

# January-June 2012 Results

**Focus on strengthening the  
balance sheet in a complex  
market context**



26 July 2012 // Zamudio (Spain)

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## II. Update 2012

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## Executive team

# Executive Chairman and General Business Manager

**New executive team with extensive industrial and financial experience in Spain and in other countries**

### **Ignacio Martín – Executive Chairman**

- GKN (1987-1998) - CEO Spain, CEO USA, MD Americas
- Alcatel (1998-1999) – Deputy General Manager to the Chairman of Alcatel Spain
- GKN (1999-2001) - MD Europe
- CIE (2001-2011) - CEO; Executive Deputy Chairman

### **Xabier Etxeberria – Business CEO**

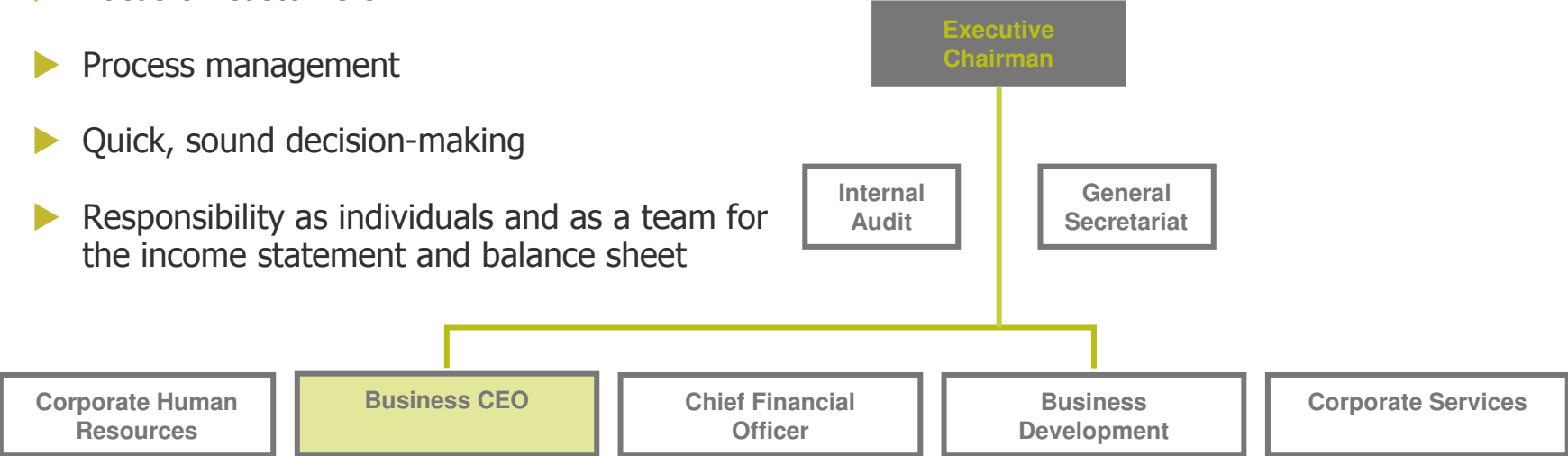
- GKN (1994-2012)
- GKN Automotive (2004-2006) - Industrial Manager and Head of Projects and Product Engineering
- GKN Driveline (2006-2012) - Director of Industrial and Sales Worldwide; COO; Chairman of the Board of the Spanish subsidiary; member of the Global Executive Board

# Executive team

## Building a new organizational structure for a new management model

**Simplification and focus on earnings and cash flow**

- ▶ Focus on customers
- ▶ Process management
- ▶ Quick, sound decision-making
- ▶ Responsibility as individuals and as a team for the income statement and balance sheet



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# 2012 Update

## Worsening of results and market prospects

- ▶ **Deteriorating results H1 2012 vs. H1 2011**
- ▶ **Short- and medium-term growth outlook impaired**
  - Order intake fell by 3% y/y in Q2 12, and by 70% in Asia.
- ▶ In this context, **Gamesa maintains its priority objective of generating free cash flow and strengthening the balance sheet, and adjusts manufacturing volumes.**
  - Aligning manufacturing to assembly and commissioning **will reduce the production of orders in H2 12 and implies a fall in the level of manufacturing activity**
  - **Preparation of business plan to be presented in October 2012**
- ▶ Despite the impact of reduced activity on profitability, **Gamesa expects to break even in recurring EBIT terms** thanks to the operating cost optimization exercise
- ▶ **Exposure to the Spanish market continues to be minimal**

Outlook 2012			
Group NFD/ EBITDA	c. 2.5x	MWe sold <sup>1</sup>	c.2,000 MW
Group Net Free Cash	> 0	Recurring EBIT <sup>2</sup>	> 0

(1) WTG Division  
(2) Wind Turbine EBIT excluding restructuring costs and including consolidation adjustments relating to the profitability of the wind turbine division

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# Period highlights

## Deleveraging commences

- ▶ **Reduction of group net financial debt** with EUR100 M in net free cash flow in Q2 to end the quarter with **NFD with recourse<sup>1</sup> amounting to 2.5 times EBITDA.**
  - Reduction of working capital in the WTG division to 18% of sales (vs. 28% in Q1 12).
  - Containment of investment in fixed assets.
  - Collection of EUR205 M for delivering wind farms and from advances from new projects at Gamesa Energía
- ▶ **Positive operating profit in H1 12, fully compensating Q1 12 operating losses**
  - Recurring Group EBIT<sup>2</sup> of EUR12 M, or 0.8% of group sales in H1 12
- ▶ **Slowdown in order intake in Q2 2012, -3% y/y, with 548<sup>3</sup> MW signed in the quarter, and a delay in project approval and execution**
  - Decline in orders and delay in project approval and execution especially in Asia

(1) NFD excluding EUR209 M in non-recourse debt related to wind farms in the US with committed delivery in H2 2012

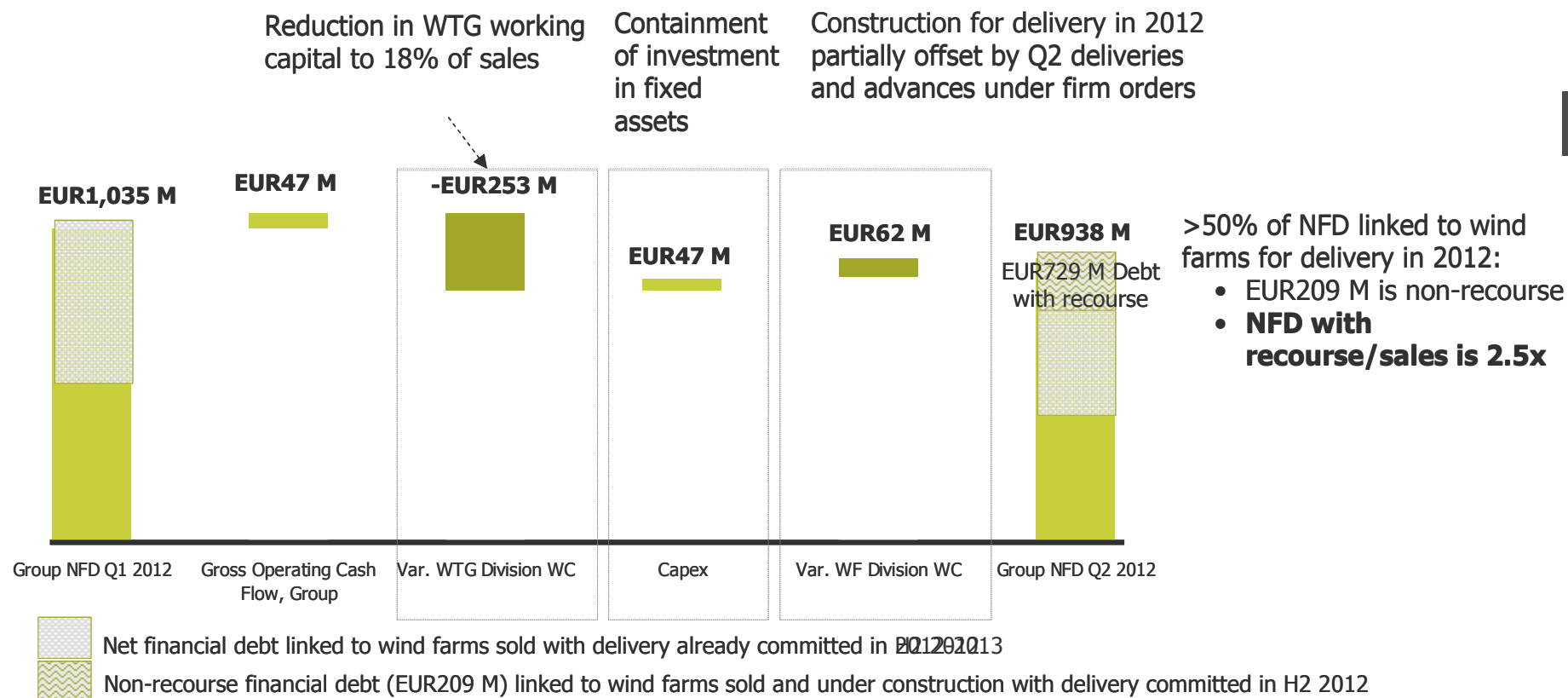
(2) Excluding EUR9 M in restructuring costs in H1 2012

(3) Firm and irrevocable orders and confirmation of framework agreements for WTG for delivery in 2012-2013

# Period highlights

## Reduction of group NFD

**Reinforcing the balance sheet by reducing working capital and containing capex**



## Period highlights

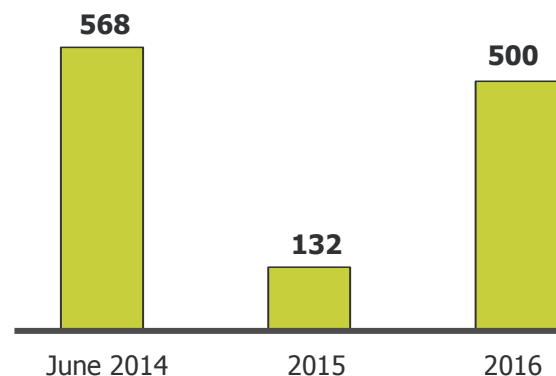
### Liquidity and sound finances

**Solidly structured financing, with growing participation by international banks**

Credit facilities , June 2012

EUR M	Maturity
1,200	2014-2016.
200	2018-20.
108	Long term loans of different maturities.
668	Bilateral credit lines that are renewable annually. Increase in contribution from non-Spanish entities
c.2,176	

Amortization of syndicated loan (EUR1.200 MM)



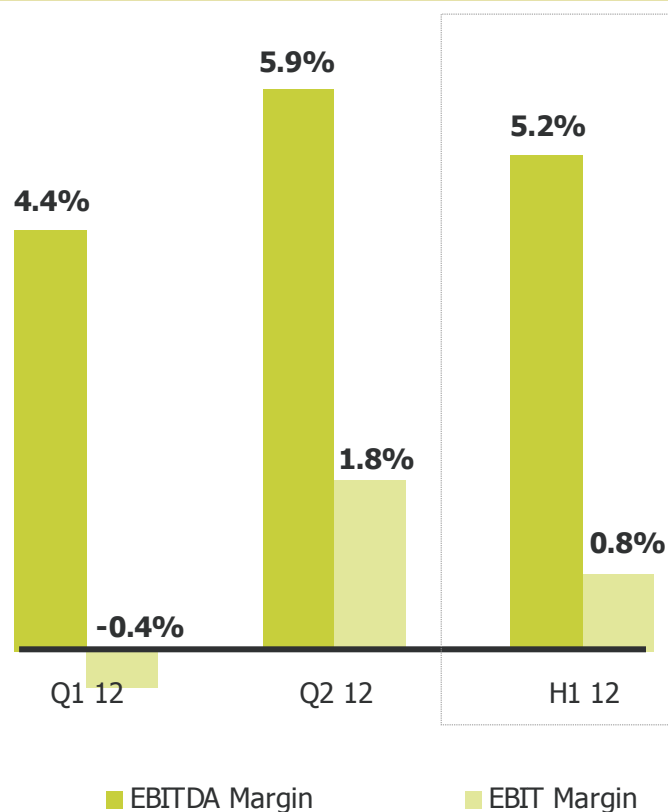
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- o **Maturing 2014-16.**
- o **Diversified mix of local and international banks.**
- o **Financial ratios in line with commitments**

## Period highlights

### Positive recurring EBIT<sup>1</sup> in H1 2012

**Q1 2012 operating losses fully compensated, reaching a recurring EBIT<sup>1</sup> in H1 2012 of €12 MM equivalent to 0.8% of group sales**



- ▶ Sequential improvement in operating profitability, fully compensating Q1 12 operating losses
  - Increased activity in the Wind Turbine manufacturing division (Q2 12 vs. Q112)
  - Improved product and market sales mix

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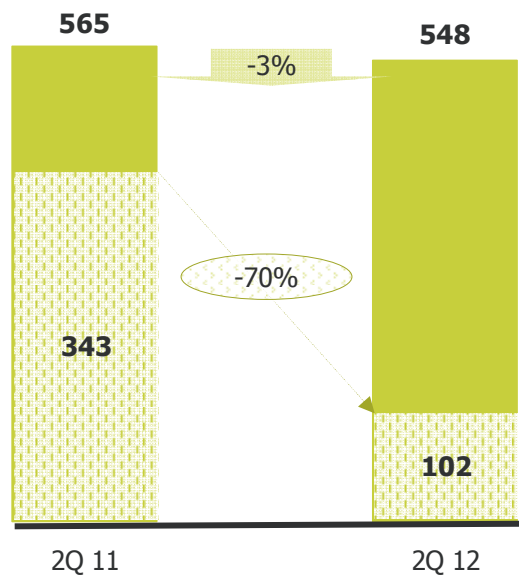
(1) Excluding €9 MM restructuring costs in H1 2012: €2 MM in Q1 12 and €7 MM in Q2 12

## Period highlights

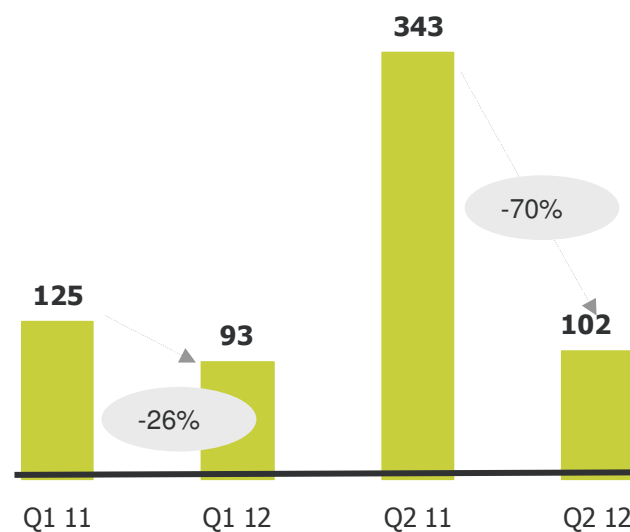
# 548 MW in orders signed in Q2 2012

**Problems connecting to the grid, regulatory changes and more expensive funding are temporarily impacting demand from Asia**

Total orders in Q2 11 & Q2 12 (MW) <sup>(1)</sup>



Firm orders from Asia (MW)<sup>(1)</sup>



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(1) Firm orders and confirmation of framework agreements for delivery in 2012 and later

 Firm orders and confirmation of framework agreements for 2012 and later, from Asia

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# Wind Turbine Generator Division

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# January-June 2012 results and KPIs

## Wind Turbine Generators - Financial Statements

EUR M	H1 11	H1 12	Chg. 12/11	Q2 12
Sales	1,261	1,345	6.7%	826
MWe	1,292	1,140	-11.8%	630
EBITDA	158	67	-57.9%	45
EBITDA/Sales	12.5%	4.9%	-7.6pp	5.4%
<b>Recurring EBITDA</b>	<b>158</b>	<b>75<sup>1</sup></b>	<b>-52.8%</b>	<b>51<sup>2</sup></b>
<b>EBITDA/Sales</b>	<b>12.5%</b>	<b>5.5%</b>	<b>-7pp</b>	<b>6.2%</b>
EBIT	66	-6	-109.1%	10
EBIT/Sales	5.2%	-0.4%	-5.6pp	1.2%
<b>Recurring EBIT</b>	<b>66</b>	<b>3<sup>1</sup></b>	<b>-95.4%</b>	<b>17<sup>2</sup></b>
<b>EBIT/Sales</b>	<b>5.2%</b>	<b>0.2%</b>	<b>-5.0pp</b>	<b>2.0%</b>
Net income	37	-37	-200.0%	-9
Net income/Sales	3.0%	-2.8%	-8.4pp	-1.1%
<b>Recurring Net Income</b>	<b>37</b>	<b>-28<sup>1</sup></b>	<b>-175.5%</b>	<b>-2<sup>2</sup></b>
<b>Net income/Sales</b>	<b>3.0%</b>	<b>-2.1%</b>	<b>-5.1pp</b>	<b>-0.3%</b>
NFD	389	319	-18.1%	319
NFD/EBITDA	1.1x	1.3x	0.2x	1.3x

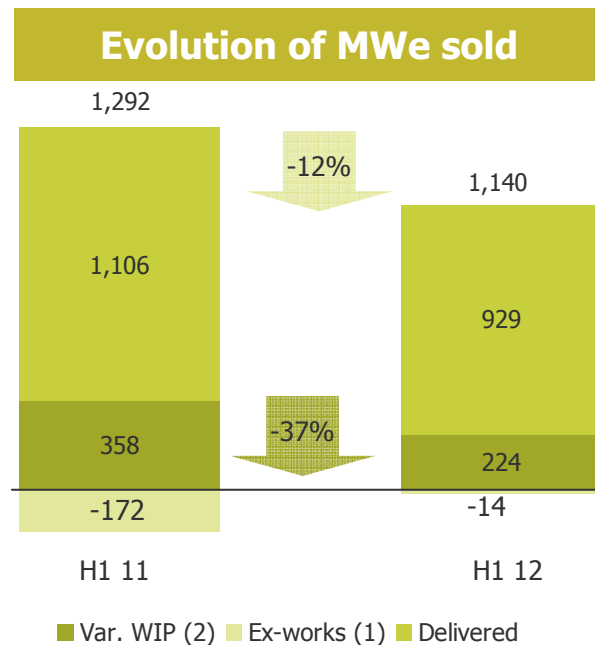
Limited review by external auditor

- (1) Excluding EUR9 M in restructuring costs in H1
- (2) Excluding EUR7 M in restructuring costs in Q2

# H1 2012 results and KPIs

## Wind Turbine Generators - Activity

**Activity declined in H1 2012 due to alignment of manufacturing with deliveries and payments, in a situation of project delays and lower demand in Asia**



► **Progressive alignment of manufacturing with deliveries and payments**, with a 37% decline in WIP, reduced activity as a result of:

- The slowdown in China, with delays in the approval and execution of new projects
- Greater demand volatility in India as a result of regulatory changes and the rising cost of funding for projects

(1) Stock variation of invoiced finished products available for delivery

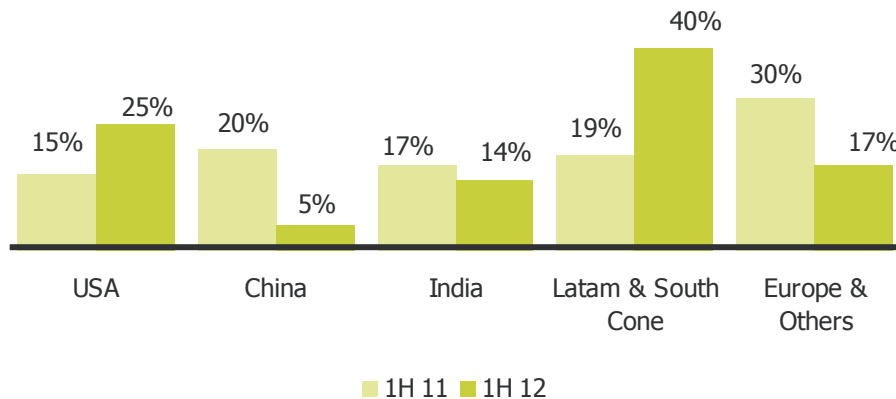
(2) Stock variation of non-invoiced finished products

# H1 2012 results and KPIs

## Wind Turbine Generators - Activity

**Latin America and the US were the main drivers of activity in H1 2012. Gamesa maintains its independency of the Spanish market**

### Geographic mix (MWe sold)



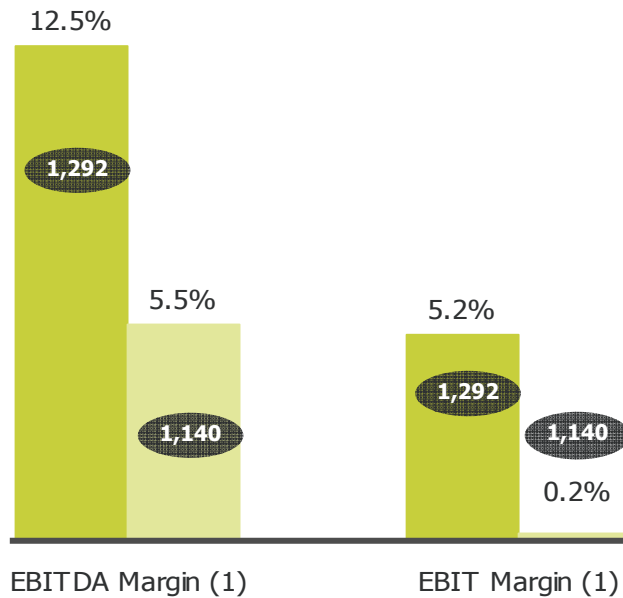
► Solid geographic diversification of sales:

- Latin America established as the main business driver in 2012
- Strong activity in the US given impending expiration of the PTC
- Slowdown in China and India
- Temporary decline in activity in Europe, to be recovered in H2

# H1 2012 results and KPIs

## Wind Turbine Generators - Annual evolution in recurring EBIT H1 2012 vs. H1 2011

**YOY evolution of first half's margin reflects the impact of lower activity and prices and the cost of launching new products, partially offset by improved productivity and product reliability**



■ 1H 11 ■ 1H 12  
 ● MWe sold

(1) Excluding EUR9 M in restructuring costs

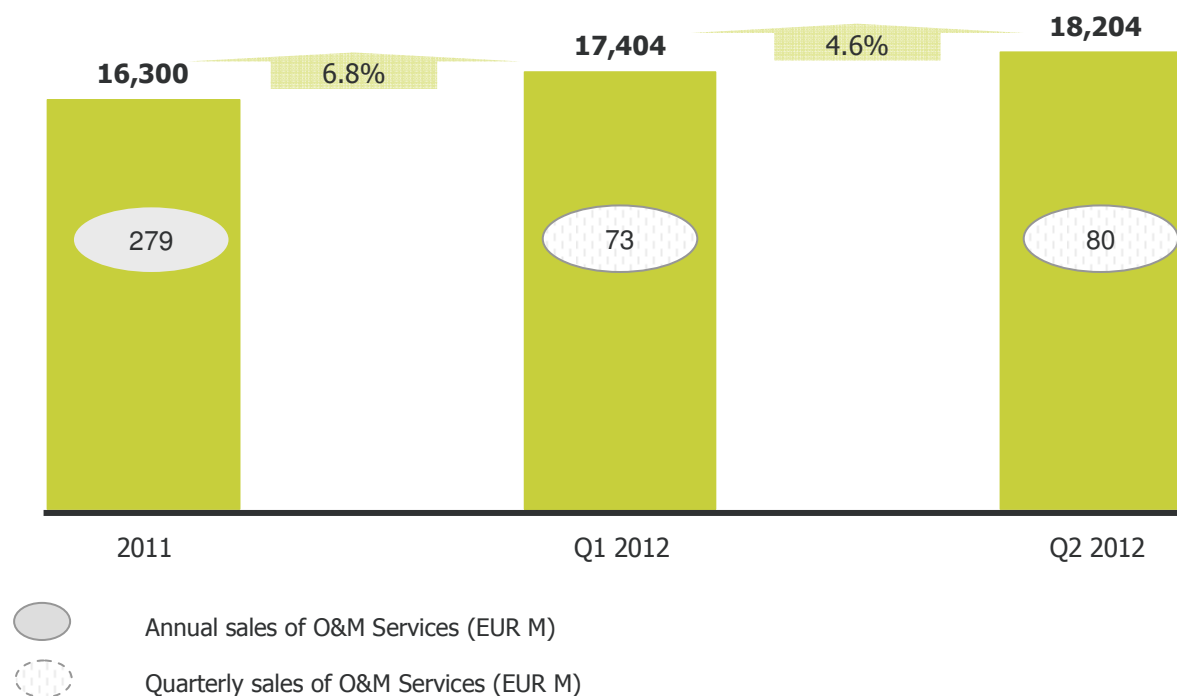
Impact in EBIT margin	Porcentual points
Impact of lower volume of activity (-12% y/y) in absorption of fixed costs	(1.5) p.p.
Impact of price evolution (including market and product mix)	(5.0) p.p.
Improvement in productivity and product reliability	2.5 p.p.
Industrialization and market launch costs of new product platforms	(1.0) p.p.

# H1 2012 results and KPIs

## Wind Turbine Generators – O&M Services

Progression of MWs under maintenance in line with expectations

Services: Maintained MW 2011-Q2 2012

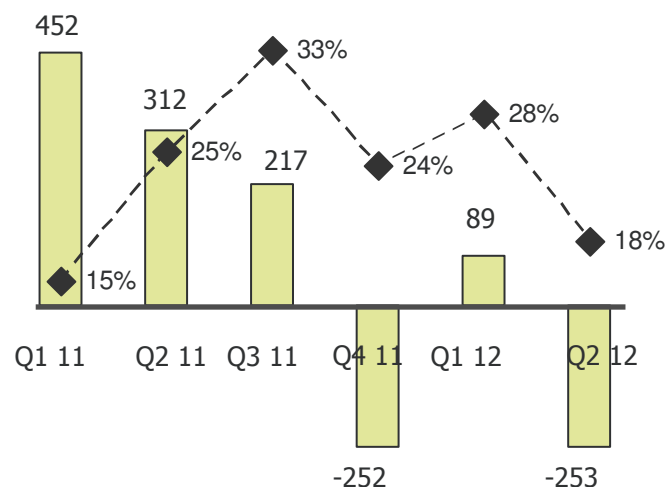


# H1 2012 results and KPIs

## Wind Turbine Generators -Reduction in working capital

**Reduction of working capital/revenues ratio by 10 percentage points, to 18% in Q2 2012 vs 28% in Q1 2012**

Quarterly change in working capital (€M)



◆ Working capital/sales, WTG division

- ▶ Reduction in working capital, supported by
  - Reduction in services and raw materials inventory
  - Realization of tax credits and other payments related to the public administrations
  - Managing collections and payments
  - Startup of 'Just in Time' system

# Wind Farm Division

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# H1 2012 results and KPIs

## Wind Farms - Financial Statements

### High volume of activity to meet delivery commitments in H2 2012

EUR M	H1 11	H1 12	Q2 12
Sales	182	641	247
EBIT	3	-1	-4
NI	-1	-6	-6
NFD	218	619	619

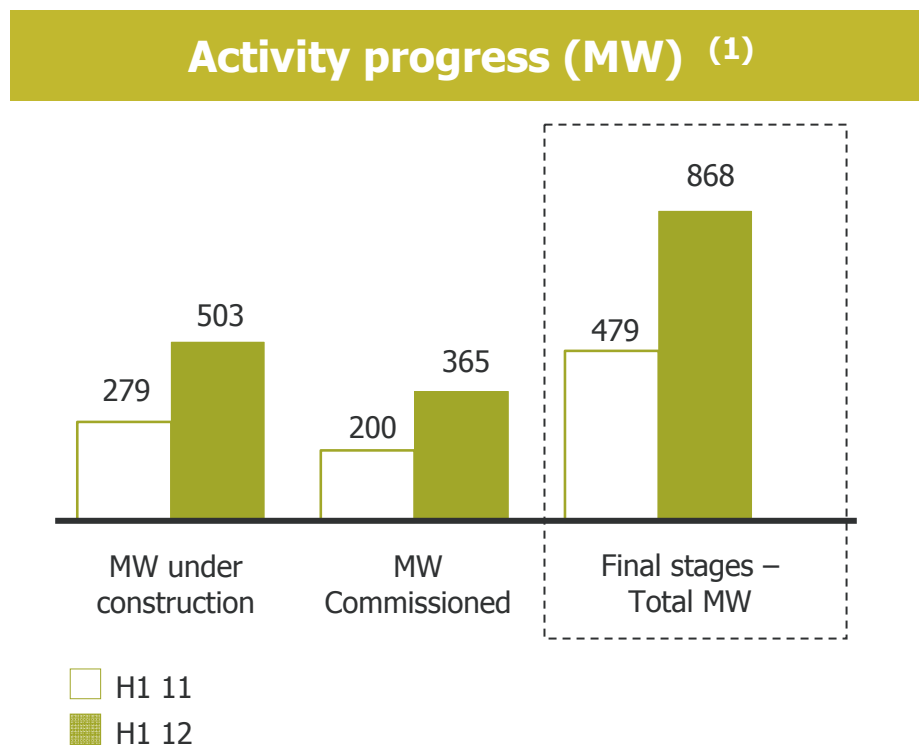
Limited review by external auditor

- ▶ New orders were signed in Q2 for wind farms in Spain, Mexico, Germany and France, totaling 154 MW for delivery in 2012-2013
- ▶ A total of 164 MW were delivered in Q2

# H1 2012 results and KPIs

## Wind Farms - Activity

**Increase in construction and commissioning to meet delivery commitments in H2 2012**



(1) Excluding Chinese and Indian wind farms

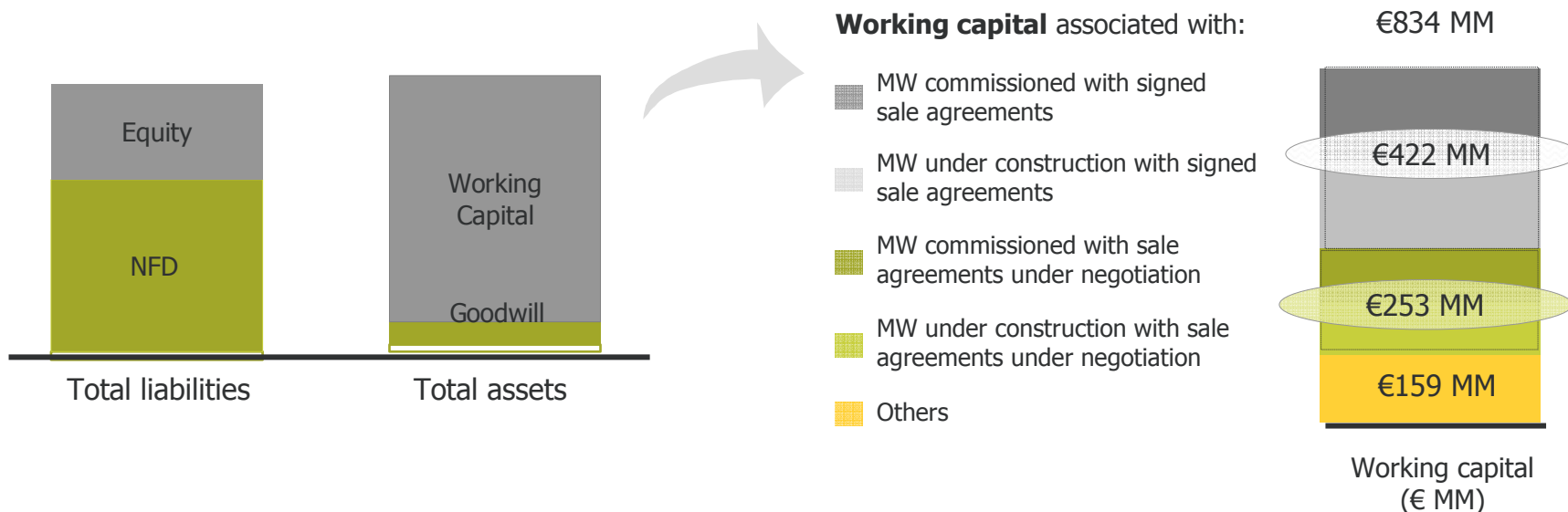
# H1 2012 results and KPIs

## Wind Farms - Portfolio in the final stages

**EUR422 M of working capital in wind farms for delivery mainly in 2012 and EUR253 M in wind farms whose sale is under negotiation**

### Composition and book value of wind farm pipeline in the final stages

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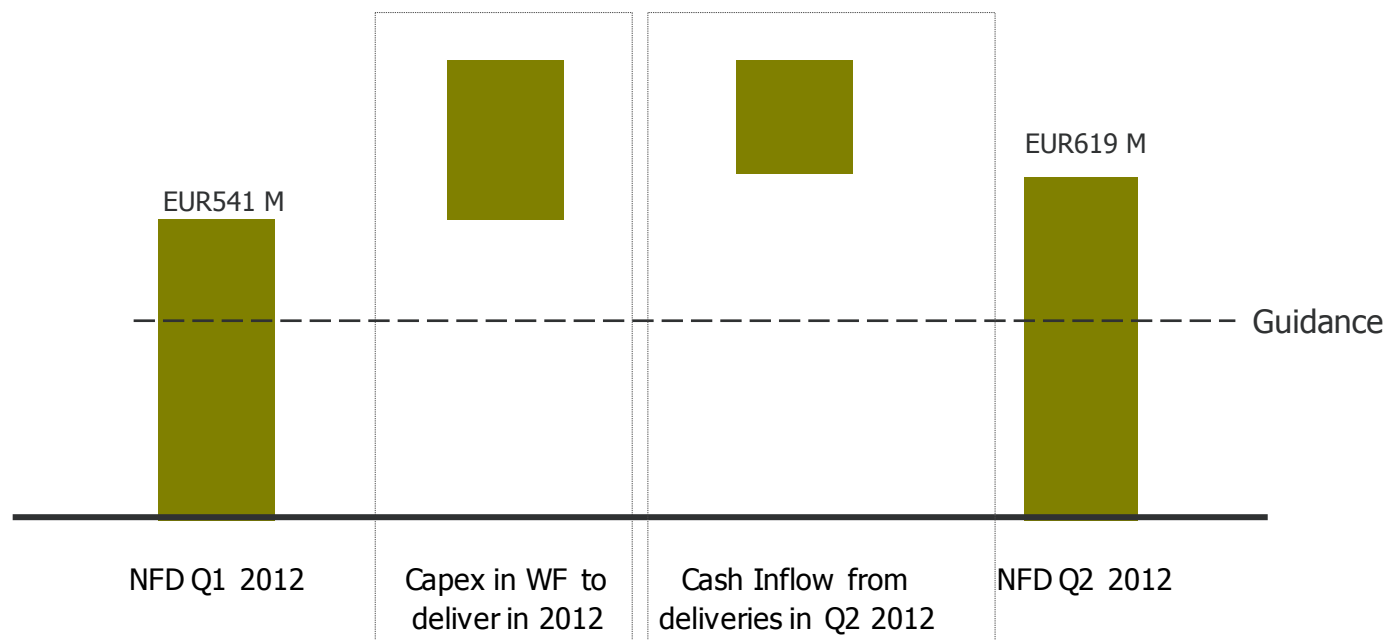
# H1 2012 results and KPIs

## Wind Farms - NFD

**EUR205 M collected for farm deliveries and advances under sale agreements signed in Q2 2012**

**Capex in wind farms** for delivery commitments in 2012 in the US and Europe

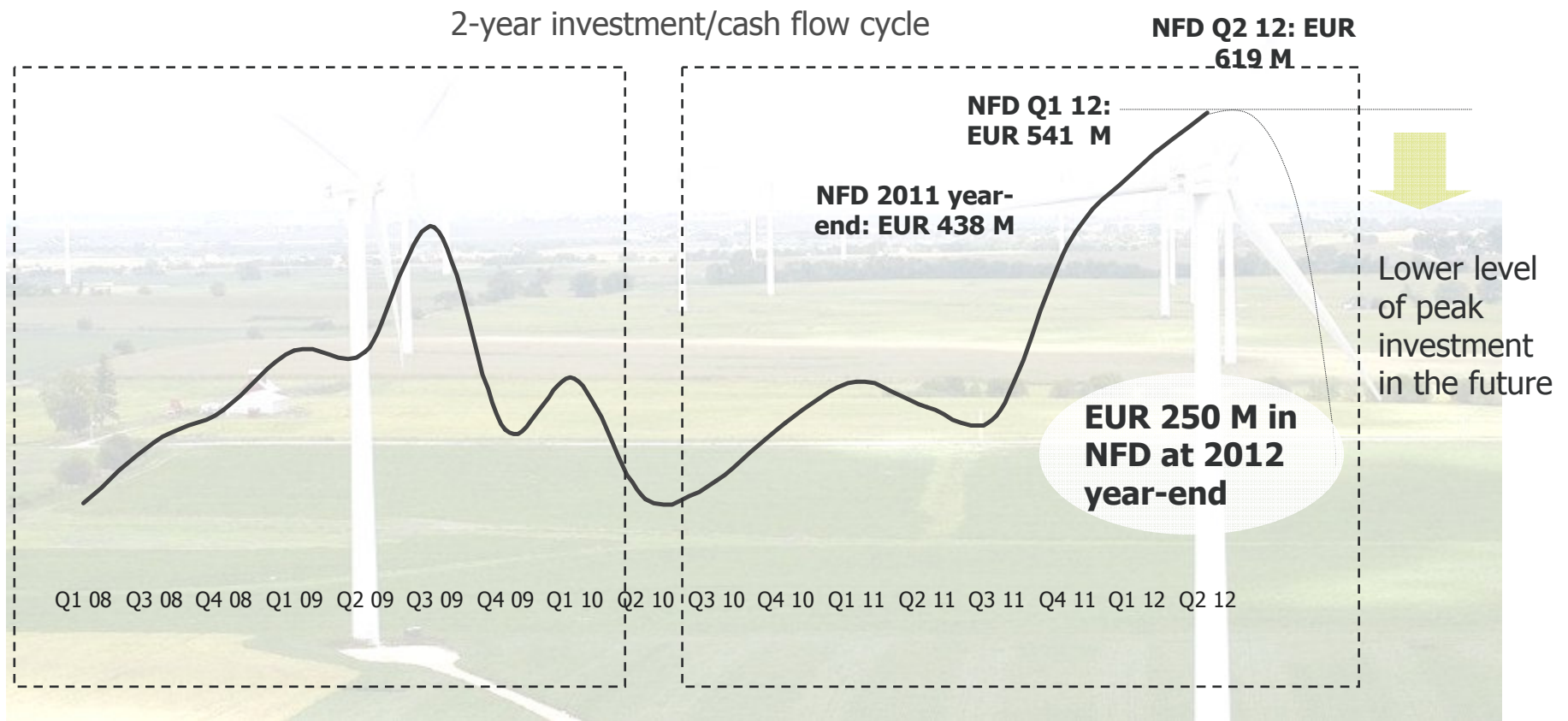
**Cash inflow** linked to advances and wind farm delivery in Q2: 64MW in Europe, 74MW in Mexico and 26 in the US



# H1 2012 results and KPIs

## Wind Farms - Investment cycle

**Last quarter of net investment outflow to fulfil deliveries in 2012, reaching net cash inflow in Q4 2012**



# Consolidated Group

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# H1 2012 results and KPIs

## Consolidated group - Financial Statements

EUR M	H1 11	H1 12	% Chg.	Q2 12
Sales	1,297	1,649	27.1%	871
Wind Turbines	1,261	1,345	6.7%	826
Wind Farms	182	641	252.3%	247
Adjustments	-145	-337	130.8%	-201
Recurring EBIT	62	12 <sup>1</sup>	-79.9%	15 <sup>1</sup>
Wind Turbines	66	3 <sup>1</sup>	-95.4%	17 <sup>1</sup>
EBIT Margin	5.2%	0.2%	-5pp	2.0%
Wind Farms	3	-1	-140.3%	-4
Adjustments	-7	11	NA	3
Group EBIT	62	3	-94.5%	8
Recurring Net Income	29	-24 <sup>1</sup>	-183.4%	-5 <sup>1</sup>
Net Income	29	-33	-214.5%	-12
<b>NFD with recourse</b>	<b>607</b>	<b>729</b>	<b>20.1%</b>	<b>729</b>
<b>NFD/EBITDA</b>	<b>1.7x</b>	<b>2.5x</b>	<b>0.8x</b>	<b>2.5x</b>
NFD	607	938	54.5%	938
NFD/EBITDA	1.7x	3.2x	1.5x	3.2x
Wind Turbines	389	319	-18.3%	319
Wind Farms	218	619	183.7%	619

Limited review by external auditor

(1) Excluding EUR9 M in restructuring costs: EUR2 M in Q1 and EUR7 M in Q2

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## Outlook and risks

### A new economic and industrial environment

- ▶ **Adjustment of growth expectations** for new wind farms in the short and medium term (2012-2014), led by China (-4,500 MW)<sup>1</sup> and southern Europe (-2,400 MW)<sup>1</sup>, in addition to lack of visibility on the US market
- ▶ In a context of lower growth, **the 2012 objectives are**
  - **To strengthen the balance sheet by generating free cash flow**
  - **To define and implement a new business plan** so as to operate profitably in a situation of moderate demand
- ▶ Aligning manufacturing with deliveries in a situation of less growth, a more moderate pace of order intake and project delays requires **an adjustment in Wind Turbine activity for 2012, which will impact profitability in the year**
- ▶ **Future growth**, necessarily based on a sustainable energy model, **will require wind to be competitive vis-à-vis traditional energy sources in terms of CoE**
  - Gamesa maintains its goal of reducing CoE by 30% by 2015

(1) Reduction in MAKE estimates for installations in 2012-2014. Variation between expectations Q1 and Q2

# Outlook and risks

## Reduction in growth expectations

### Downgrade of growth expectations for wind facilities due mainly to weakness in southern European and Chinese markets

- ▶ **Reduction in global growth expectations<sup>1</sup> by 1.5pp p.a. to a CAGR 2011-2016 of c.7%, vs. 8.5% e at the beginning of 2012**
  - ▶ **Restrictions on grid access** limit installation growth in emerging markets, especially in China, **but also in** India and Latin America
  - ▶ **Economic and financial weakness of developed economies impacting demand** for new facilities, **especially in the south of Europe**: falling demand and energy prices, reduction/ elimination of financial support for renewables, and more restricted and expensive funding
    1. Adjustment of investment plans of the integrated utilities and independent power producers due to the decreasing of internal rates of return (IRR) of wind projects
- ▶ **Regulatory uncertainty and volatility having a temporary impact on demand** in markets such as the US and India.

(1) Source: MAKE changes in forecasted installations 2012-2014 between Q1 2011 and Q2 2012.

## Outlook and risks

### Focus on strengthening the balance sheet

**In a scenario of moderate growth in the medium term, Gamesa will focus on reinforcing the balance sheet**

- ▶ **Free cash flow in H2 linked to cuts in both investment in fixed assets and working capital**
  - Delivery of wind farms in H2 2012, with a expected net cash inflow of more than EUR350 M
  - Containment of investment in fixed assets
  - Reduction in WTG working capital (18% of sales in H1 vs 28% in Q1 2012): ▼ inventory of finished products, products in process, raw materials and components
  - Alignment of manufacturing with assembly and commisioning and introduction of 'Just in Time' processes
- ▶ **Group NFD / EBITDA target of 2.5x**

# Outlook and risks

## Adjust activity with an impact on profitability

**Aligning manufacturing with deliveries requires an adjustment in activity in 2012 due to the slowdown in new order intake and project delays in India and China in Q2**

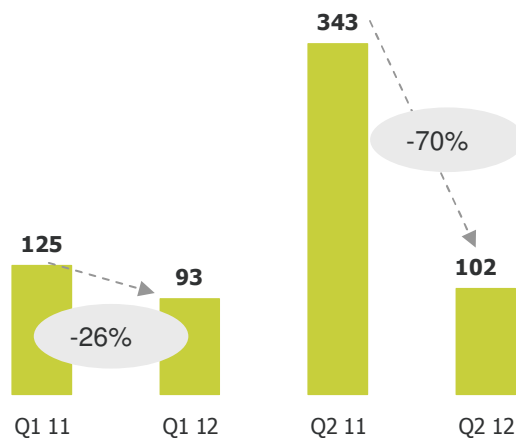
Decline in orders and delays in projects in Asia in H1

Alignment of orders to deliveries and payments

Adjustments to MWe 2012 target

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Order intake<sup>1</sup> from Asia (MW)



- o Reduction in activity expected for the region in line with orders in 2012
- o Impact on profitability due to reduced activity
- o Cost containment and capacity adjustment measures under way to reduce impact

### Wind Turbines

MWe c.2.000

EBIT Margin<sup>2</sup> >0%

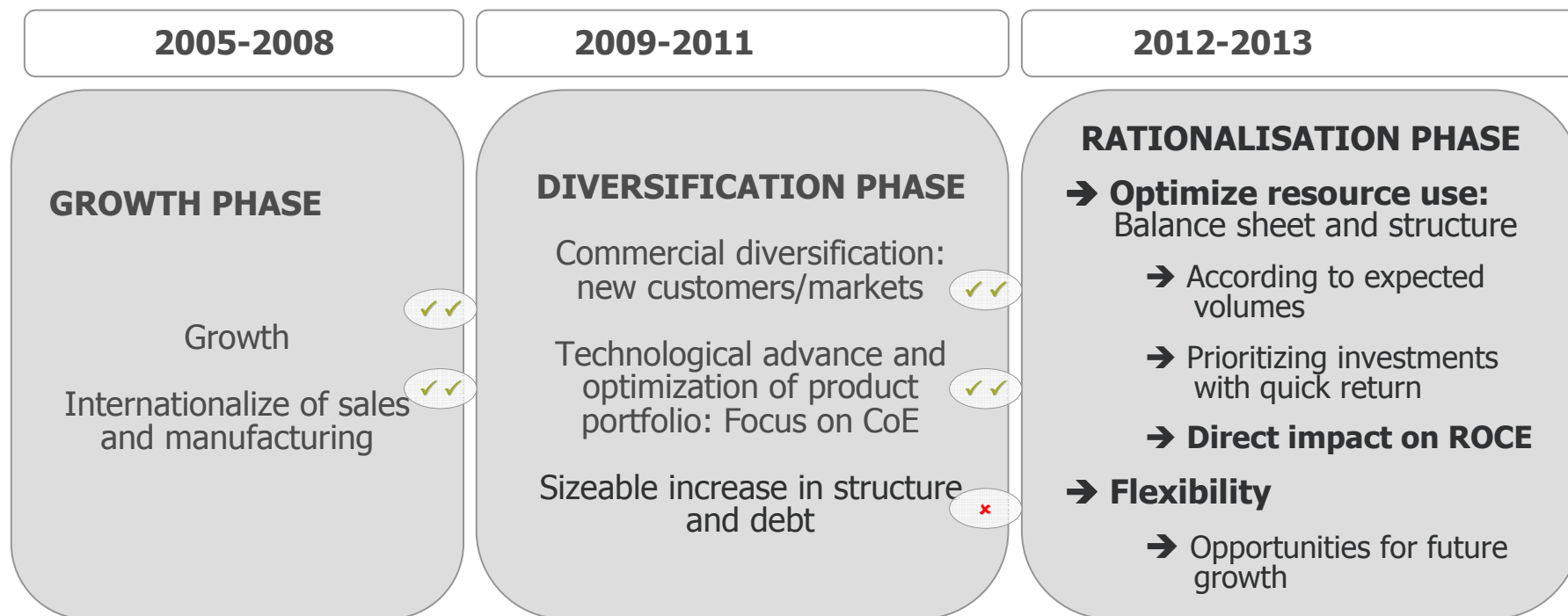
(1) Firm orders and confirmation of framework agreements for delivery in 2012 and later

(2) Wind Turbine EBIT excluding restructuring costs and including consolidation adjustments referring to profitability of the Wind Turbine division

# Period highlights

## Beyond 2012: new business plan

Operating profitability in a situation with moderate demand, by optimizing the use of resources (balance sheet and corporate structure) without sacrificing flexibility to seize future growth opportunities



Presentation of the 2013-2015 business plan: October 2012

# Outlook and risks

## Stable growth in the medium and long term

**Future growth based on the need for a sustainable energy model and a CoE for wind that is competitive vis-à-vis traditional energy sources**

- ▶ **The factors behind the downgrade** in short- and medium-term growth outlook— grid infrastructure, weak economic situation and regulatory volatility—**are not structural**
  - **Governments in emerging and developed countries remain committed to renewables in the long term**
  - Average energy scenarios<sup>1</sup> estimate that **renewables' contribution to the primary energy mix will increase, from 13% today to 27% in 2050**. Fulfilment of commitments to fight climate change requires much greater contributions
- ▶ Among renewables, **wind energy is the most mature**<sup>2</sup>: independent sources expect it will be competitive with gas, in terms of average load factors, by 2016<sup>3</sup>
- ▶ **Average of estimates by** several independent organizations **suggests annual** long-term growth in wind facilities (2015-2030) **of around 8%**

(1) IPCC: UN Intergovernmental Panel on Climate Change

(2) Excluding hydroelectric power

(3) Bloomberg New Energy Finance

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## Conclusion

In a complex environment, focus on cash generation and strengthening the balance

- ▶ **Deteriorating results H1 2012 vs. H1 2011**
- ▶ **Short- and medium-term growth outlook impaired**
- ▶ In this context, **Gamesa maintains its priority objectives of generating free cash flow and strengthening the balance sheet** and adjusts its manufacturing activity, with consequent impact on profitability for the year

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Outlook 2012			
Group NFD/ EBITDA	c. 2.5x	MWe <sup>1</sup> Sold	c.2,000 MW
Group Net Free Cash	> 0	Recurring EBIT <sup>2</sup>	> 0




- ▶ **Preparation of strategic plan to be presented in October 2012**
  - **Focus in use of resources' optimization, balance sheet and organisational structure**, adapting them to the expected volume, while retaining flexibility for growth opportunities

(1) WTG Division

(2) Wind Turbine EBIT excluding restructuring costs and including consolidation adjustments relating to the profitability of wind turbines

## Conclusion

Focus on cash flow and on strengthening the balance sheet in a scenario of slower growth

	Wind Turbines	Guidance 2012	H1 12		Factors leading to change in guidance
<b>Wind Turbines Manufacturing</b> 	MWe sold	c. 2,000	1,140	✓	Less demand and delay in orders
	EBIT Margin	>0.0%(1)	0.2%(2)	✓	Impact of the decline in activity partially offset by cost-saving measures
	WC/sales	20%-25%	18%	✓	
	Capex	<200	97	✓	Optimisation of 2012 capex plan
<b>Wind Farms Development &amp; Sales</b> 	<b>Wind Farms</b>				
	MW delivered(3)	c.720MW	164	✓	Impact of regulatory changes and uncertainty on project IRR/ sales agreements profitability
	EBIT (EUR M)	<0	-1	✓	
	Net debt (EUR M)	c.250	619	✓	
<b>Gamesa</b> 	<b>Group</b>				
	NFD/EBITDA	c.2.5x	3.2x	✓	Temporary increase due to wind farm construction EUR209 M in non-recourse debt linked to wind farm construction in the US
	Non-recourse NFD/EBITDA	c.2.5x	2.5x	✓	
<b>FCF</b>	<b>Net free cash flow</b>				

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(1) Excluding restructuring costs and including intra-group consolidation adjustments related to Wind Turbine Division profitability

(2) Excluding 9 MM € in restructuring costs

(3) Excluding joint development agreements in China

# Conclusions

## Corporate responsibility: Much more than numbers

	H2 2011 <sup>(3)</sup>	H1 2012 <sup>(3)</sup>	Chg.
Workforce	7,974	7,897	(0.96%)
International staff	40%	40,5%	0.5pp
Permanent employees	6,861	6,916	(0.80%)
External employees <sup>(4)</sup>	547	506	(7.5)%
Total workforce (Internal and External)	8,521	8,403	(1.4)%
Health & Safety			
Frequency index <sup>(1)</sup>	5.78	2.46	(57%)
Severity Index <sup>(2)</sup>	0.114	0.074	(35%)
Environment			
ISO 14.001 Centers	47	48	-
CO2 emissions avoided (t)	32,843,340	37,625,565	14%

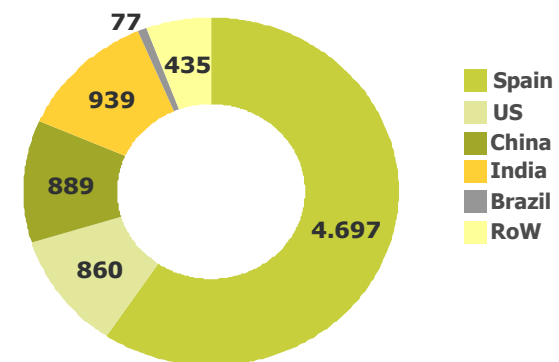
(1) No. of accidents with leave per million hours worked.

(2) No. of work days lost due to accidents per 1,000 hours worked.

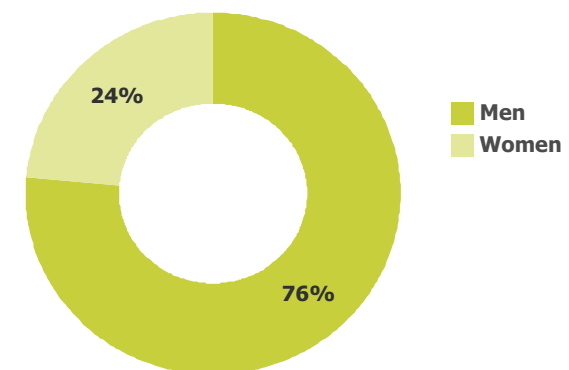
(3) Unaudited figures

(4) External workforce includes temporary workers, subcontracted manpower and students

H1 2012 Internal Workforce - Geographic breakdown



H1 2012 Internal Workforce - Gender breakdown



# Conclusions

Aligned with the main international codes of business ethics

## Committed to human rights and the environment



## Included in the leading sustainability indexes



FTSE4Good



ETHIBEL  
MEMBER OF THE ETHIBEL  
SUSTAINABILITY INDEXES



# Disclaimer

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# Questions & Answers

Thank you

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