilities, independent power producers and companies who want to implement renewable solutions and support government policies responding to the challenge of climate change.

Market by market the trend is also upwards. China continues to dominate, and alone, it represents 45% of the global market. India, though far smaller, showed the second

strongest market growth and the outlook is for further growth. Europe grew marginally in 2014. We have already seen the widely-anticipated start to offshore development in the UK and the company is making good progress in that market. LM Wind Power's largest market remains the United States. Installations recovered in 2014 from 2013's low point with 4,854 MW. Canada also set a new record with 1,871 MW.

In the African market, Morocco and South Africa led the way but the other big geographical growth story was Latin America. The strongest player was Brazil, followed by Chile and Uruguay. The ramp-up of production at the new LM Wind Power manufacturing facility at Suape in Brazil in a joint venture with Eolice is specifically intended to address this growing commercial opportunity for the sector.

Market position

LM Wind Power remains the leading independent supplier of wind turbine blades worldwide. The trend towards more outsourcing of blade manufacturing continued as wind turbine manufacturers continue to seek cost reductions and efficiencies. LM Wind Power represents a viable and reliable source for blades, and the company responded with a defined strategy for each customer to deepen the existing relationships while pursuing openings for long term partnerships with new customers based on mutual gain. No stone has been left unturned in the search for new business, and the increase in revenues of 20% in 2014 reflects the success of this effort.

The company has shifted its focus from a regional, market-based approach to a detailed and defined strategy for each current and potential customer. The objective has been to strengthen long term and valued partnerships with existing customers and to increase share of wallet. At the same time, new potential customers are being attracted by the drive and innovation demonstrated by the company's new technologies, new manufacturing processes and more proactive engagement. The company's increased revenue derives from the increasing depth and value achieved from this partnership approach.

The joint venture manufacturing facility in Suape, Brazil illustrates the focus on growth markets. The ramp up of production has presented significant challenges and did not deliver the contribution initially expected. Swift action has been taken to improve performance and significant progress is being made. Working closely with our customers, we remain confident that it will ultimately achieve its potential.

Global players, global advantages

LM Wind Power has a unique global reach with 13 factories as well as offices and service locations in 11 countries and good proximity to the key markets. This international footprint also provides flexibility and resistance to market volatility.

The rotor blades are 'the motor' of wind turbines, and LM Wind Power is the largest and most experienced manufacturer in the sector.

Investing time and effort

In addition to continuing to invest in research and development, Management continued to focus on improvements across all areas of the business. This has fostered a new approach to customer and supplier relationships, through more technical dialogue and transparency. LM Wind Power has also introduced new technologies, materials and manufacturing processes to cope with the longer, lighter blades that the market demands.

The company's supply chain is a key driver of financial and technical performance, so specific effort has been devoted to optimizing this. It has delivered better forward planning and a new, clearer, technology roadmap. The focus on innovation has had a clear impact as new technologies have attracted more business from existing customers, new customers and industry partners.

The company is now better placed than ever to develop the next generation of blades.

Cost reduction

During the challenging market conditions of the previous two years, LM Wind Power has shown that it is capable of flexing its cost structure and adapting to difficult market conditions quickly. The drive for cost reduction continued throughout the business during 2014. However, the strong market growth limited the progress on direct materials as supply tightened, airfreighting was required and some commodity prices started to increase.

A major development throughout the year was the continued implementation and expansion of Manufacturing 2.0. The system leverages the company's existing manufacturing footprint by building more blades, faster, in the same spaces. There have been challenges ramping up the system, but the productivity gains are clearly visible and the benefits translate directly to our bottom line performance.



Research and development

At LM Wind Power, we continued to push new barriers and leverage new technologies to secure market advantage and prepare for the future. The company continues to lead and participate in a wide range of multinational and multi stakeholder programs that are seeking pioneering breakthroughs in wind energy. Close liaison with universities and other external bodies is strengthening the company's position as a leader in the field.

As blades grow longer, the quest for lighter, stiffer structures is key to increasing the Annual Energy Production (AEP) of turbines. New prototypes and entirely new blades have been brought into serial production. Combined with its new manufacturing technology, LM Wind Power leads the market in new approaches to reducing the overall cost of wind energy and continues to focus on the ultimate goal of achieving parity with conventional energy sources, without the need for any subsidies.

Conclusion

The market remains very competitive, and we must therefore continue to strive to reduce cost. However, I am encouraged by the return to growth, the much improved financial performance and the exciting opportunities which we are pursuing. Our continued investments in all aspects of technology and our increasingly close working relationships with customers give me great confidence that we can deliver on our objective of sustainable growth and profitability.

Leo Schot
Chief Executive Officer