23 February 2017

January-December 2016 Results

AN EXTRAORDINARY YEAR IN WHICH GAMESA BEATS ITS GUIDANCE AND CONSOLIDATES THE FOUNDATIONS OF ITS LONG-TERM STRATEGY.

Gamesa Corporación Tecnológica[i] ended 2016 with record orders, sales, profitability and cash flow generation, having beaten its guidance for the year — even after upgrading it twice.

Strong commercial activity, the result of a growth-oriented competitive position, resulted in 1,386 MW[ii] of new orders in Q4, 33% more than in the same period of 2015, which raised order intake in the last twelve months to 4,687 MW (+21% y/y). The order backlog stood at 3,552 MW (+11% y/y) at the end of the year. This strong commercial performance provides a high degree of visibility to this year's guidance (c. 5,000 MWe). Gamesa begins 2017 with orders covering 63% of its projected sales[iii], similar to the position at the beginning of 2016.

Revenues increased by 32% in 2016, to €4.612 billion. EBIT amounted to €477 million (+48% y/y), and the EBIT margin was 10.4%, 1.1 percentage points higher than in 2015. Finally, net profit rose by 77% y/y, to €301 million. Recognition of Adwen reduced 2016 net profit by €25 million.

Higher profitability together with focused investment in working capital, which declined by €237 million to -4.9%[iv] of revenues, and in capex, which amounted to €211 million, enabled Gamesa to achieve 30% ROCE and €423 million net free cash flow while maintaining its commitment to a sound balance sheet and ending the year with a net cash position of €682 million.

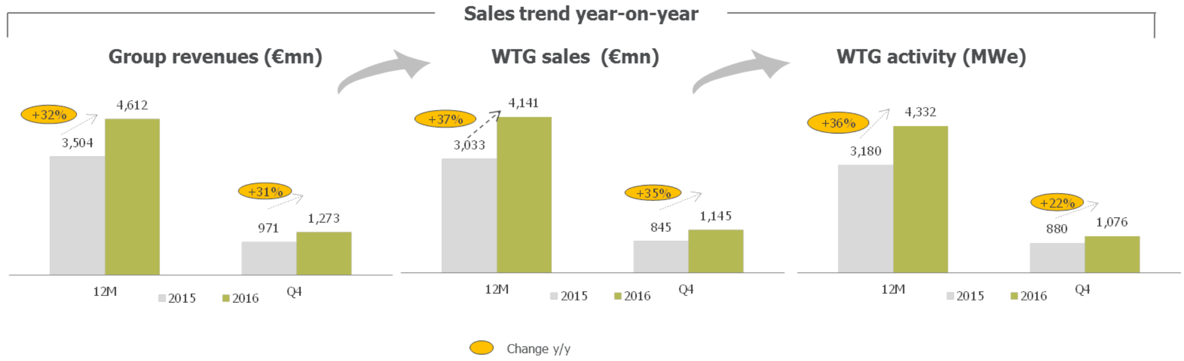
Gamesa is also advancing with its long-term value-creation strategy, having signed an agreement, approved by its shareholders on 25 October, to merge with Siemens Wind Power.

Main consolidated figures for 2016

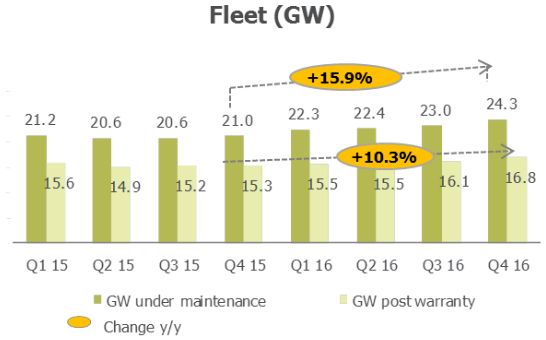
- **Revenues:** €4,612 million (+31.6% y/y)
- **EBIT**: €477 million (+47.9% y/y)
- **Net profit:** €301 million (+77.0% y/y)
- **NFD (Cash)[v]:** -€682 million
- **MWe sold:** 4,332 MWe (+36.2% y/y)
- **Firm order intake:** 4,687 MW[vi] (+20.7% vs. 2015)

Gamesa Corporación Tecnológica ended 2016 with €4,612 million in revenues, 32% more than in 2015, as a result of strong growth in wind turbine manufacturing and sales. At constant exchange rates, revenues increased by 38% y/y to €4,818 million.

Revenues in the Wind Turbine Generator (WTG) division increased by 37% y/y, to €4,141 million, due to growth in volume to 4,332 MWe, 36% more than in 2015. That growth was distributed over practically all regions: Europe/RoW, Latin America, the US and India. APAC (inc. China) was the only exception, due mainly to contraction of the Chinese market, where the pace of installations fell from 30.5 GW in 2015 to 23.3 GW in 2016, according to the latest figures from the Global Wind Energy Council (GWEC)[vii].



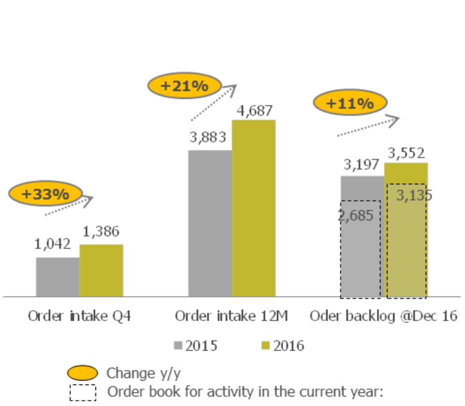
O&M services revenues amounted to €471 million, i.e. stable in year-on-year terms and in line with expectations for 2016**.** The rising trend in the total fleet under maintenance and the post-warranty fleet was confirmed in 2016: +16% (to 24,331 MW) and +10% y/y to 16,827 MW), respectively. This growth was driven by expansion of the fleet in emerging markets, as envisaged in the business plan 15-17E, and by an improvement in the post-warranty renewal rate.



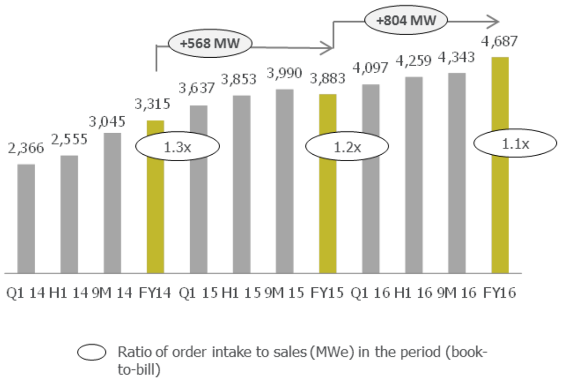
Growth in sales volume in 2016 was the result of the company's strong competitive positioning and its presence in markets with above-average growth rates. Gamesa's strong competitive position is supported not only by a diversified geographic footprint (55 countries) but also by an extensive customer base, a portfolio of products and services focused on maximising the return on wind assets, and a presence throughout the wind value chain. In a year in which the pace of installations ex-China came down from 32.5 GW in 2015 to 31.3 GW in 2016, according to the Global Wind Energy Council (GWEC)[viii], **Gamesa's strong performance enabled it to increase installations in the year by 27% to 4,262 MW, bringing its total accumulated figure to 38,875 MW by 2016 year-end, and positioning itself in the fourth position of the worldwide[ix] wind ranking according to Bloomberg New Energy Finance.**

Also as a result of that positioning, the company signed **1,386 MW[x] of orders in the fourth quarter, 33% more than in the same period of 2015** and equivalent to a **book-to-bill ratio[xi] of 1.3**, exceeding the 1.2 ratio achieved in the same period of 2015. **Total order intake amounted to 4,687 MW in 2016,** equivalent to a **book-to-bill ratio of 1.1[xii]**, and **the order backlog at 2016 year-end stood at 3,552 MW, 11% more than** at the end of 2015. Strong commercial performance in 2016 enabled Gamesa to commence 2017 with a high degree of visibility with regard to its volume guidance, having attained **63% coverage[xiii] of the volume guided for 2017 (c. 5,000 MWe)**.

Strong commercial performance (MW)[1]



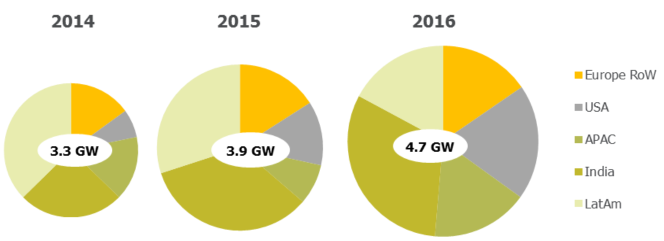
Order intake in the last twelve months (MW)[1]



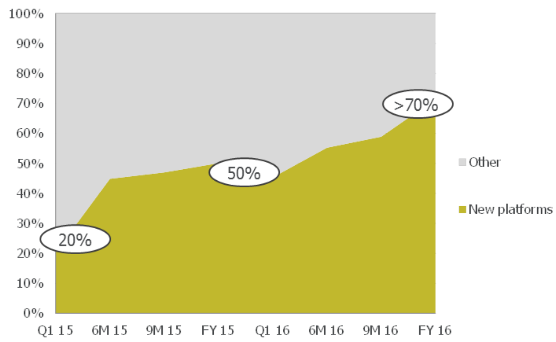
1. Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17).

Order intake was very diversified in geographical terms, with a strong contribution from the new generations of products. In geographical terms, Gamesa retains its leading position in developing markets while strengthening its presence in mature markets. While India represents the highest volume orders in 2016, US and APAC, followed by Europe and Mexico lead the growth in new orders. As regards new product penetration, the G114 2.0-2.5 MW and G126 2.5MW platform's contribution rose from 50% of order intake in 2015 to 67% in 2016, and the first order for the G132-3.465 MW machine was signed in the fourth quarter of 2016, with the result that products with rotors larger than 100 metres accounted for over 70% of order intake in the year.

Geographical breakdown of order intake in 2014-16 (%)[1]

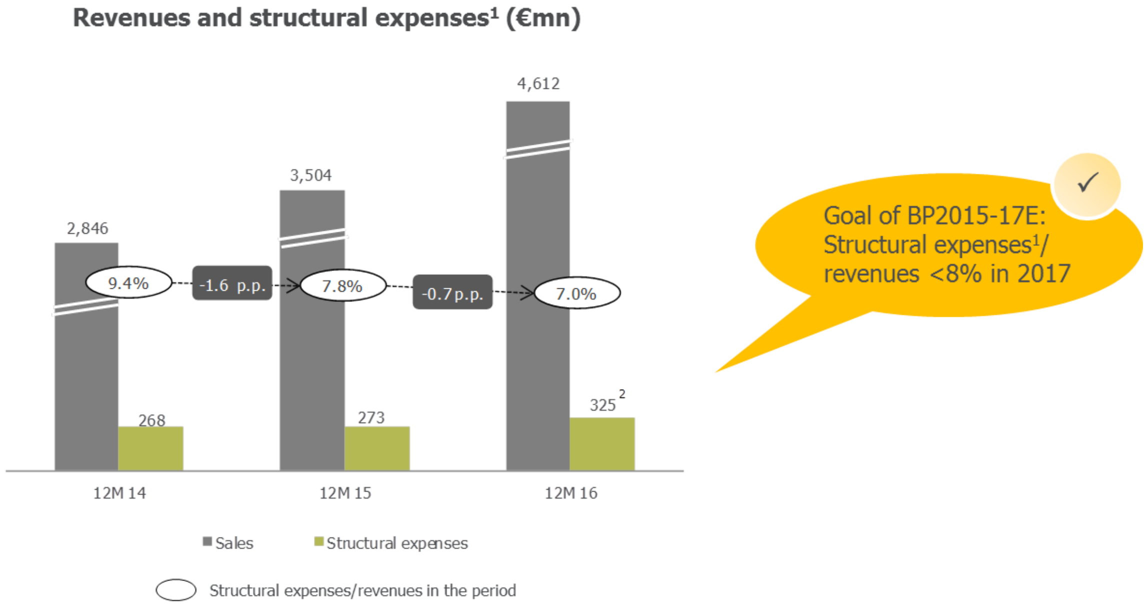


Product breakdown of order intake (%)[1]



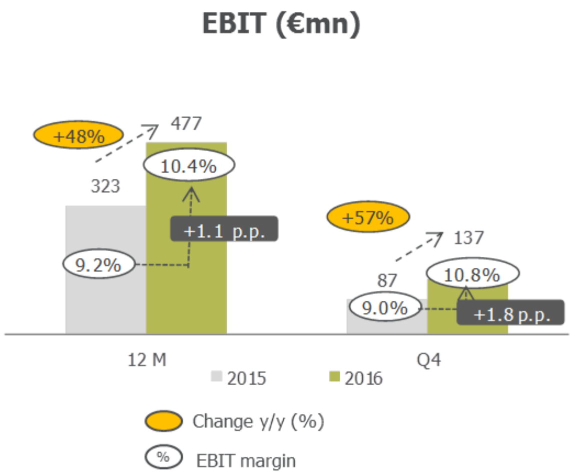
1. Firm orders and confirmation of framework agreements for delivery in the current and subsequent years (including 731 MW signed in Q4 16 and announced in Q1 17.

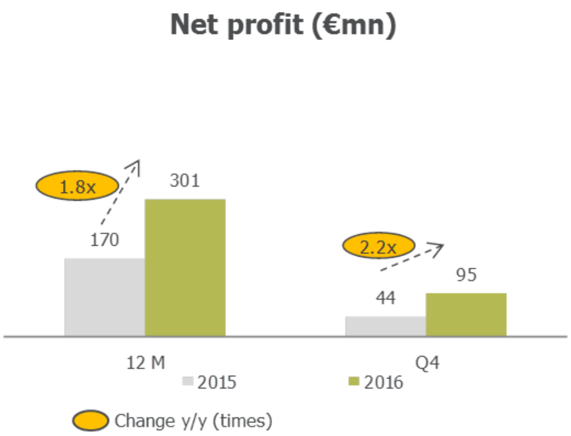
In this context of growing activity, Gamesa remains focused on controlling structural costs so as to maintain a low break-even point. As a result, structural expenses[xiv] amounted to 7% of revenues in 2016, i.e. below the target set in the business plan for 2015-17E, and 0.7 percentage points lower than in 2015. It should be noted that structural expenses increased in 2016 to support the growth planned for 2017.



1. Structural expenses with a cash impact (excluding D&A).
2. Structural expenses excluding €5.3mn in expenses relating solely to the merger.

Control of fixed costs, together with ongoing optimisation of variable costs and quality excellence programmes, enabled Gamesa to offset a lower relative contribution to group revenues from O&M (with returns in excess of the manufacturing business) and steadily increase total operating profitability. Meanwhile, performance by the currencies in which Gamesa operates had a negative but limited impact of 0.1 percentage points, in line with the 2016 guidance (± 0.5 p.p.). **As a result, Gamesa ended 2016 with an EBIT margin of 10.4%**, 1.1 percentage points higher than in 2015, while **EBIT amounted to €477 million 48% more than in 2015.**

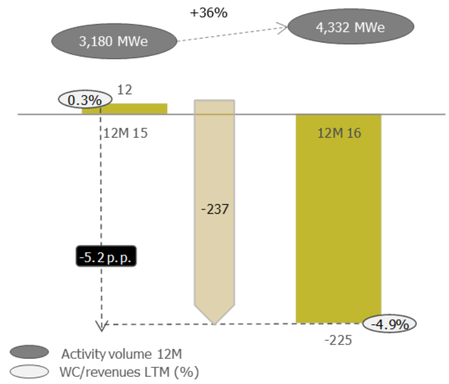




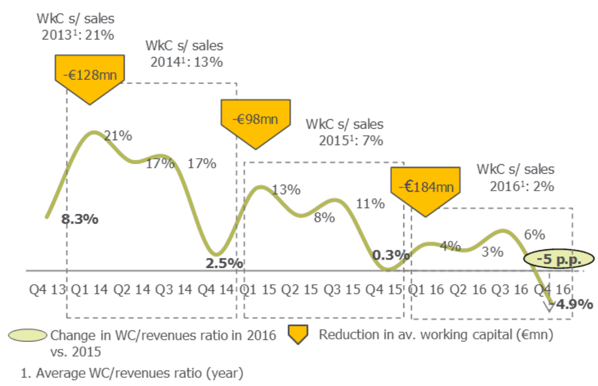
Growth in volume and revenues and rising profitability enabled **Gamesa to increase net profit by 77% in 2016, to €301 million.** Adwen (50% integrated in 2016 by the equity method) has had a negative impact in the amount of €25 million in 2016 and €4 million in 2015[xv].

In this context of strong growth in activity and profitability, **Gamesa continues to exert strict control over working capital, which stood at -€225 million** at 2016 year-end, **equivalent to -4.9% of revenues, i.e. 5 percentage points lower than in 2015.** Average working capital has been reduced by €184 million in the last twelve months, to 1.7% of revenues, vs. 7.5% in 2015.

Reduction in working capital (€mn)



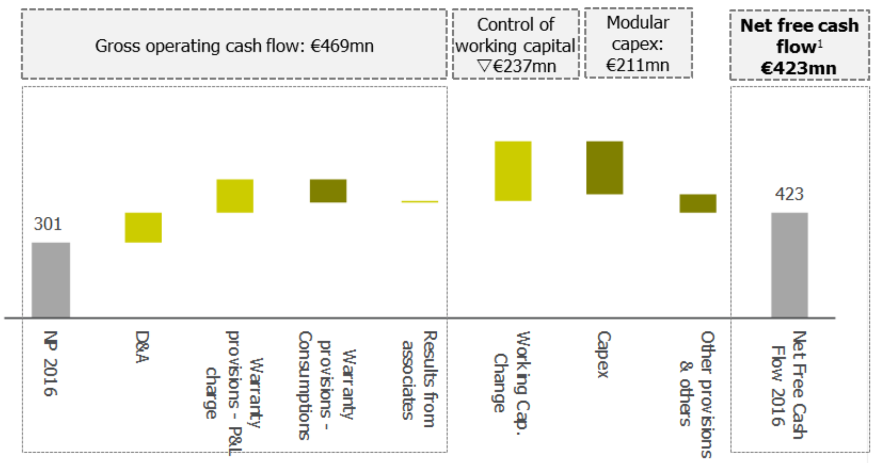
Working capital/revenues 2013-16



Applying a modular capex policy tailored to growth needs, **Gamesa invested €211 million** in 2016, i.e. 4.6%[xvi] of revenues LTM, in line with the guidance for the year (4%-5% of revenues). Investments in the year were focused on new products (blade moulds and construction elements, plus appropriate logistics) in the regions in which Gamesa operates.

This control of capex and working capital in a context of profitable growth enabled **Gamesa to end 2016 with record net free cash flow — €423 million, i.e. 2.3 times the 2015 figure — and a net cash position of €682 million on the balance sheet,** in line with the **company's goal of achieving a sound financial position.**

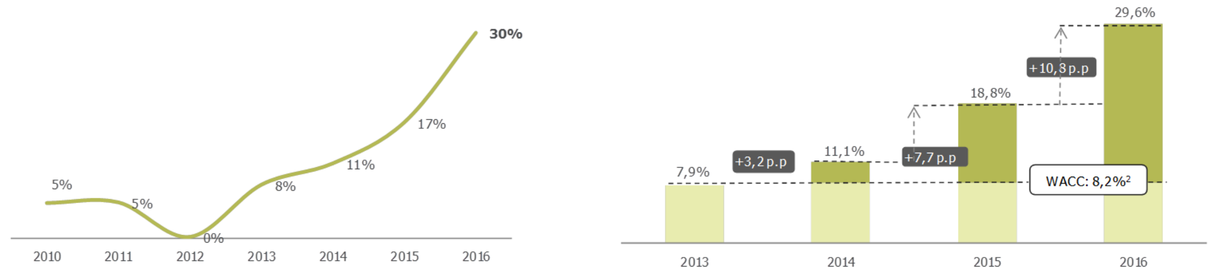
Net free cash flow (€mn)



1. Net cash pre-dividend

The combination of profitable growth and control of capex and working capital enables Gamesa to continue fulfilling its commitment to creating shareholder value, with a **ROCE of 30%**, 11 points more than in 2015.

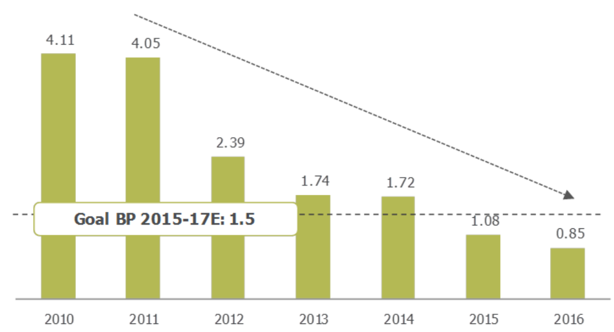
ROCE[1]



1. ROCE: LTM EBIT*(1-t)/average capital employed. Average capital employed is calculated as the arithmetic mean of capital employed between the beginning of the current year and the end of the period."t" is the estimated income tax rate for the current year (28% in 2016). Detailed performance measures' definitions can be found in the appendix of the earnings release.
2. Analysts' average WACC: 8,2%

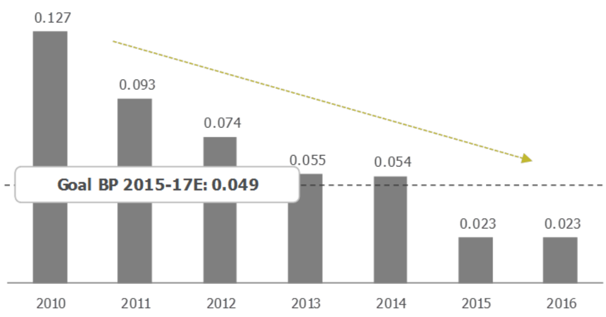
In the context of fulfilling its guidance and steadily improving performance, Gamesa also met its goals in the area of workplace health and safety, continuing to improve accident frequency and severity indices ahead of the goals set for the end of the business plan.

Accident frequency index[1]



[1] Frequency index: No. of accidents with days lost * 10^6/No. of hours worked

Accident severity index[2]



[2] Severity index: No. of days lost * 10^3/No. of hours worked

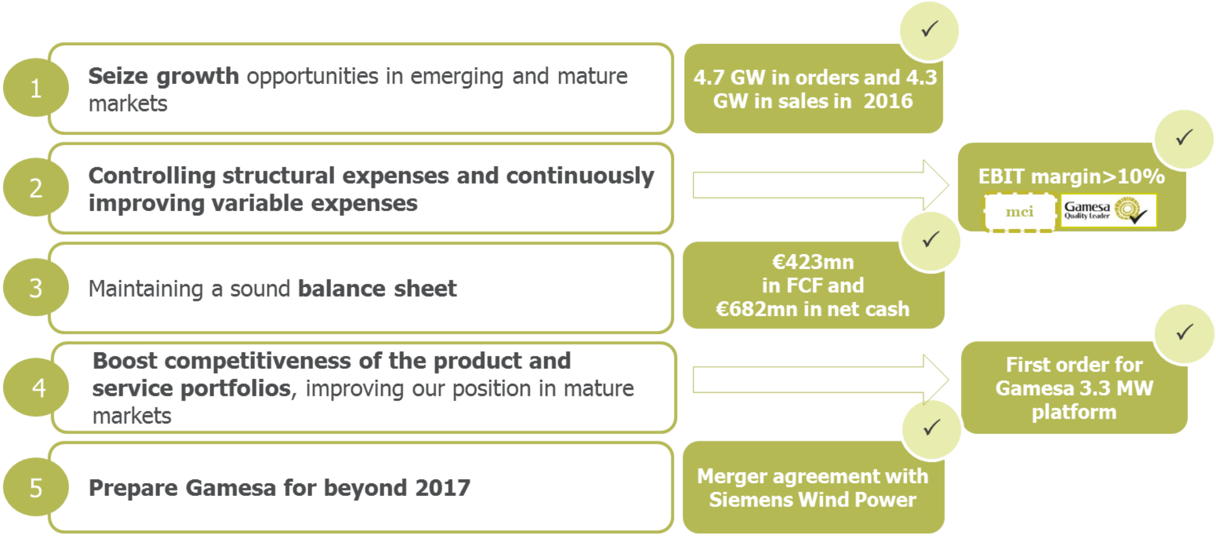
Accordingly, financial performance in 2016 exceeded the guidance, even after the latter had been upgraded twice during the year.

	Guidance 2016		Upgrade July 2016		Upgrade Nov. 2016	12M 2016	
Volume (MWe)	>3,800	↑	≥4,000	↑	≥4,300	4,332	✓✓
EBIT	> 400	↑	≥430	↑	450-470	477	✓✓
EBIT Margin	≥9.0%	↑	≥9.5%	↑	c.10.0%	10.4%	✓✓
Working cap. o/Sales	≤2.5%		=		=	-4.9%	✓✓
Capex o/ sales	4%-5%		=		=	4.6%	✓
ROCE	Growing y/y		=		=	30%	✓✓

In addition to surpassing its financial goals for the year, **during 2016 Gamesa made clear progress with implementing its long-term (2017+) strategy by reaching an agreement to merge with Siemens Wind Power**. This merger is underpinned by a sound, strategic rationale and will combine **two leading companies that are highly complementary** in terms of markets, businesses, customers, product portfolios and operational and management capabilities. The merged company will be in a position to offer optimal CoE to its customers and to maintain a value creation proposition for its other stakeholders (shareholders, employees, suppliers and the communities where it operates) that is sustainable over the medium and long term. The deal was presented to the financial markets in the second quarter of 2016 and **it was approved by Gamesa's shareholders at an extraordinary General Meeting on** 25 October**, with 99.75% of the capital in attendance voting in favour.** At the date of this report, the merger had been cleared by Spain's National Securities Market Commission and all the relevant competition authorities except that of the European Union.

Therefore, it can be concluded that**, in 2016, for the second time, Gamesa fulfilled the objectives of its business plan 2015-17 ahead of schedule**, since it exceeded the 2017 financial and strategic targets in 2016.

Gamesa PRIORITIES for 2015-17:



Main factors

Activity

In 2016, Gamesa sold 4,332 MWe, 36% more than in 2015. This trend was driven mainly by India, Latin America, Europe & RoW, and the US; the principal customer categories were electric utilities (54% of the total) and IPPs (35%).

	2015	2016	Chg.
WTG sold (MWe)	3,180	4,332	36,2%

Geographical breakdown of wind turbine sales (MWe) (%)	2015	2016
USA	11%	12%
APAC	15%	9%
India	29%	38%
Latin America	28%	24%
Europe and RoW	16%	17%
TOTAL	**100%**	**100%**

Activity in 2016 was concentrated in the Gamesa 2.0 MW segment, which accounted for 98% of total MW sold. The Gamesa G114 2.0 MW - 2.5 MW platform accounted for 55% of activity in the period, compared with 24% in 2015, evidencing the new platforms' growing importance. Gamesa 5.0 MW platform accounted for 1% of MWe sold in 2016.

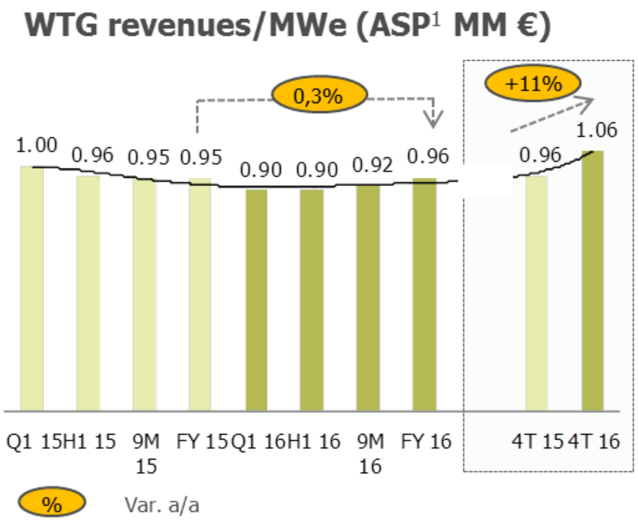
In the services division, Gamesa had 24,311 MW under operation and maintenance, 16% more than at the end of 2015. Growth in the fleet under maintenance came mainly from emerging markets India and Brazil, which offset a decline in mature markets. The year end post-warranty fleet under maintenance increased by 10% year-on-year to 17 GW.

	2015	2016	Chg.
MW under operation and maintenance at end of period	20,973	24,311	15,9%

Profit & Loss

Revenues amounted to €4,612 million in 2016, 32% more than in 2015.

This growth was due primarily to sales in the WTG division, which grew by 37% y/y thanks to a 36% increase in activity volume with respect to 2015. As projected at the beginning of the year, average revenues per MWe manufactured were stable in year-on-year terms. Sales of newer products, with larger rotors and taller towers, offset the negative exchange rate effect, which reached 5% by year-end, mainly as a result of depreciation of most of the emerging market currencies in which Gamesa operates. The assembly business had a varying impact on average revenues: it was negative in the first half of the year, when there was very little assembly work, and positive in the second half, when assembly work recovered. Specifically, in the first half only 0.54 MW were assembled per MWe sold, whereas the figures matched in the same period of 2015; in contrast, during the second half of the year, assembly work amounted to 1.4 MW per MWe sold, contrasting with 1.1 MW in the same period of of 2015. Overall, 4,262 MW were assembled in 2016, a 27% increase year-on-year. In the WTG division, revenues per MWe sold are affected by many factors, including project scope, rotor size, tower height, geography, activity scope, gearbox, etc.; accordingly, this variable is not indicative of the level or trend of profitability.



1. ASP (€ MM): WTG revenues (€) in the period/MWe sold in the period

Service revenues were stable in year-on-year terms, amounting to €471 million, in line with projections for the year. That stability is a reflection of pressure on prices and a reduction in contract scope; these trends are normal in the services business in mature markets. To offset the negative impact of these trends, Gamesa has implemented an operational strategy to ensure absolute profitable growth in the services division, even in a situation of flat sales, as was the case in 2016. The plan is based on three main vectors: cost-cutting programmes, commercialisation of value-added services in mature markets, and signing longer contracts in emerging markets. Growth in the fleet under maintenance and the post-warranty fleet, an improvement of nearly 30 points in the renewal rate, from 40% in 2015 to 67% in 2016, and expansion of the order book assure a return to growth in sales in 2017, fulfilling the objectives for the division in the BP2015-17E: accumulated growth of ≥20% in revenues in 2014-17, and an EBIT margin of ≥13%. The fleet under maintenance increased by 16% y/y in the last twelve months, to 24,311 MW, while the post-warranty fleet expanded by 10% in the same period, to 16,827 MW. Fleet growth is concentrated mainly in emerging markets. In line with growth in the fleet under maintenance, the services backlog has also expanded, reaching €2,412 million at 2016 year-end, 11.5% more than a year earlier.

At constant exchange rates, Group revenues would have amounted to €4,818 million, i.e. 38% more than in 2015.

In addition to attaining record revenues and commercial activity in the year, Gamesa also posted record EBIT: €477 million. The EBIT margin was 10.4%, 1,1 points more than in 2015. EBIT performance is attributable to:

- capital gains from the creation of the joint venture Adwen amounting to a positive €29mn (-0,8 p.p)
- the volume effect (+2.4 p.p.)
- contribution margin performance (+0.7 p.p.)
- fixed cost performance (-1.1 p.p.),
- currency performance (0.0 p.p.)

The improvement in the contribution margin in 2016 is linked to variable cost optimisation programmes and the favourable project scope, offsetting the adverse impact of the increase in fixed expenses needed to support growth (this increase includes an increase in depreciation and amortization charges in line with the increase in capex), and the lower contribution by O&M to total revenues (10% in 2016, vs. 13% in 2015).

Net financial expenses in the period amounted to €23 million (€10 million less than in 2015), while exchange losses amounted to €15 million, compared with exchange losses of €11 million in 2015, due to currency volatility in both periods. Financial expenses in 2016 included a negative €7 million impact from the estimates of scenarios that remain open after Areva exercised its put option to sell its Adwen stake to Gamesa in the context of the merger with Siemens Wind Power.

The tax expense amounted to €124.4 million, equivalent to a marginal rate of 28%, in line with 2015 and within the guidance range for the year (25%±3%).

As a result, **consolidated net profit totalled €301 million (€170 million in 2015).**

The **impact of the integration of Adwen at 50% in the consolidated net profit (without any impact in free cash flow) amounted to -€25 million (-€4 million in 2015[xvii]).**

Balance sheet

As reflected by the main balance sheet indicators, **Gamesa maintained its commitment to a sound financial position in a context of rising activity, while reducing working capital by €237 million y/y to -€225 million at year-end, and achieving a net cash position of €682 million.**

	2015	2016
Working capital/Revenues	0.3%	-4.9%
ROCE	18.8%	29.6%

Consolidated Income Statement and Balance Sheet — Key Figures

(€ million)	2015	2016	Chg.
Revenues	3,504	4,612	*+31.6%*
EBIT	323	477	*+47.9%*
EBIT/Revenues (%)	9.2%	10.4%	*+1.1pp*
Profit (Loss)	170	301	*+77.0%*
NFD (Cash)	-301	-682	*-381*
Working capital	12	-225	*-237*
Capex	168	211	*+43*

In 2016, in line with the modular capex strategy presented in the business plan 2015-17, Gamesa invested €211 million in property, plant and equipment and intangible assets to cater for expected demand growth, new product launches and operation and maintenance services. In addition to R&D expenditure, Gamesa invested in logistics, tooling, and blade capacity — both new capacity and product replacement due to the introduction and strong penetration by the G114 (2 MW and 2.5 MW) and G126 (2.5 MW) generators — in all regions where it operates.

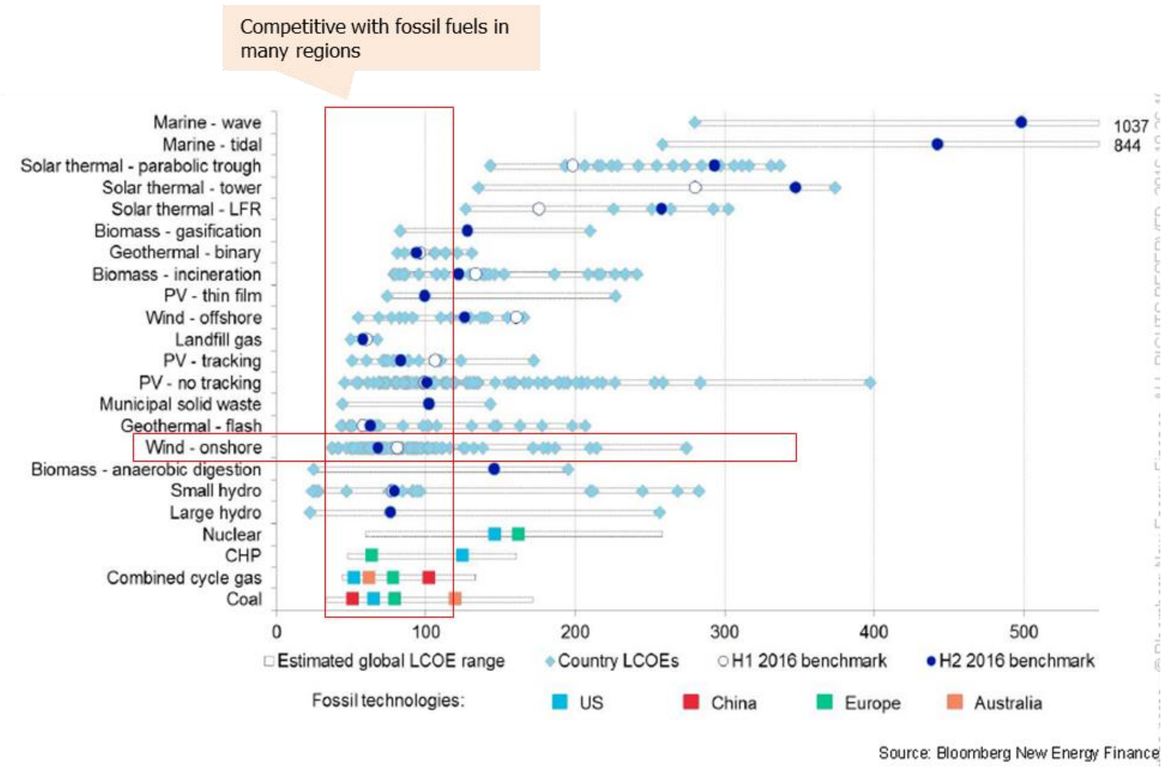
Outlook

Positive demand prospects in the short and medium term[xviii]

The growing number of countries that are committed to renewable energies as a means of combating climate change, and the increasing competitiveness of renewable energy sources, including wind, lay the foundations for strong demand prospects in the short, medium and long term.

The growing support for renewable energy sources was clearly reflected in the speed with which the Paris Agreement, signed by 195 countries on 12 December 2015, came into force (4 November 2016), while wind power's increasing competitiveness was evident during 2016 in the outcome of many electricity auctions in both emerging and mature countries. Those auctions show that wind energy is competitive with conventional sources in many regions (see chart below).

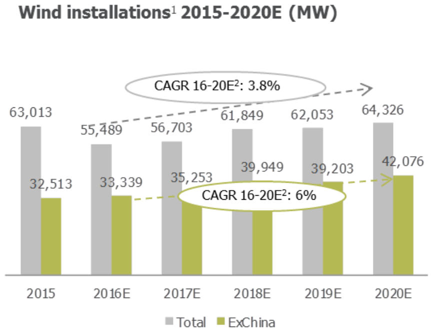
LCOE prospects H2 16 (Source: Bloomberg New Energy Finance (BNEF). USD/MWh)



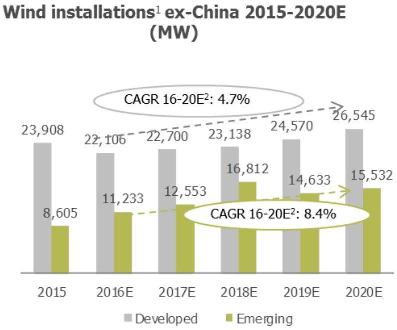
In terms of competitiveness[xix], **by 2027 it is estimated that new wind installations, which are already fully competitive in many countries, will be cheaper than coal- or gas-fired facilities in practically all geographies**, particularly if CO2 emission pricing is introduced, while **by 2040 the cost of energy for onshore wind will have declined by 41%**. That reduction will be due to a number of factors: falling equipment and development costs, low funding costs and, primarily, an increase in wind turbines' capacity factor.

In this context of growing governmental support and wind's greater competitiveness, long-term estimates[xx] **are** that, **by 2040, "clean" (i.e. zero GHG) energy sources will account for 60% of total installed capacity**, up from 31% at the end of 2015, most of the new installed capacity being concentrated in developing (non-OECD) countries, with China and India accounting for the bulk of new installed capacity. In those countries, economic growth and electrification are the main drivers of growth in energy demand and investment in new generating capacity. In the period 2016E-2040E, it is estimated that **1,825 GW of wind capacity will be installed, i.e. investment totalling 3 trillion**.

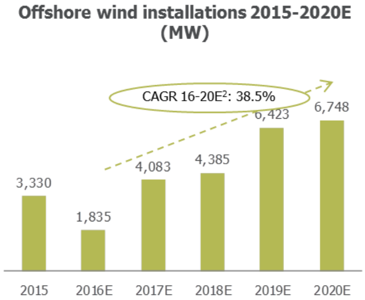
In the shorter term, and following the slight contraction in the pace of new wind installations worldwide (ex-China) in 2016, the short- and medium-term prospects are stable with respect to the projections released during the year, with emerging economies and offshore as the main growth engines. Emerging markets are expected to achieve an estimated 8.4% annual growth between 2016E and 2020E, while offshore will be the absolute leader in terms of expected annual growth: over 38% between 2016E and 2020E, with northern European countries (mainly Germany and the UK) and China to the fore.



Source: BNEF and MAKE Q4 2016: GWEC 2015 figures



Source: BNEF and MAKE Q4 2016: GWEC 2015 figures



Source: BNEF and MAKE Q4 2016: GWEC 2015 figures

1. Includes onshore and offshore installations.
2. Compound annual growth rate calculated on the basis of BNEF and MAKE estimates of installations at the date of publication of their reports, not on installations reported by GWEC on February 10. Based on GWEC reported numbers, installations in 2016 totalled 54.6 GW (31.3 GW ex- China). Outside China, 22.8 GW were installed in mature markets and 8.4 GW in emerging markets. Growth in mature markets includes growth coming from the offshore segment, which is concentrated mainly in Europe and China.

2017 Guidance[xxi]: commitment to profitable growth

In this favourable demand context, Gamesa maintains its commitment to profitable growth in 2017, the goal being to sell around 5,000 MW of wind turbines and achieve €550 million in group EBIT (a 15% increase over the 2016 figures in both cases).

The sales volume commitment is supported by the order book at 31 December 2016, which already covered 63%[xxii] of the committed volume. Though growth is expected in most regions, it will be led by the US and APAC, while India will continue to be the market with the largest single contribution to the company's top line in 2017.

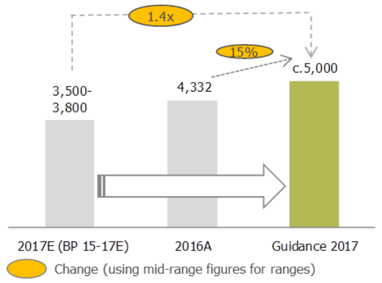
As well as growth by the Wind Turbine division, Gamesa maintains its commitment to the business plan for the Services unit, which is expected to resume revenue growth in 2017. This is already visible in the order backlog, which rose by 11% y/y, and in the recovery in the fleet under maintenance in 2016.

The commitment to increase operating profit to c. €550 million is supported by rising sales volumes, ongoing programmes to optimise variable costs, and strict control of structural costs, to offset pressure from a more competitive environment.

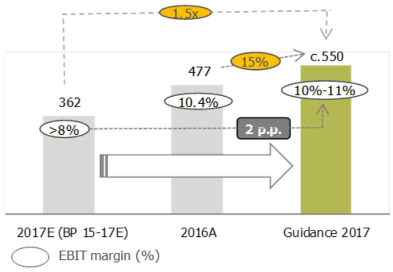
To achieve its projected growth, Gamesa maintains its modular capex strategy, the goal being for capex to be stable with respect to 2016 in relative terms: 4%-5% of revenues. The company also maintains its commitment to a sound balance sheet through strict control of working capital and upgrading previous years' targets so that working capital is about 0% of revenues. .

These objectives represent a 40-50% increase in the targets for sales and absolute EBIT with respect to the initial projections for this year in the BP2015-17.

Gamesa standalone: sales volume and guidance[1] (MWe)



Gamesa standalone: EBIT and EBIT margin performance and guidance[1] (€mn/%)



Gamesa Standalone: 2017 guidance	
Sales (MWe)	c. 5,000
EBIT (MM €)	c. 550
EBIT margin	10%-11%
Capex o/sales	4%-5%
Working Cap. o/sales	c.0%

1. At Jan-Feb. 17 average foreign currency exchange rates and using the same consolidation scope (i.e. with Adwen as equity-accounted)

Progress with the long-term value-creation strategy: Gamesa - Siemens Wind Power merger

Having secured its most immediate value-creation goals through its performance in 2016 and its commitments for 2017, Gamesa continues to advance with its strategy to create value beyond the current year and the business plan 2015-2017E, through the agreement to merge with Siemens Wind Power. The merger has already been approved by Gamesa's shareholders, Spain's National Securities Market Commission and several other competition authorities; at the date of this report, the only approval still pending was that of the European Union competition authorities, which is expected in the first quarter of 2017.

As a pre-requisite for completing the merger, Gamesa purchased Areva's 50% stake in Adwen, a subsidiary operating in the offshore segment. The acquisition was completed in January 2017, and Adwen will be fully consolidated by the merged company. Adwen has 630 MW in offshore wind farms under maintenance and is currently building a 350 MW wind farm in Germany (Wikinger). The company also has two product lines in the 5 MW and 8 MW categories (the latter under development), and a backlog of 1.5 GW in projects under the French auctions. Adwen obtained €248 million in revenues in 2016 and reported an operating loss of -€41 million, attributable to its current stage of development. At 31 December 2016, Adwen had €251 million in net debt and owed €238 million in loans to Areva.

TENTATIVE CALENDAR		
Siemens Wind Power carve out commences	Immediately after signing	✓
Gamesa Shareholders' Meeting[1]	Oct. 2016	✓
Authorisation by CNMV	Q4 16	✓
Competition authorities' authorisation[2]	Q1 17	
Merger effective date	Q2 2017	
Payment of the cash component	12 business days after the merger[4]	

1. At the special Shareholders' Meeting, 99.75% of capital in attendance voted in favour.
2. At the date of this presentation, pending only EU approval.
3. The dividend will be paid within 12 business days after the effective date of the merger (EDM) to natural and legal persons who: (i) were shareholders of record of Gamesa with Iberclear at the end of the fifth stock market session following the EDM, and (ii) hold shares that were outstanding on the day before the EDM.

The merger agreement will create value for all stakeholders, not just by reaping synergies but also due to the enhanced competitive position in a changing market in which the cost of energy is increasingly important. The merged group will be larger, with a greater scope and more diverse, a stronger balance sheet and a more comprehensive product portfolio.

Proforma figures[xxiii] for 2016 indicate the merged company's revenues would have amounted to €11,000 million and EBIT (including normalisation adjustments, the carve-out and consolidation scope issues) to €1,058 million, i.e. an EBIT margin of 9.6%. Adwen will be fully consolidated by the merged company.

Conclusions

In a situation of stable demand, Gamesa reported strong earnings in 2016, with record order intake, revenues and profitability, exceeding its guidance for 2016 even after upgrading it on two occasions during the year.

The company's sound competitive position enabled it to end the year with **21% year-on-year growth in order intake, to 4,687 MW**, exceeding its guidance of 4 GW for the year, after signing 1,386 MW in orders in the fourth quarter, 33% more than in the same period of 2015. This growth was accompanied by a sizeable increase in geographical diversification. The **order backlog at the end of December 2016 stood at 3,552 MW, 11% more than a year earlier, which provides a high level of visibility on the growth targets for 2017.**

Revenues amounted to €4,612 million, 32% more than in 2015, or 38% more at constant exchange rates[xxiv]. This increase was driven by higher sales volume in the Wind Turbine division (+36%) due to its strong competitive position and presence in geographies where the wind market is expanding faster than the global average. As a result, **Gamesa installed 4,262 MW, 27% more than in 2015, in a context of a slight decline in worldwide installations excluding China, reaching number 4 position in the global wind ranking published by Bloomberg New Energy Finance.**

In addition to increasing sales, Gamesa also enhanced profitability in 2016. **EBIT amounted to €477 million,** 48% more than in 2015, and the **EBIT margin was 10.4%, 1.1 percentage points more than in 2015. Net profit increased 1.8-fold to €301 million.**

In this context of strong growth of activity and revenues, Gamesa continues to prioritise a sound balance sheet by controlling both working capital and capex. Gamesa reduced working capital by €237 million year-on-year and improved the working capital/revenues ratio by over 5 percentage points, to -4.9%. This reduction in working capital, together with greater operating cash flow and capex planning tied to actual growth, **enabled Gamesa to end 2016 with €423 million in net free cash flow, 2.3 times the 2015 figure, and a net cash position of €682 million.**

The company is also making significant progress with its long-term strategy, which includes the merger with Siemens Wind Power, expected to be completed in the first quarter or beginning of the second quarter of 2017. At the date of this report, the merger had been approved by Gamesa's shareholders and cleared by Spain's National Securities Market Commission and it was only pending approval by the European Union competition authorities. **With this agreement, Gamesa enhances the visibility and sustainability of its value creation proposal to all its stakeholders for the medium and long term.**

As a result, Gamesa ended 2016 having achieved its goals one year ahead of schedule — not only its financial targets but also the strategic objectives set out in its business plan 2015-17.

Gamesa also maintains its commitment to profitable growth in 2017 with a plan to achieve double-digit growth — around 15% — with respect to 2016[xxv] in both sales volume (MWe) and operating profit (EBIT).

Annex

Financial Statements January-December 2016[1]

Gamesa Corporación Tecnológica - Consolidated

Profit and Loss Account - €'000	2015	2016
Turnover	3.503.802	4.611.983
+/- Variation in inventories of finished products and WIP	79.575	123.712
Consumption	-2.478.142	-3.238.990
Other operating revenues	11.366	7.597
Work performed on own assets	52.082	69.063
Personnel expenses	-341.050	-407.925
Other operating expenses	-307.490	-404.597
EBITDA	**520.145**	**760.843**
Depreciation and amortisation	96.053	124.600
Provisions	-133.305	-157.047
Gains (losses) on disposal of non-current assets	31.957	-1.819
EBIT	**322.744**	**477.378**
Financial revenues	13.599	26.433
Financial expenses	-47.125	-49.305
Exchange differences (profit/loss)	-10.632	-14.968
Equity-accounted affiliates	-24.988	-3.996
EBT	**253.598**	**435.551**
Taxes	-76.533	-124.415
Income after taxes (continuing operations)	**177.046**	**311.136**
Income for the period from discontinued operations	-7.172	-8.740
Outside shareholders	342	-1.118
Income attributable to the controlling company	**170.216**	**301.278**

[1] Audited figures

Balance Sheet - €'000	31 december 2015	31 december 2016
Goodwill	388.410	388.174
Operational fixed assets, net	495.147	590.135
Non-current financial assets, net	274.299	254.609
Deferred taxes	421.788	435.367
Inventories	803.259	1.035.633
Customer and other accounts receivable	1.112.590	1.530.549
Receivable from public authorities	213.083	301.437
Current financial assets	34.009	42.561
Cash and cash equivalents	869.333	1.295.268
Assets held for sale and discontinued operations	28.746	21.350
Total assets	**4.640.664**	**5.895.083**
Capital and reserves	1.527.203	1.765.002
Non-current provisions and deferred revenues	256.912	258.929
Non-current financial debt	444.902	424.523
Other financial liabilities	52.073	105.264
Deferred tax liabilities	115.648	112.887
Current bank loans	102.899	120.034
Trade and other accounts payable	1.937.622	2.812.502
Payable to public authorities	100.273	173.823
Other current liabilities	102.288	120.595
Liabilities associated with assets held for sale	843	1.523
Total liabilities	**4.640.664**	**5.895.083**

Cash flow statement - €'000	2016
Profit (including discontinued activities)	301.278
+ Depreciation and amortization	124.600
+ Warranty Provisions	127.047
- Warranty provisions paid	-87.694
- Equity method	3.996
Gross operating cash flow	**469.228**
- Other provisions paid	-30.520
- Variation in working capital	236.659
- Others	-41.771
Operating cash flow	**633.596**
- Investments	-211.083
Cash flow for the period	**422.513**
- Variation in treasury stock	616
- Dividends paid	-42.554
Variation in net financing cash flow	**380.575**
Beginning net financial debt (cash)	-301.194
Ending net financial debt (cash)	-681.769

Alternative Performance Metrics

Gamesa's financial information contains magnitudes and measurements prepared in accordance with the applicable accounting standards and others referred to as Alternative Performance Metrics (APM). The APM are considered to be "adjusted" magnitudes with respect to those presented in accordance with EU-IFRS and, consequently, the reader should view them as supplementary to, but not replacements for, the latter.

The APM are important for users of the financial information since they are the metrics used by Gamesa Management to assess financial performance, cash flows and the financial position for the purposes of the Group's financial, operational and strategic decisions.

The APM contained in Gamesa's financial disclosures that cannot be directly reconciled with them are as follows:

1. Return on capital employed – ROCE

This APM is used by Gamesa management to assess the ability of operational assets to generate profits; it is a measure of the profitability and efficiency of invested capital (equity plus debt).

ROCE is calculated as:

$$\boldsymbol{ROCE} = \frac{EBIT \times (1 - t)}{\overline{CE}}$$

Where $\boldsymbol{t}$ is the rate of corporate income tax and $\overline{\boldsymbol{CE}}$ is the average capital employed in the period. Capital employed measures the capital invested in the group (equity plus debt) and is calculated as Total Equity + Net Financial Debt [NFD, defined below]. Average capital employed is calculated as the arithmetic mean of capital employed at the beginning of the current year and capital employed at the end of the period. ROCE is calculated for 12-month periods: for interim periods that do not coincide with a full accounting year, EBIT in the last twelve months is used.

The tax rate used is 28.3% in 2016 (28% in 2015), in accordance with the latest estimates of the average tax rate in the year.

	Million euro	
	2016	**2015**
EBIT in the last 12 months (LTM)	477	323
(1-t)	0.717	0.720
I. EBIT LTM after taxes	**342**	**232**
Beginning total equity	1,527	1,385
Beginning NFD	(301)	(143)
II. Beginning capital employed	**1,226**	**1,242**
Ending total net equity	1,765	1,527
Final net financial debt	(682)	(301)
III: Ending capital employed	**1,083**	**1,226**
IV.= ((II+III)/2), Average capital employed	**1,155**	**1,234**
I / VI. ROCE	**29.62%**	**18.80%**

2. Net financial debt (NFD)

Net financial debt (NFD) is calculated as the sum of the company's bank borrowings, including subsidised loans (repayable advances), derivative instruments and other current and non-current financial liabilities, less cash and cash equivalents and the value of short-term financial investments.

Net Financial Debt is the main APM used by Gamesa management to measure the Group's indebtedness and leverage (when compared with Capital Employed).

Financial statements line-item:	Million euro (*) 31.12.2016 Financial Statements	Adjustments	NFD	31.12.2015 Financial Statements	Adjustments	NFD
Derivative financial instruments (non-current assets)	0	-	0	8	-	8
Derivative financial instruments (current assets)	12	-	12	10	-	10
Other current financial assets	21	-	21	17	-	17
Other current financial assets, related companies	10	-	10	8	-	8
Cash and cash equivalents	1,295	-	1,295	869	-	869
Financial debt (non-current liabilities)	(425)	-	(425)	(445)	-	(445)
Derivative financial instruments (non-current liabilities)	(7)	-	(7)	(4)	-	(4)
Other liabilities (non-current)	(38)	8[1]	(30)	(44)	13[1]	(31)
Financial debt (current liabilities)	(120)	-	(120)	(103)	-	(103)
Derivative financial instruments (current liabilities)	(60)	-	(60)	(4)	-	(4)
Other current liabilities	(121)	107[2]	(14)	(102)	80[2]	(23)
Net Financial Debt (positive: net cash / negative: net debt)			**682**			**301**

[1] The adjustment correspond to the elimination of liabilities with personnel amounting to €5.2 million at 31 December 2016 and other long term liabilities amounting to €2.8 million. At 31 December 2015, the adjustments were for elimination of liabilities to personnel amounting to €7 million, plus other liabilities related to associated companies amounting to €6 million.

[2] The adjustments relate to the elimination of items classified as working capital amounting to €107 million at 31 December 2016 (€80 million at 31 December 2015) (see Working Capital).

(*) Amounts, including totals, rounded to the nearest million, based on information presented in thousand euro. Consequently, the totals in millions may not be the exact sum of their components due to the rounding effect.

3. Working capital (WC)

Working Capital (WC) is calculated as the difference between current assets and current liabilities. Current assets and liabilities exclude all items classified as Net Financial Debt, such as Cash and cash equivalents.

Working Capital reflects the part of Capital Employed that is invested in net operating assets. Gamesa management uses this metric in managing and making decisions with respect to the business's cash conversion cycle, particularly in managing inventory, trade accounts receivable and trade accounts payable. Effective management of working capital involves achieving an optimal amount of working capital without jeopardising the company's ability to honour its obligations in the short term.

Financial statements line-item:	Million euro (*) 31.12.2016 Financial Statements	Adjustments	Working capital	31.12.2015 Financial Statements	Adjustments	Working capital
Inventories	1,036	-	1,036	803	-	803
Trade and other accounts receivable	1,226	-	1,226	989	-	989
Trade accounts receivable, related companies	285	-	285	82	-	82
Receivable from public authorities	301	-	301	213	-	213
Other receivables	19	-	19	42	-	42
Trade and other accounts payable	(2,405)	-	(2,405)	(1,789)	-	(1,789)
Trade accounts payable, related companies	(407)	0	(407)	(149)	0	(148)
Due to public authorities	(174)	-	(174)	(100)	-	(100)
Other current liabilities	(121)	14[1]	(107)	(102)	23[2]	(80)
Working capital			**(225)**			**12**

[1] The adjustments relate to the elimination of the short-term part of the balance of repayable advances (€8 million), and other accounts payable that qualify as net financial debt (€6 million).

[2] The adjustments relate to the elimination of the short-term part of the balance of repayable advances, (€6 million), and other accounts payable that qualify as net financial debt (€17 million).

(*) Amounts, including totals, rounded to the nearest million, based on information presented in thousand euro. Consequently, the totals in millions may not be the exact sum of their components due to the rounding effect.

The ratio of working capital to revenue is calculated as working capital at any given date divided by the revenue in the twelve months prior to that date.

4. Capital Expenditure (Capex)

Capital Expenditure (capex) refers to investments made in the period in fixed assets (productive assets, whether tangible or intangible) in order to generate future profits (and maintain the current capacity to generate profits, in the case of maintenance capex).

The amount of Capex is obtained directly from the financial statements:

Financial statements line-item: ***Cash flow statement***	**Million euro**	
	2016	**2015**
Acquisition of intangible assets	72	56
Acquisition of property, plant and equipment	139	112
Capex	**211**	**168**

5. Definitions of cash flow

Gross operating cash flow: amount of cash generated by the company's ordinary operations, excluding working capital and capital expenditure (capex). Gamesa includes the flow of net financial expenses under gross operating cash flow. Gross operating cash flow is obtained by adding, to reported income for the year, the ordinary non-cash items (depreciation and amortisation, and over-provisions) and income from equity-accounted affiliates.

Net operating cash flow: the result of deducting working capital (defined in item 6) from gross operating cash flow. Gamesa includes the cash impact of other provisions and other non-operating items under operating cash flow.

Free cash flow: obtained by deducting capital expenditure (capex) from operating cash flow. It indicates the funds available for use to distribute dividends, buy back shares, pay down debt or other corporate activities not related to ordinary business.

Free cash flow is calculated as the variation in Net Financial Debt (NFD) between December 2016 and 2015 (defined in item 2 above) plus dividends paid in the period.

Million euro	**2015**	**2016**	**Change**
NFD (+ cash / - debt)	**301**	**682**	**381**
Dividend payments			42
Free cash flow			**423**

6. Average working capital

Calculated as the average of Working Capital (defined in point 3) at the end of the last four quarters.

Million euro	**Q1**	**Q2**	**Q3**	**Q4**	**Average**
Working capital 2015	395	275	365	12	**262**
Working capital 2016	153	129	253	-225	**77**
Change					**(184)**

7. Average Selling Price (ASP)

Average monetary revenue collected by the Wind Turbine division per unit sold (measured in MWe). ASP is affected by a number of factors (project scope, geographical distribution, product, exchange rate, prices, etc.) and does not represent the level or trend of profitability.

Million euro	2015	2016
Revenue	**3,504**	**4,612**
Wind Turbine Generators (1)	3,033	4,141
Operation and maintenance	471	471
MWe sold (2)	**3,180**	**4,332**
ASP (1/2)	**0.95**	**0.96**

8. Contribution Margin, Structural Expenses and EBIT

The **Contribution Margin** (CM) is the difference between revenue and variable costs. Deducting fixed (structural) costs, period depreciation and amortisation and impairments from the Contribution Margin gives EBIT. The Contribution Margin is normally presented as a percentage of revenue, the latter being revenue (total or by segments, as appropriate) in the financial statements.

Structural expenses are calculated by deducting period depreciation and amortisation, impairments and the Contribution Margin from EBIT. Structural expenses are presented as a percentage of revenues, the latter being revenue in the financial statements.

EBIT (Earnings Before Interest and Taxes): operating profit per the consolidated income statement. Operating profit before income from equity-accounted affiliates, net financial results including exchange gains/losses, taxes and income from discontinued operations/available-for-sale assets and non-controlling interests.

EBIT margin: ratio of reported EBIT to Revenue in the period (i.e. revenue in the consolidated profit and loss account).

9. Net profit and Net profit per share (EPS)

Net profit: consolidated profit for the year attributable to the parent company.

Net profit per share (EPS): the result of dividing net profit by the average number of shares outstanding in the period (excluding treasury shares).

Thousands	2015	2016
Net profit	170,216	301,278
Number of shares	276,133	276,723
BNA	**0.62**	**1.09**

10. Other indicators

Coverage of WTG sales volume: the sales coverage ratio expresses the likelihood of achieving the WTG sales volume targets set by the company for a given year. It is calculated as orders received in the period (in MW) for activity/sale in a given year, divided by the activity/sales guidance for that year. Where the commitment is expressed as a range, the mid-point of the range is used. Where the commitment is expressed as a minimum volume, the ratio is calculated using that minimum volume.

MW	2016
Order Backlog year N (1)	3,135
Sales guidance year (2)	5,000
Coverage of WTG sales volume (1/2)	**63%**

Book-to-bill: ratio of order intake (in MW) to activity/sales (MWe) in the same period. The Book-to-Bill ratio gives an indication of the future trend in sales volume.

MW	2016
Order Intake	4,687
MWe	4,332
Book to bill	**1.1**

MWe: an indicator of activity (a physical unit of sale) used to measure wind turbine generator manufacture in terms of work in progress. The MWe indicator does not reflect post-manufacturing processes (civil engineering, installation, commissioning, etc.), which also generate monetary revenue.

Cost of energy (LCOE/COE): the cost of converting a source of energy, e.g. wind, into electricity, measured in monetary units per MWh. It is calculated taking account of all costs incurred during the asset's life cycle (including construction, finance, fuel, operation and maintenance, taxes and incentives), divided by the total output expected from the asset during its useful life.

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In the event of doubt, the Spanish language version of this document will prevail.

[i] Gamesa Corporación Tecnológica engages in wind turbine manufacture, which includes the development, construction and sale of wind farms, as well as O&M services.
[ii] Includes 731 MW signed in Q4 16 and announced in Q1 17.
[iii]Coverage calculated as the ratio between firm orders at 2016 year-end and projected 2017 sales (5,000 MWe). Coverage of 63% in 2016 is calculated in terms of orders at 2015 year-end with respect to 2016 sales (4,332 MWe).
[iv] Ratio of working capital to revenues in the last twelve months.
[v] Net financial debt means interest-bearing debt, including subsidised loans, derivatives and other current financial liabilities, less other current financial assets and cash.
[vi] Firm orders and confirmation of framework agreements for delivery in the current and subsequent years. Includes firm orders signed in Q4 2016 (731 MW) that were announced individually in Q1 2017.
[vii] Data published by the Global Wind Energy Council (GWEC) on 10 February 2016 and 2017, respectively.
[viii] According to GWEC preliminary figures published on 10 February, 54,600 MW were installed in 2016, of which 23,328 MW in China and 31,272 MW in the rest of the world. According to GWEC figures published on 10 February 2016, a total of 63,013 MW were installed worldwide in 2015, of which 30,500 MW in China and 32,513 MW in the rest of the world.
[ix] Bloomberg New Energy Finance global ranking, including onshore and offshore, published on February 22, 2017.
[x] Firm orders and confirmation of framework agreements for delivery in the current and subsequent years.Includes firm orders signed in Q4 2016 (731 MW) that were published individually in Q1 2017.
[xi] Book-to-bill ratio in the quarter.
[xii]Book-to-bill ratio in the last twelve months.
[xiii]Coverage calculated as orders received for activity in 2017 with respect to the activity guidance for 2017 (c. 5,000 MWe).
[xiv] Fixed expenses with a cash impact, excluding depreciation and amortisation.
[xv] The impact of Adwen on the net profit of 2015 is made up of two impacts: capital gains from the creation of the joint venture which amounted to €29 million, €21 million net of taxes, and operating losses wich amounted to €26 million.
[xvi] Capex LTM/sales LTM.
[xvii] The impact of Adwen on the net profit of 2015 is made up of two impacts: capital gains from the creation of the joint venture which amounted to €29 million, €21 million net of taxes, and operating losses wich amounted to €26 million.
[xviii] Source: GWEC 2015, MAKE and BNEF (Q4 2016 - Global Wind Power Market Outlook Update)
[xix] Bloomberg New Energy Finance: "H2 2016 Global LCOE Outlook", October 2016; "New Energy Outlook 2016", June 2016
[xx] Bloomberg New Energy Finance: "H2 2016 Global LCOE Outlook", October 2016; "New Energy Outlook 2016", June 2016
[xxi]Guidance for 2017 fiscal year for Gamesa "standalone"/pre-merger, excluding expenses strictly derived from the merger, at average exchange rate of Januеary-February 2017 and with the same consolidation perimeter (i.e. recognizing Adwen at equity method).
[xxii] Coverage of sales volume calculated as firm orders received for current year at 2016 year-end with respect to the volume guidance for 2017 (c. 5,000 MWe).
[xxiii] Unaudited proforma figures.
[xxiv] At constant 2015 average exchange rates.
[xxv] Guidance for 2017 fiscal year for Gamesa "standalone"/pre-merger, excluding expenses strictly derived from the merger, at average exchange rate of Januеary-February 2017 and with the same consolidation perimeter (i.e. recognizing Adwen at equity method).