Zamudio, 29 April 2013

January-March 2013 Results

PROFITABILITY AND A SOUND BALANCE SHEET IN LINE WITH THE BUSINESS PLAN 2013-2015

In a complex economic environment and a volatile market, Gamesa Corporación Tecnológica[1] ended the first quarter of 2013 with €22 million in EBIT[2], equivalent to a margin of 4.4% on group sales, exceeding the average of the guidance range[3] for 2013. The improvement in group profitability, an increase of 7[2] percentage points in the EBIT margin with respect to the first quarter of 2012, was attained despite the decline in business volume, thanks to the solid execution of cost reduction exercise contained in the business plan 2013-2015. The company also reduced the net financial debt plus non-recourse discounting (factoring) in € 15MM[4] since December 2012, fulfilling the objective of a sound balance sheet contained in the plan.

Consolidated key figures 1Q 2013[2]

- **Revenues:** €491 million (-12.2% y/y)
- **EBIT**: €22 million
- **Net profit:** €7 million
- **Net financial debt:** €729 million (2.8x EBITDA)
- **MWe sold:** 446 (-12.5% y/y)

Group sales totalled €491 million, 12% less than in the first quarter of 2012 due to the reduction in manufacturing activity as part of the strategy of aligning production to deliveries in a context of slowing global demand. Sales declined to 446 MWe in the first quarter of 2013, i.e. 12.5% less than the first quarter of 2012 (510 MWe), mainly as a result of weakness in the US and Chinese markets. **The performance in those markets was partly offset by growth in Latin America**, which contributed over 50% of group sales, 237 MW in the first quarter of 2013, i.e. 56% more than in the first quarter of 2012 (152 MW).

The operation and maintenance services unit also expanded notably, with revenues rising 18% in the quarter, outstripping growth in fleet under maintenance, which amounted to 19,513 MW at the end of March 2013, a 12% increase year over year. During the first quarter, Gamesa renewed with Iberdrola the contract to maintain 80 wind farms (2,286 MW) in Spain and Portugal for a period of three years, and the contract to maintain 108 MW in Hungary. As a result, the rate of post-warranty renewal in the quarter rose faster than the group average in 2012 (76%). Additionally, maintenance contract terms are gradually being extended, as evidenced by the signature of a contract with NedPower to maintain 264 MW in the US for a period of 10 years and a contract (18 MW G128-4.5 MW) plus framework agreement (117 MW G128-4.5 MW, 74% of which has already materialised as

[1] Gamesa Corporación Tecnológica engages in wind turbine manufacture and provides operation and maintenance services (both activities forming part of the Wind Turbines division in previous years) and the development, construction and sale of wind farms (included under Wind Farms or Gamesa Energía in previous years).

[2] There were no extraordinary expenses in the first quarter of 2013. All variations with respect to the first quarter of 2012 are calculated by excluding extraordinary items. In the first quarter of 2012, extraordinary expenses amounted to €2 million. Accordingly, those extraordinary expenses are not included in the year-on-year variation.

[3] EBIT margin guidance: 3%-5%

[4] NFD of €729 MM and €200 MM of non-recourse factoring in Q1 2013 vs, €496 MM of NFD and €449 MM in non-recourse factoring

firm orders) with Tuuliwatti which include maintenance for a period of 10 years with the possibility of a five-year extension. **As a result, at the end of March 2013, 72% of fleet under maintenance was covered by contracts that extend throughout the plan period.**

The slowdown in global demand **impacted order intake in the first quarter of 2013, which amounted to 228 MW**, 67% less than in the same period of last year. The order flow decline was due to the decline in the US market, which contributed 50% of order intake between January and March 2012. That decline came as a result of the delay in extending the production tax credits for renewable energy and is expected to recover steadily in the coming months. Excluding the impact of the US market, order intake fell by 32% year-on-year. However, **intake rebounded strongly in April, when Gamesa signed orders for 278 MW**, i.e. more than in the entire first quarter. Consequently, **Gamesa ended April having covered 74% of the sales volume guidance for 2013[5].**

The business plan 2013-2015, implemented in the fourth quarter of 2012, is enabling the company to return to profit despite the slowdown in demand growth. In this respect, Gamesa ended the first quarter of 2013 with a **notable improvement in operating profitability, as the EBIT margin increased up to 4.4%,** seven percentage points higher than the margin for the first quarter of 2012 (-2.4%), achieving an operating profit of € 22MM against losses, before extraordinary items, of 14 MM € in the same period of 2012.

This improvement in profitability was attained in a situation of lower business volume, as envisaged in the plan, **due to sound execution of the measures to restructure fixed costs and optimize variable costs.** By the end of the first quarter of 2013, 100% of the measures to reduce fixed costs were under way: adapting the workforce assigned to structure functions, closing plants and offices (15 in Q1 2013 and 39 since the end of 2011), cutting general expenses (rent, travel, consulting, etc.) and establishing a new logistics centre grouping seven separate warehouses.

The gain from restructuring fixed costs and optimizing variable costs was enhanced in the first quarter of 2013 by the favourable geographic mix, with a higher contribution from projects in Europe and Mexico and a lower contribution from China, and a larger contribution from operation and maintenance services which have higher margins. This incremental effect, which assisted in attaining a contribution margin of 21.9% in the first quarter of 2013, will not be necessarily maintained throughout the year; however, the progressive optimisation of variable costs will partly take up the slack.

Finally, **Gamesa ended the first quarter of 2013 with a reduction in net financial debt plus non-recourse factoring of 15 M€** with respect to the end of 2012, and by 386 M€ with respect to the end of March 2012, in line with their business plan's objective of having a sound balance sheet. **Net financial debt amounted to 729 M€**, compared with 496 M€ at the end of December 2012, as a result of the normal seasonal increase in working capital in the business and the increase in factoring. As a result, the ratio of **working capital to group sales of 25% is held fourteen percentage points lower than the same ratio for the first quarter of 2012** (39%). The reduction in the ratio of working capital to sales over the last 12 months is due to several factors: monetisation of wind farm assets in 2012 (390 MW excluding US deliveries[6]), the change in business model for Gamesa Energía, which does not resort to the group balance sheet to finance wind farm sales, and the alignment of manufacturing to deliveries, which reduced the wind farm division's ratio of working capital to sales to 20%, compared with 28% in the same period last year.

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[5] 2013 sales volume guidance:1,800-2,000 MW
[6] Including wind farm deliveries in the US: 694 MW

Main factors

Consolidated results - 1st quarter 2013

(€ million)	**1Q 2012 (1)**	**1Q 2013 (1)**	*% Var.*
Sales	558	491	*-12%*
Recurring contribution margin	98	107	+9%
Recurring CM/Sales (%)	17.6%	21.9%	+4.3pp
Recurring EBITDA	23	49	+111%
Recurring EBITDA/ Sales (%)	4.2%	10.0%	5.8pp
EBITDA	21	49	+131%
EBITDA/Sales (%)	3.8%	10.0%	+6.2pp
Recurring EBIT	-14	22	NA
Recurring EBIT/Sales (%)	-2.4%	4.4%	+6.8%
EBIT	-16	22	NA
EBIT / Sales (%)	-2.8%	4.4%	+7.2pp
Recurring profit (Loss)	-19	7	NA
Profit (Loss)	-21	7	NA
NFD	1,034	729	-306

(1) Annual figures including Gamesa Energía USA as discontinued operations. Q1 2012 proforma for comparison purposes

Activity

During the first quarter, **Gamesa sold 446 MW, i.e. 13% less than in the first quarter of 2012,** mainly as a result of the reduction in business in the US. Nevertheless, business volume was in line with the guidance (1,800-2,000 MW), considering seasonal fluctuations.

Wind Turbine activity in the first quarter of 2013 is broken down as follows:

(MW)	Q1 2012	Q1 2013	% chg.	Status
MW delivered to customers	**397**	**292**	-26%	Handover of ownership to customer, in wind farm, or factory; Invoiced.
+ Variation in MWe available Ex Works	**38**	**-99**	NA	Variation in stock of WTG available for delivery to customer; Invoiced Ex Works.
+ Variation in MWe Work in Progress	**75**	**252**	NA	Variation in the stock of WTG not available for delivery to customer; Not invoiced.
MWe sold	**510**	**446**	-13%	

Additionally, in the first quarter of 2013 **the variation in MWe available Ex Works and WIP increased as a result of expected seasonal fluctuations in activity, principally in Latin America**.

Although sales in a given quarter may not be meaningful within the trends for the year, under its strategy of market diversification within the Business Plan 2013-15, **Gamesa maintains a significant presence in emerging markets, which is vital given the limited demand visibility in the medium term.**

- **Latin America is the region with the greatest contribution to sales (53%)** and is the main activity growth driver (Mexico, Brazil, Chile and Uruguay)
- **Europe and RoW accounted for 20% of sales** (mainly Egypt and Romania)
- **India contributed 17% of total sales in the period**, in line with its performance in Q1 2012.
- **The US and China's contributions to sales in Q1 2013 was relatively minor: 8% and 1%, respectively. China remains main production hub worldwide (along with Spain).**

Geographical breakdown of wind turbine sales (MWe) (%)	Q1 2012	Q1 2013
USA	27%	8%
China	6%	1%
India	19%	17%
Latin America+Southern Cone	30%	53%
Europe and RoW	19%	20%
TOTAL	**100%**	**100%**

Additionally, **the Gamesa 2.0 MW segment accounted for 95% of MWe sold** in Q1 2013, compared with 84% in the same period of 2012. The Gamesa 850 kW platform accounted for 5% of MWe sold.

Similarly, the **Services activity is progressing in line with expectations**. At the end of March, Gamesa has a fleet in operation and maintenance of 19,513 MW, 12% higher than the existing at the end of the first quarter of 2012.

Profitability

Sales fell by 13% in the first quarter of 2013 compared with the same period of 2012, in line with the trend in MWe. The Services unit provided € 86 million in revenues, higher than in the first quarter of 2012 (€ 73 million).

Gamesa ended the quarter with € 22 million in consolidated EBIT, and an EBIT margin of 4.4%, (compared to an EBIT without restructuring costs in Q1 2012 of -14 MM EUR and an EBIT margin of -2.4%).

The trend in EBIT compared with 1Q 2012 is attributable to:

- Lower sales volume (-2.3 pp)
- Improved fixed costs due to resizing under the Business Plan 2013-2015 (+5.4 pp)
- An improvement in the contribution margin (+3.7pp) due to the improvement in variable costs as a result of overcoming the learning curve in the G97-2.0MW model, steps to improve costs associated with the Plan 9/15, and the favourable project mix in the quarter, despite constant pressure on prices.

Working capital

Gamesa ended the first quarter of 2013 with € 660 million in working capital, i.e. 25% of revenues. That represents a significant reduction with respect to the first quarter of 2012, when working capital amounted to €1,175 million (c. 39% of revenues).

This **positive trend in working capital** is attributable to:

- The delivery of 390 MW of wind farms in 2012, excluding deliveries in the US
- The new business model for Gamesa Energía, which does not consume funding
- Alignment of turbine manufacture to deliveries to customers

Considering the characteristic seasonality of this business, Gamesa is progressing towards the goal of a sound financial position announced for year-end.

Moreover**,** Gamesa continued to focus on strict control of capital expenditure, ensuring a return on investment and a sound balance sheet. In this line, **Gamesa invested €25 million, well below the figure in 1Q 2012 (€50 million).** Capital expenditure in 2013 is being focused on:

- R&D associated with new products and platforms (G97–2.0 MW, G114–2.0 MW, Gamesa 4.5 MW and offshore)
- Adaptation of production capacity to the G97-2.0 MW and the G114-2.0 MW
- Investment related to manufacturing the new Gamesa 4.5 MW platform.

Outlook

Global demand trends

The Business Plan 2013-2015 was launched in October 2012 mainly to address the need to adapt the business to the new market situation of single-digit growth, overcapacity and price pressure, recovering profitability.

Demand growth has slowed worldwide as a result of

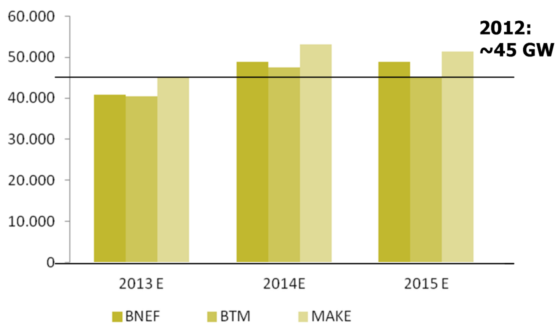
- The impact of economic weakness and high indebtedness in the developed economies on electricity demand and on economic support for renewable energies, and
- The impact of grid constraints in emerging markets on project approval and execution.

Weak economic performance in the developed countries led to negative growth in electricity demand, which, coupled with the existence of sufficient installed capacity, renders new installations unnecessary in the medium term. Additionally, Western governments' excessive indebtedness has led to a reduction in support for renewable energies, resulting in lower subsidies and downward revisions of the feed-in-tariffs, reducing project returns. These lower returns explain why wind projects account for the much smaller proportion of electric utilities' investment plans as they focus on deleveraging their balance sheets.

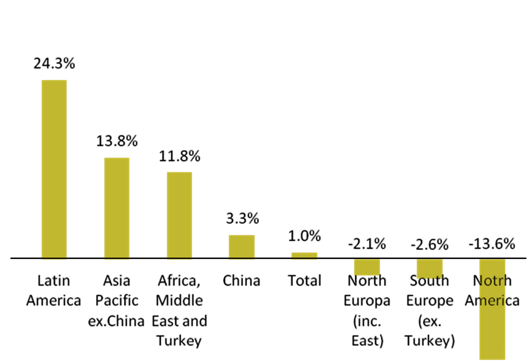
Meanwhile, grid constraints in emerging markets are delaying project approval and execution, although most developing countries' government strongly supports renewable energy as being vital for supplying their energy needs in the medium and long term.

The latest reports by renewable energy consulting firms confirm that global demand growth will remain weak throughout the period of the business plan, 2013-2015, with composite growth rates of between 0% and 5%, installations falling in 2013 by around 10%, and a wide geographic dispersion in growth rates. Emerging markets, which are estimated to produce 90% of growth in electricity demand, are the main growth drivers, headed by Latin America, an area where Gamesa has a solid position.

Installations forecast 2013-2015 (MW)



CAGR 2013-2015 (%) by geographical areas



Sources: BNEF, MAKE, BTM – Latest available versions – and Make March 2012 for CAGR chart

The slowdown in the pace of installations in 2013 is due to several factors:

1) The decline in demand in the US caused by the delay in extending the production tax credits (PTC). This decline, which had a very marked effect on order intake in the first quarter of 2013, will be gradually eliminated in the second quarter of 2013 and, above all, in the second half of the year.

2) Grid constraints in China, which are delaying project approval and execution. Those limitations had a significant impact last year and are responsible for the reduction in new installations in 2012 (c.-25% vs. 2011). However, the Chinese government's solid commitment to wind development, with the goal of installing 18,000 MW in 2013, augurs a recovery in demand from the second half onwards.

3) Regulatory volatility in Europe

    a. The uncertainty about future tariffs in Germany, the UK (which has yet to define the reform of its electric system) and France are making it increasingly difficult to raise funding for projects.

    b. The recent approval of less favourable regimes in Romania and Poland has had a negative impact on the pace of installations, although new markets, such as Ukraine, have opened in Eastern Europe.

    c. In southern Europe, however, the impact of the difficult economic situation on renewable regulations is limiting and even halting installations, and no change is expected within the horizon of the business plan.

Nevertheless, there is steady development of new markets in Africa, the Middle East, and South-east Asia, which are working to define tariff systems that favour the development of wind power, and improvements in the regulatory environment in such important markets as India, where generation-based incentives have been restored, coupled with good performance in Latin America, where the strong wind resource makes it possible to develop wind power without additional financial support.

Commercial strategy

In this context of lower global growth and a greater geographical dispersion of growth, the commercial strategy plays a fundamental role in business performance. Gamesa's strategy is based on the following pillars:

1) Diversification of its commercial presence, focusing on key markets

2) A strong position in emerging markets, supported by extensive local know-how, knowledge of customers' needs, and reliable, sound execution

3) Development of new O&M services to increase returns on our clients' wind farms, which is particularly important in mature markets where the economic situation or financial support systems reduce or prevent new installations

4) A portfolio of products oriented to meeting clients' needs and offering a competitive cost of energy. Notable in this connection:

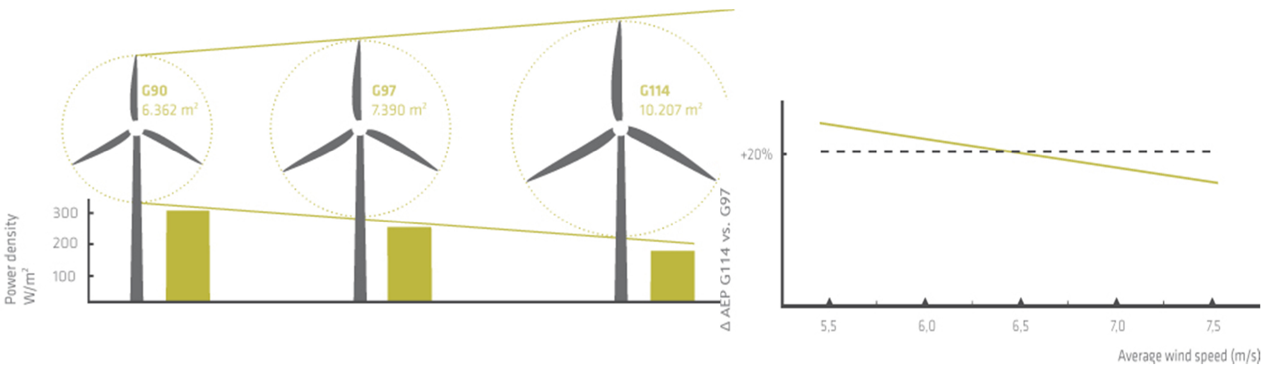
    a. The role of the new multi-MW platform (G10x-4.5 MW), especially in northern Europe, and

    b. The G114 2 MW -2.5 MW

    The G114 is the new product in the 2/2.5 MW platform for class III, whose first deliveries will be ready in 4Q 2013 (2 MW) and 2Q 2014 (2.5 MW).

    Gamesa has already installed 15,000 MW of this platform, with average availability of over 98%.

    The G114 represents progress in optimizing the cost of energy, in line with the business plan, by offering annual energy output 20% superior to the G97-2 MW for low wind classes (see figures).



Cost optimisation

In addition to the importance of a sound commercial strategy and product portfolio that are appropriate to the market situation, the context of slower demand growth also requires constant efforts to optimize costs.

After implementing the fixed cost reduction measures included in the business plan, Gamesa continues to optimize variable costs. The measures envisaged in the business plan include notably the construction of the first rotor by infusion moulding in India. This change in manufacturing processes alone will help reduce the costs of manufacturing blades in-house by 25% by 2015. Improvements to manufacturing processes, both in-house and at key suppliers, will continue from the second quarter onwards, as will the adjustment of internal production capacity to demand trends, in line with the Business Plan 2013-2015.

Conclusions

In a situation of shrinking business volume caused by the global slowdown in demand coupled with pricing pressure, **Gamesa ended the first quarter of 2013 with a significant increase in profitability: an EBIT margin of 4.4%** with respect to group revenues, i.e. above the average guidance for 2013[7] and **seven percentage points higher than in the first quarter of 2012.** This increase in profitability in a context of falling volumes is the result of implementing the business plan 2013-2015, sound execution of measures under the plan to restructure fixed costs (100% of saving measures were under way by the end of March), and optimisation of variable costs. Moreover, profitability in the quarter benefited from a favourable geographical mix and a larger relative contribution by O&M.

Following a slowdown in order intake in the first quarter of 2013, in which orders totalled 228 MW[8] as a result of the decline in the US market, intake rebounded April. Gamesa signed orders for a total of 278 MW[8] in April, i.e. exceeding order intake in the entire first quarter and enabling the company to **cover 74% of sales guidance for the year**[9] as a result of a commercial and technological position and product portfolio.

Gamesa reduced total indebtedness (net financial debt) plus factoring in the first quarter, in line with the business plan's objective of having a sound balance sheet. As a result, Gamesa ends March with a net financial debt of € 729 MM and non-recourse factoring of € 200 MM, 15 MM € below of debt position plus factoring at the end of December 2012,

This trend in profitability—supported by cost reduction and optimisation measures, the development of the order book as a result of the company's commercial strategy, technological advantage and product portfolio, and the sound balance sheet, **support the maintenance of the guidance in 2013.**

	Guidance 2013
Volume (MWe)	1,800-2,000
Contribution margin	17%-18%
EBIT margin	3%-5%
WTGs – WC/ Sales	c.15%
Capex (MM €)	<150
NFD/EBITDA	<2.5X
Net Free Cash Flow generation	>0

[7] 2013 EBIT margin guidance: 3%-5%
[8] Firm orders for delivery in 2013 and thereafter
[9] Firm order intake for delivery in 2013 / average sales volume guidance for 2013 (1,800-2,000 MW)

Annex

Financial Statements January-March 2013

Gamesa - Consolidated

Profit and Loss Account - € million	Q1 2012[10]	Q1 2013
Turnover [11]	558	486
+/- Variation in inventories of finished products and WIP	(2)	17
Consumption	(386)	(314)
Other operating revenues	1	5
Work performed on own assets	25	20
Personnel receivables	(95)	(76)
Other operating expenses	(79)	(89)
EBITDA	**21**	**49**
Depreciation and amortisation	(24)	(20)
Provisions	(13)	(7)
Net impairment losses	2	-
Gains (losses) on disposal of non-current assets	(2)	-
EBIT	**(16)**	**22**
Financial revenues	1	2
Financial expenses	(18)	(11)
Exchange differences (profit/loss)	(4)	(1)
Equity-accounted affiliates	-	-
EBT	**(36)**	**10**
Taxes	5	(2)
Income after taxes (continuing operations)	**(32)**	**8**
Income for the year from discontinued operations	11	(1)
Outside shareholders	-	-
Income attributable to the controlling company	**(21)**	**7**

[10] Proforma P&L statement in Q1 2012 for comparison purposes with Gamesa Energía US accounted for as discontinued operations
[11] Revenues of the Profit and Loss account included in the Activity Report corresponds to the sum of revenues and other operating income

Balance Sheet - € Million	Q1 2012[12]	Q1 2013
Goodwill	387	387
Operational fixed assets, net	756	569
Non-current financial assets, net	88	111
Deferred taxes	250	350
Inventories	897	638
Customer receivables	1,972	1,920
Receivable from public administration	312	330
Other accounts receivable	138	233
Current financial assets	68	17
Cash and cash equivalents	387	579
Assets held for sale and discontinued operations	364	136
Total assets	**5,618**	**5,271**
Capital and reserves	1,667	1,031
Non-current provisions and deferred revenues	225	341
Non-current financial debt	908	1,020
Other non-current financial liabilities	51	56
Deferred tax liabilities	71	59
Current bank loans	489	242
Trade and other accounts payable	1,907	2,165
Payable to public administration	172	211
Other current liabilities	122	115
Liabilities associated with assets held for sale	6	31
Total liabilities	**5,618**	**5,271**

[12] Proforma balance sheet statement for Q1 2012 for comparison purposes with Gamesa Energía accounted for as discontinued operations

Cash Flow – € Million[13]	Q1 2013
Profit (including discontinued activities)	7
+ Depreciation and amortisation	20
+ Provisions	7
- Variation in provisions	(24)
- Long-term variation in taxes, net	(1)
- Variation in working capital	(223)
- Others	-
Operating cash flow	**(213)**
- Investments	(25)
- Others	-
Cash flow for the period	**(237)**
- Dividends paid	-
- Variation in treasury stock	5
- Others	**-**
Cash flow	**(233)**
Variation in net financial debt	495
Initial net financial debt	727

[13] Cash flow statement built with Gamesa Energía as continued operation (group NFD as of December 2012: €495 MM and as of March 2013: €727 MM)