Siemens Gamesa Renewable Energy

Q2 2018 Results

04 May 2018

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

Content

Q2 18 Highlights

Continuous strength of commercial activity

- Order backlog of €22bn back to market peak levels of Q2 17, after €3bn in firm orders, reaching full coverage[1] of 2018 revenue guidance
- Best ever onshore order intake: 2.5 GW, up 54% y/y, with India contributing again, and second quarter of average selling price[2] stabilization
- Preferred supply agreement for the largest offshore wind farm: 1.4 GW signed with Ørsted in the UK

H1 18 financial performance fully aligned with annual guidance

- Revenues of €4,369m in H1 18; €2,242m in Q2 18
- EBIT pre PPA, I&R costs of €322m equivalent to a margin of 7.4% in H1 18[3]; 8.4% in Q2 18[3]
- Zero reported net income in H1 18[3]; €35m in Q2 18[3]
- Net debt of €112m impacted by working capital seasonality

Intense Group activity

- Launch of L3AD2020
- Implementation of workforce adjustment on track

1) 100% coverage of the low-end of 2018 revenue guidance range of €9bn to €9.6bn.
2) Average Selling Price (ASP) of the order intake: order intake in EUR divided by volume (MW) signed.
3) EBIT pre PPA, integration and restructuring costs excludes the impact of PPA on the amortization of intangibles: €158m, and integration and restructuring costs: €75m in H1 18, and €75m and €61m respectively in Q2 18. Reported net income includes the impact of PPA on the amortization of intangibles and integration and restructuring costs, net of taxes: €168m in H1 18 and €98m in Q2 18.

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Order backlog returning to 2017 peak levels

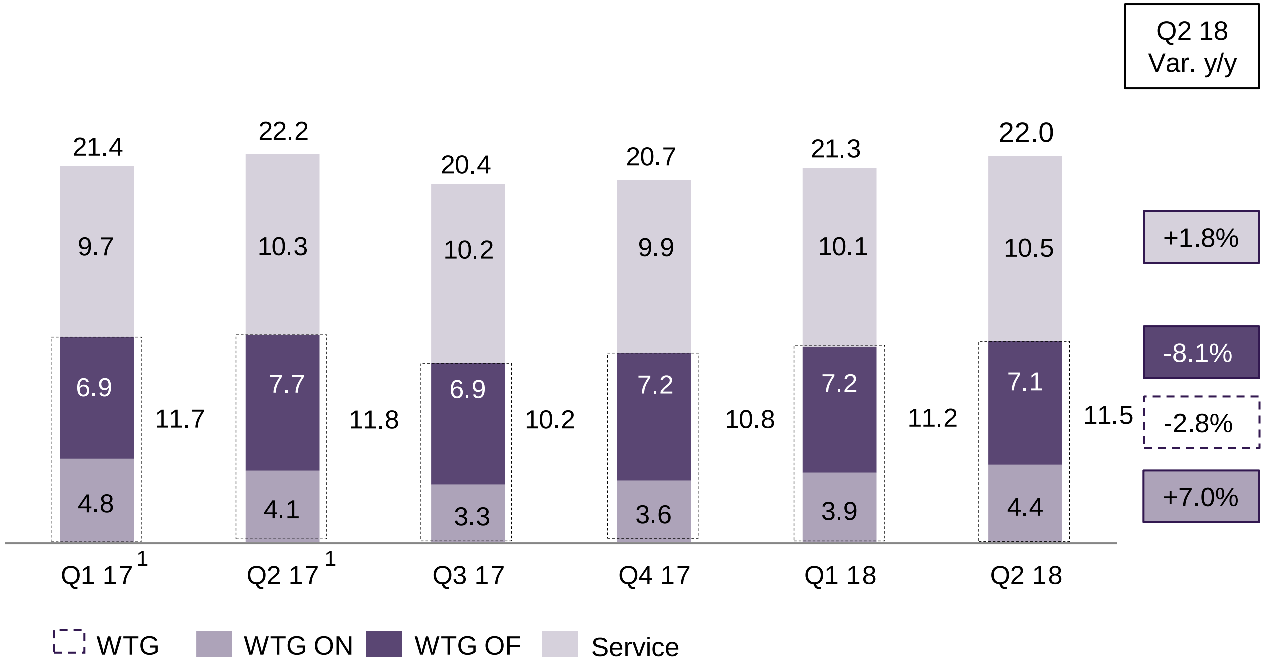
BU developments

ON order backlog (20% of total) recovery after growing 3 quarters in a row

OF order backlog (32% of total) evolution reflects expected order intake volatility

Service order backlog (48% of total): contracts with higher margin

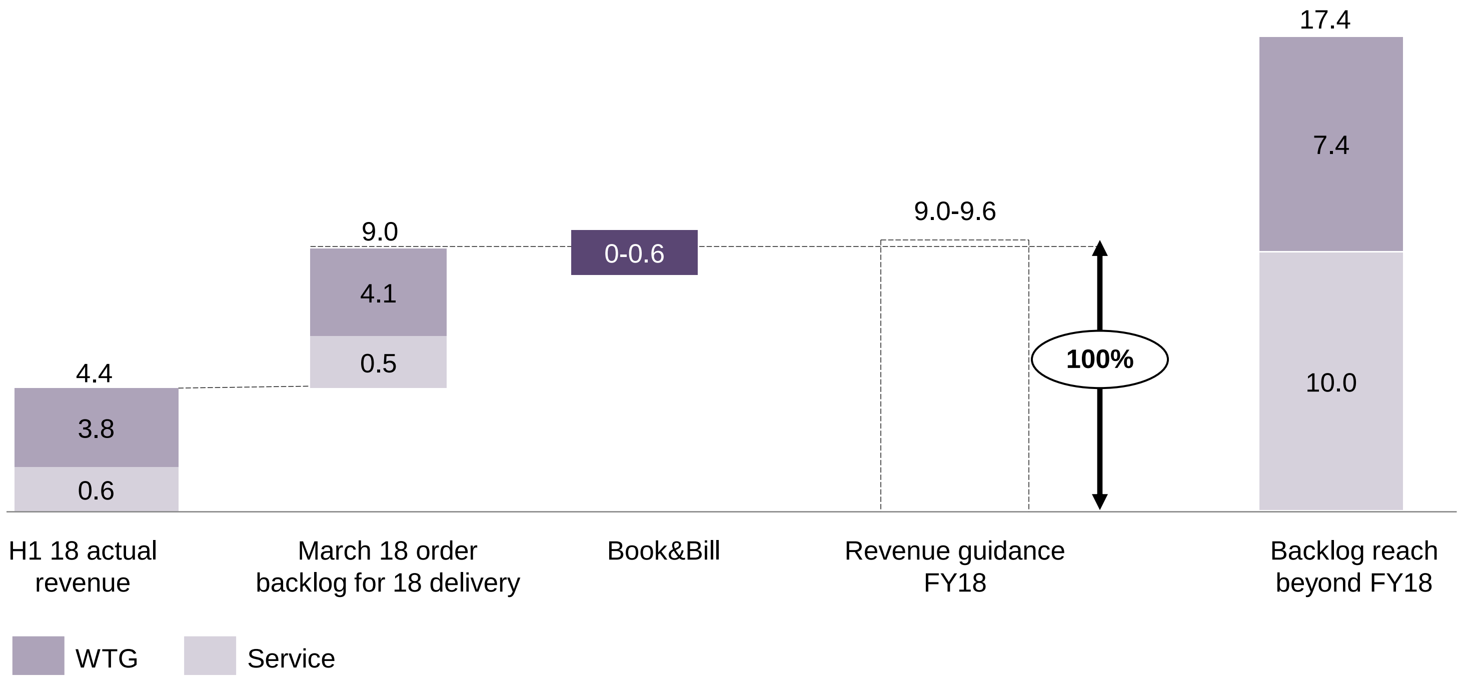
Group order backlog (€bn)



1) Data prior to April 2017 are non-audited pro-forma data.

Order backlog secures revenue in FY18 and beyond

Backlog and reach (€bn)

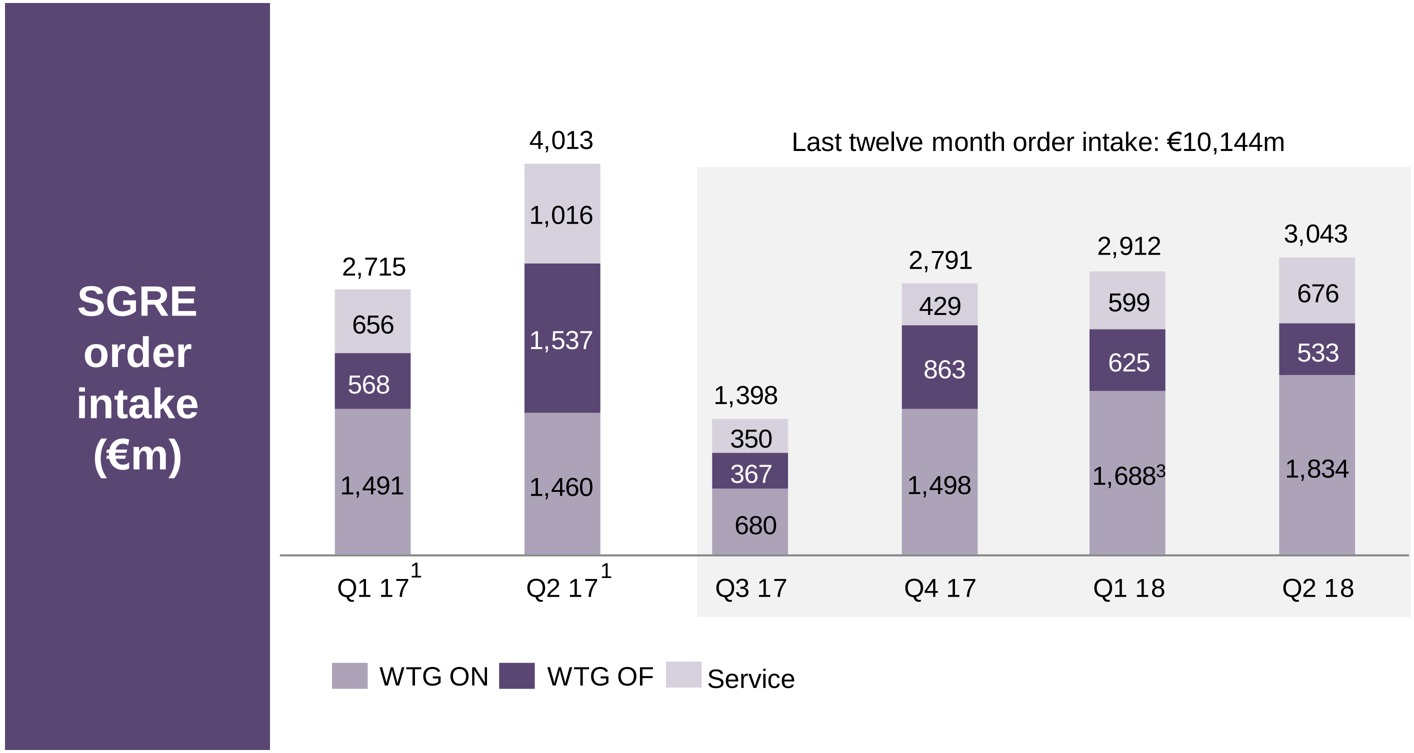


Business development

- **100% coverage**[1] of 2018 revenue guidance
- **Offshore and Service:** higher level and duration of backlog
- **Onshore:** Solid order book FY18 and good progress for 2019

1) C. 100% coverage of low end of sales guidance for 2018 (€9bn to €9.6bn).

Strong order intake with a Book to Bill ratio > 1



Book to Bill ratio[2]	1.0	1.3	0.5	1.2	1.4	1.4

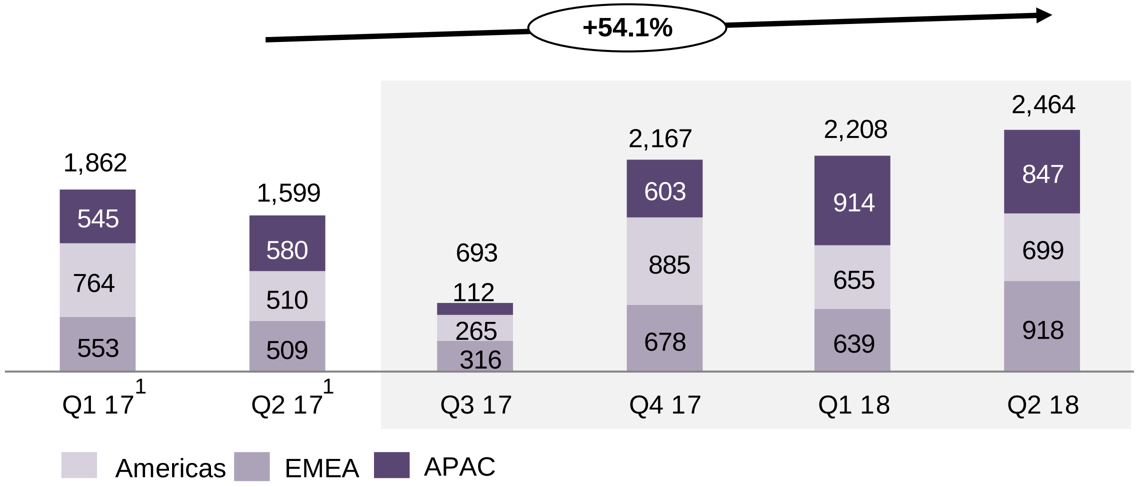
Business development

- **SGRE Book to Bill ratio[2]: 1.4x** (last 12 months Book to Bill ratio: 1.1x)
- Strong **ON order intake** performance: +26% y/y
- Expected volatility in **OF order intake**. Preferred supply agreement for largest offshore wind farm (1,386 MW) signed with Ørsted in Q2 18 in the UK
- Expected volatility in **Service order intake.** Annual comparison impacted by strength of the order intake signed in Q2 17

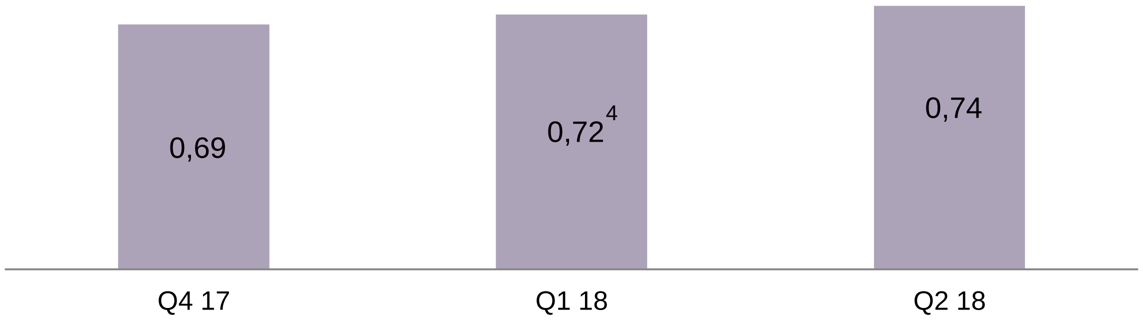
1) Financial data prior to April 2017 corresponds to non-audited pro-forma data.
2) Book-to-bill ratio (based on €): order intake in €m/ Group sales (€m).
3) WTG ON order intake includes €88m of solar orders in Q1 18.

Highest ever onshore order intake: 2.5 GW, and stable average selling price Q/Q

Order intake WTG ON (MW)[2]



Average selling price[4] of order intake WTG ON (€m)



Business development

- Continuous recovery of ON order intake following the normalization of auction systems in major markets
- LTM order intake of 7.5 GW, up from 7.2 GW in March 17
- India (25%[3]), US (22%[3]), Norway (12%[3]), Spain (10%[3]) and Australia (8%[3]) main contributors to order intake in Q2 18

Trends

- Second quarter of stable average selling price[4] of the order intake with quarterly uptick due to scope and mix
- Y/Y evolution (-18% in Q2) impacted by:
  (-) Pricing
  (+) Mix
  (-) FX

1) Data prior to April 2017 corresponds to non-audited pro-forma data.
2) Order intake WTG ON (MW) includes only wind orders. No solar orders included.
3) Contribution to order intake in MW.
4) Order intake average selling price: order intake in EUR terms/order intake in MW. Solar order intake is excluded from the calculation in both numerator and denominator. In Q1 18, the calculation excludes €88m in solar orders of the €1,688m order intake. No solar orders in Q2 18.

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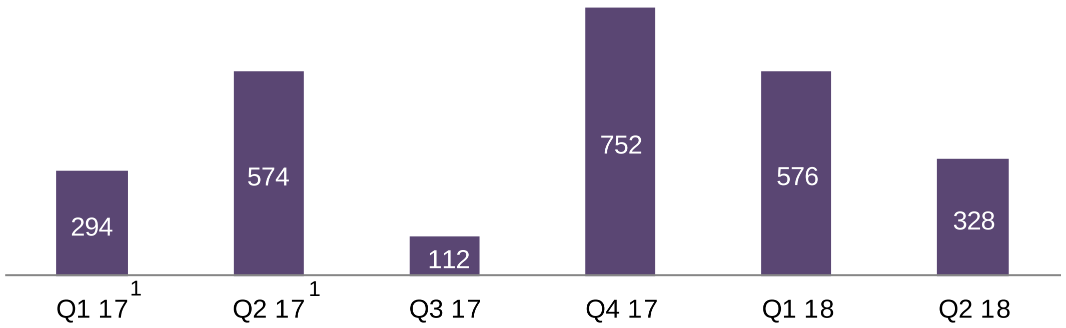
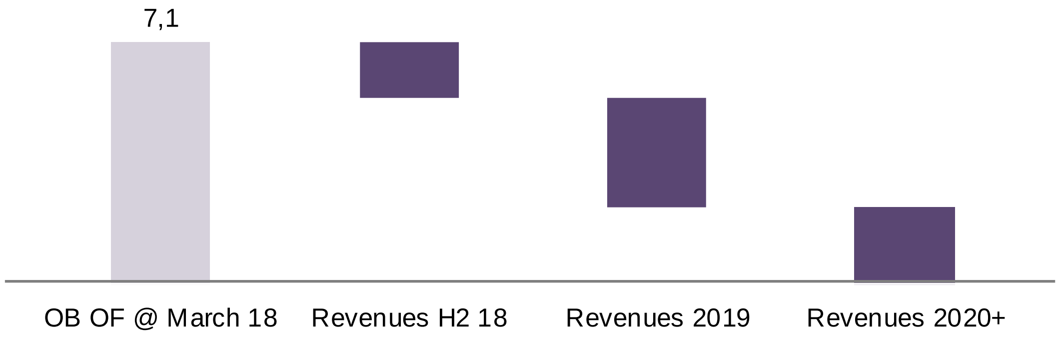
Intense offshore quarterly activity. Order intake reflects expected volatility

Order intake WTG OF (MW)



Conversion of order backlog (€bn)



Business development

- Expected volatility of offshore order intake
  - 328 MW in firm orders in Q2 18
  - Preferred supply agreement for largest offshore wind farm in the UK:1,386 MW with Ørsted
- Reinforcement of presence in Asia:
  - Licensing of 8 MW DD technology to Shanghai Electric, offshore leader in China
  - Memorandum of understanding with Yeong Guan Energy to support offshore wind development in Taiwan

Trends

- Offshore order backlog provides strong visibility of future revenues

1) Data prior to April 2017 corresponds to non-audited pro-forma data.

Content

Consolidated Group – key figures Q2 18 (January - March)

Income Statement Q2 18[1]

€m	Jan-Mar 17[2]	Jan-Mar 18	Var. y/y (%)	Oct-Mar 18	Var. y/y (%)
Group revenues	3,178	2,242	-29%	4,369	-26%
WTG	2,891	1,973	-32%	3,813	-29%
O&M	287	268	-7%	555	-4%
WTG volume (MWe)	2,964	1,830	-38%	3,826	-27%
Onshore	2,534	1,397	-45%	3,048	-30%
Offshore	430	432	1%	778	-9%
Gross profit pre PPA, I&R costs	466	348	-25%	597	-34%
Gross profit margin pre PPA, I&R costs	14.7%	15.5%	0.9	13.7%	-1.5
EBIT pre PPA, I&R costs[5]	313	189	-40%	322	-45%
EBIT margin pre PPA, I&R costs	9.9%	8.4%	-1.4	7.4%	-2.4
WTG EBIT margin pre PPA, I&R costs	9.1%	6.5%	-2.6	5.2%	-3.6
Service margin pre PPA, I&R costs	17.0%	22.3%	5.3	22.3%	2.7
PPA amortization[3]		75	NA	158	NA
Integration & restructuring costs		61	NA	75	NA
Reported EBIT	305	54	-82%	88	-85%
Reported Net Income to SGRE shareholders		35	NA	0	NA
Net Income per share to SGRE shareholders[4]		0.05	NA	0.00	NA

1. All financial information and KPIs are non-audited. All historic information is pro-forma.
2. Jan-March17 financial data corresponds to non-audited pro-forma data, based on legacy businesses' reported information (Siemens Wind Power, Gamesa and 100% of Adwen) including SWP standalone, normalization and scope adjustments.
3. Impact of PPA on the amortization of the fair value of intangibles.
4. Number of shares for EPS calculation: in H1 18: 679,481,738 and in Q2 18: 679,488,800.
5. Adwen impact on Q2 18 EBIT pre PPA, I&R costs of -€6m.
6. References to EBIT, WTG EBIT or Service EBIT are all pre PPA, I&R costs.

Comments

- **Lower WTG ON pricing and sales volume remain the most important drivers of the decline in Group revenues and EBIT[6]**
  - Positive impact of €25m on WTG EBIT in Q2 18, expected in H2, from early reversal of inventory impairments on the back of positive market developments. WTG EBIT margin before reversal: 5.3%
  - One-off positive FX driven impact of €19m on Service EBIT in Q2 18. Service EBIT margin before FX impact: 15.3%
  - Group EBIT margin pre PPA, I&R of 6.5% excl. impairment reversal and FX impact
- **Q2 18 reported net income includes:**
  - Net financial expenses of €10m and a tax expense of €11m
  - Impact on amortization of intangibles' fair value from the PPA and of restructuring and integration costs, net of taxes, in the amount of €98m

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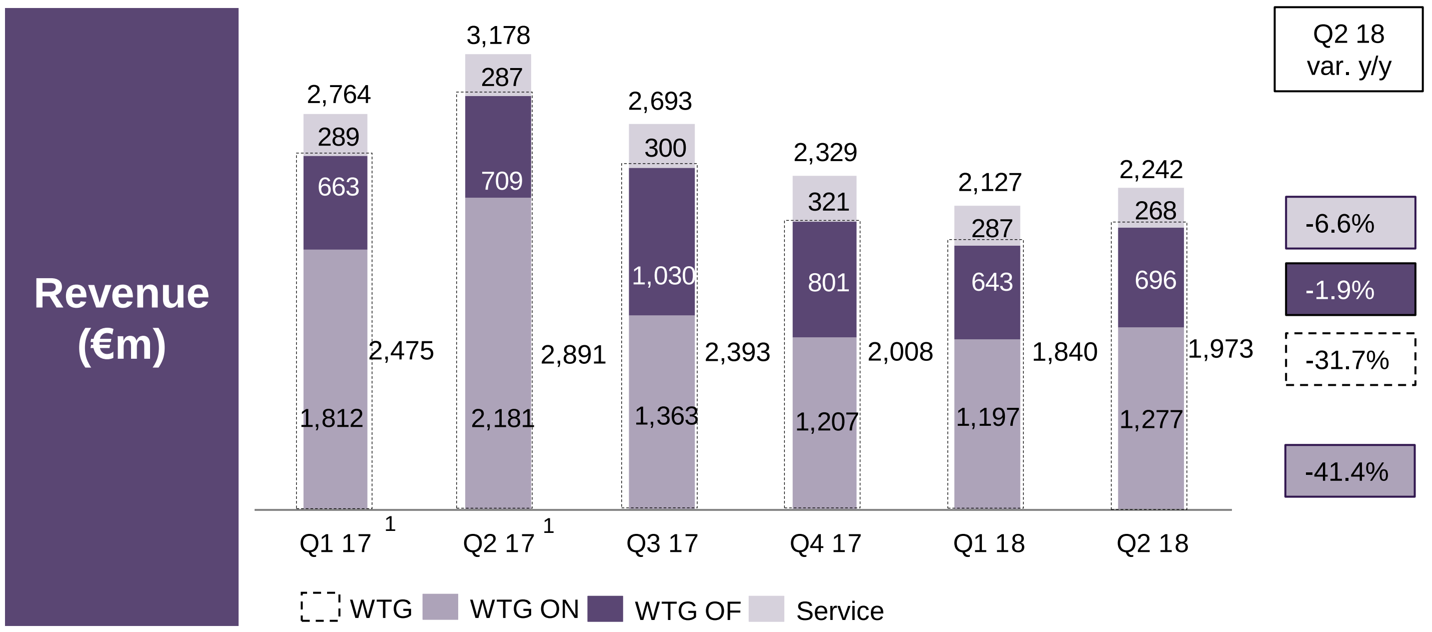
Revenue trends and drivers

Revenues



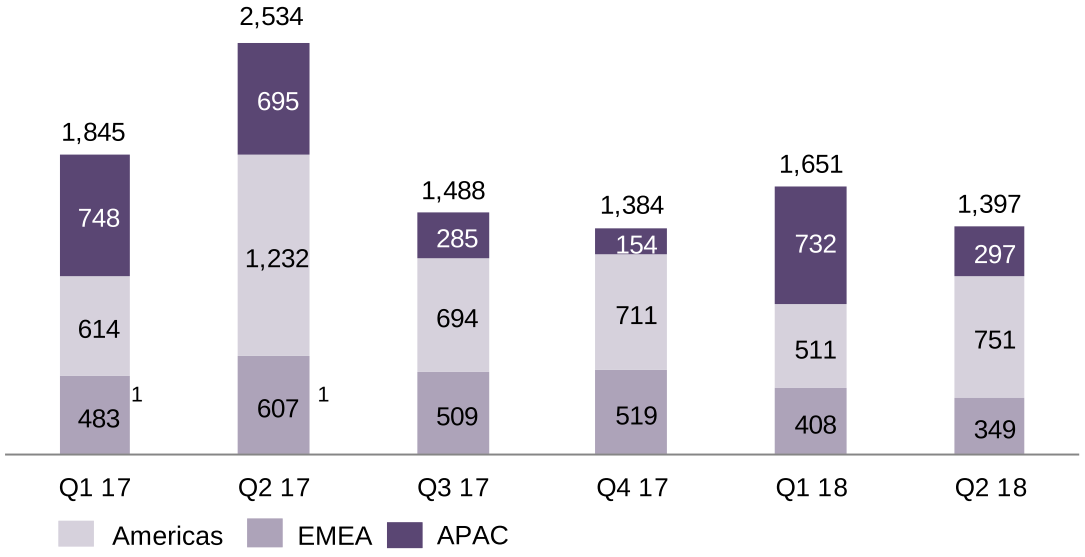
Comments

- WTG ON revenues impacted mainly by lower sales volumes (-)
- WTG OF revenues aligned with scheduled activity for 2018
- Service revenues -7% y/y in Q2 18, impacted by volatility of value added service sales (VAS). Excluding VAS, service revenues flat y/y. Fleet under maintenance of 55.5 GW: +4% y/y driven by offshore growth

1) Data prior to April 2017 are non-audited pro-forma data.

WTG ON sales volume

WTG ON (MWe)



Business developments

- Annual onshore sales volume comparison impacted by record activity in Q2 17 driven by the delivery of the 100% safe harbor orders (US) and the anticipation of regulatory changes in India
- US, Mexico and India are the main contributors to onshore revenue in Q2 18

1) Data prior to April 2017 are non-audited pro-forma data.

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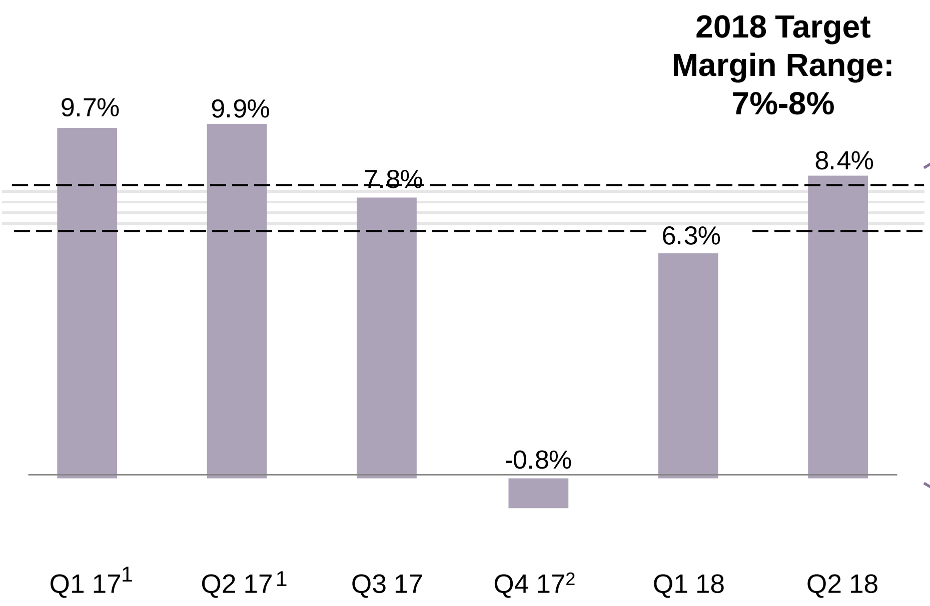
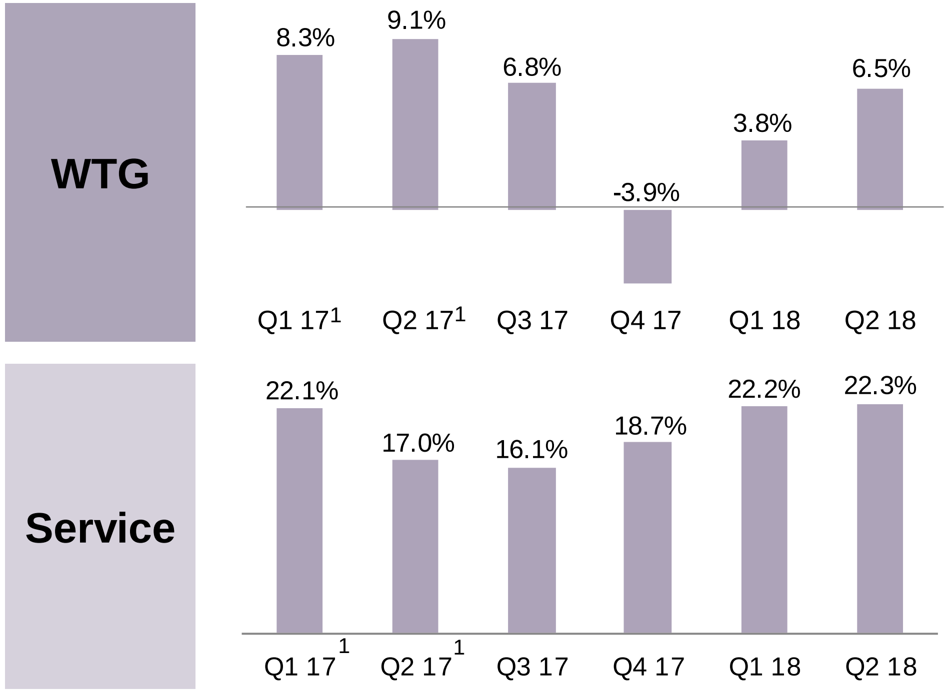
EBIT margin aligned with FY 18 guidance

EBIT Margin pre PPA, I&R costs



Breakdown by segment

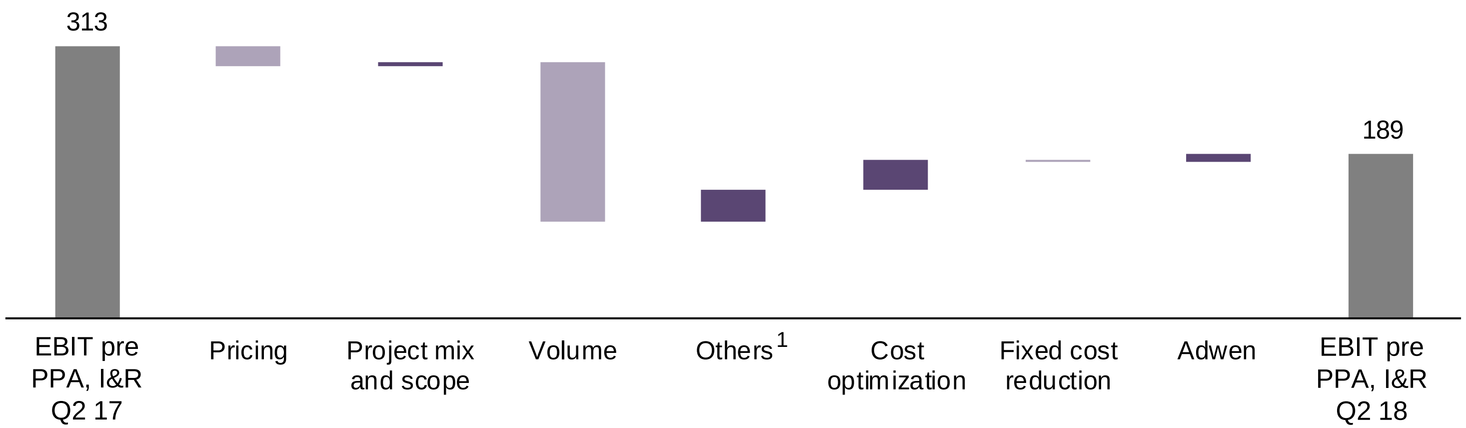


Q2 18 margin positively impacted by reversal of inventory impairment (€25m in WTG) and FX (€19m in Service). Excluding those impacts Group EBIT margin pre PPA, I&R amounts to 6.5%: 5.3% in WTG and 15.3% in Service

1) Financial data prior to April 2017 corresponds to non-audited pro-forma data.
2) Q4 17 includes €134m in inventory impairment charges.

Lower pricing and volume are the main drivers of the decline in profitability

Group EBIT pre PPA, I&R (€m)



Trends

EBIT pre PPA, I&R mainly impacted by

(-) Volume decline

(-) Pricing

(+) Cost optimization

1) €36m including positive impact from reversal of inventory impairment in WTG (€25m) and from FX in Service (€19 m).

Sound balance sheet

Key Balance Sheet Positions

€m	Sep 17 (IFRS15, OBS & PPA adjusted)[1]	Dec 2017 (after OBS adj 2Q)[1]	Mar 18	Var. Dec-Mar
Property, plant and equipment	1,520	1,492	1,464	-28
Goodwill & intangibles	6,831	7,133	6,593	-540
Working capital[2]	-248	-185	263	448
Other, net	238	190	234	44
Total Assets	**8,341**	**8,630**	**8,554**	**-76**
Net financial debt/(cash)	-377	-341	112	453
Provisons	2,616	2,536	2,475	-61
Equity	6,085	6,410	5,938	-472
Other liabilities	17	24	29	5
Total liabilities and shareholder funds	**8,341**	**8,630**	**8,554**	**-76**
Working capital	-248	-185	263	448
Working capital o/last 12 month sales proforma	-2.3%	-1.8%	2.8%	4.6
Provisions	2,616	2,536	2,475	-61
Net financial debt/(cash)	-377	-341	112	453
Net debt to EBITDA	-0.4	-0.4	0.2	0.6

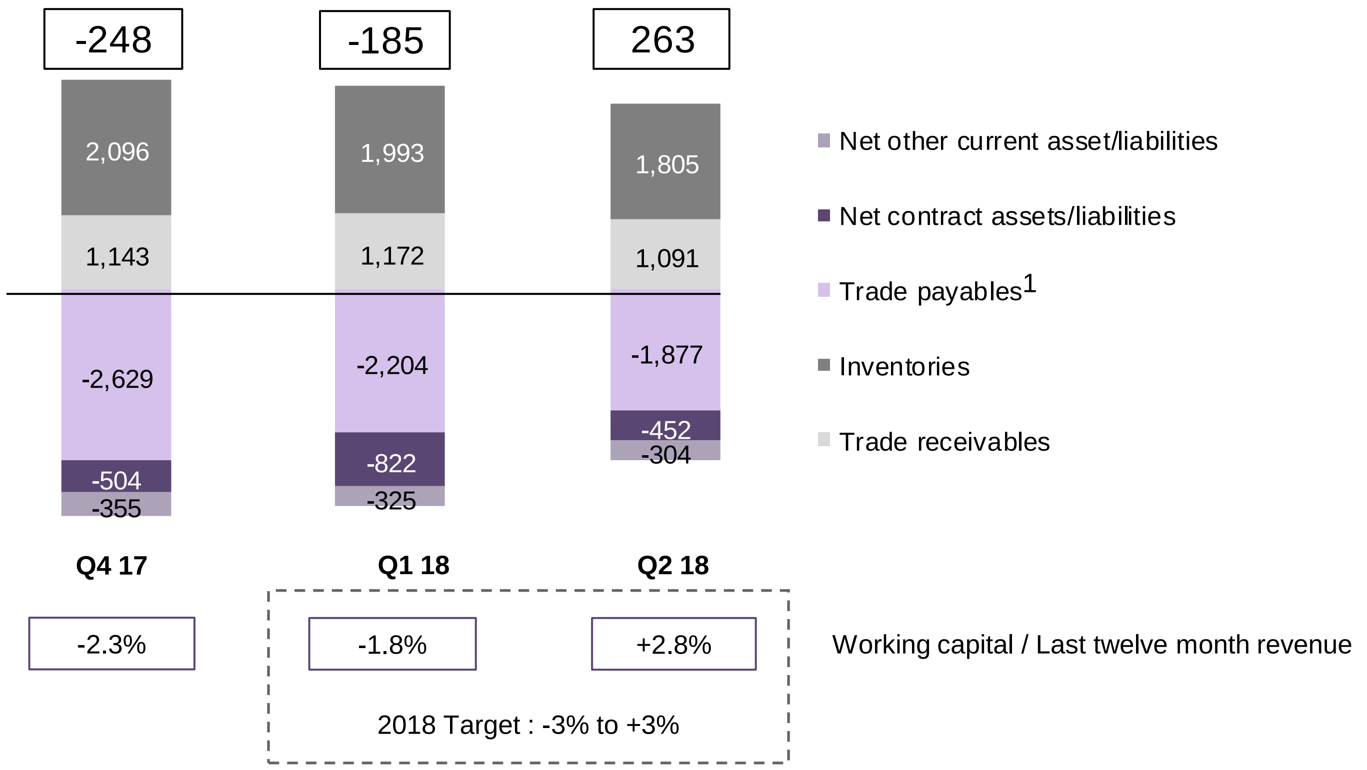
1) OBS (Opening Balance Sheet); PPA (Purchase Price Allocation).
2) Working Capital includes non-interest bearing liabilities to related parties (see footnote 1 in slide 18).
3) Adwen provisions include mainly warranty provisions and provisions for onerous contracts.

Comments

- Working capital of €263m impacted by seasonality, especially related to offshore project execution
- Net debt of €112m largely impacted by seasonality of working capital
- Cash flow generation, working capital and net debt trends expected to revert in H2 18
- Adwen provisions[3] stand at €904m after a provision use of €12m in Q2 18

Working capital aligned with FY 18 guidance

Working capital trend Q4 17 - Q2 18 (€m)



Comments

H1 18 working capital evolution impacted by project seasonality

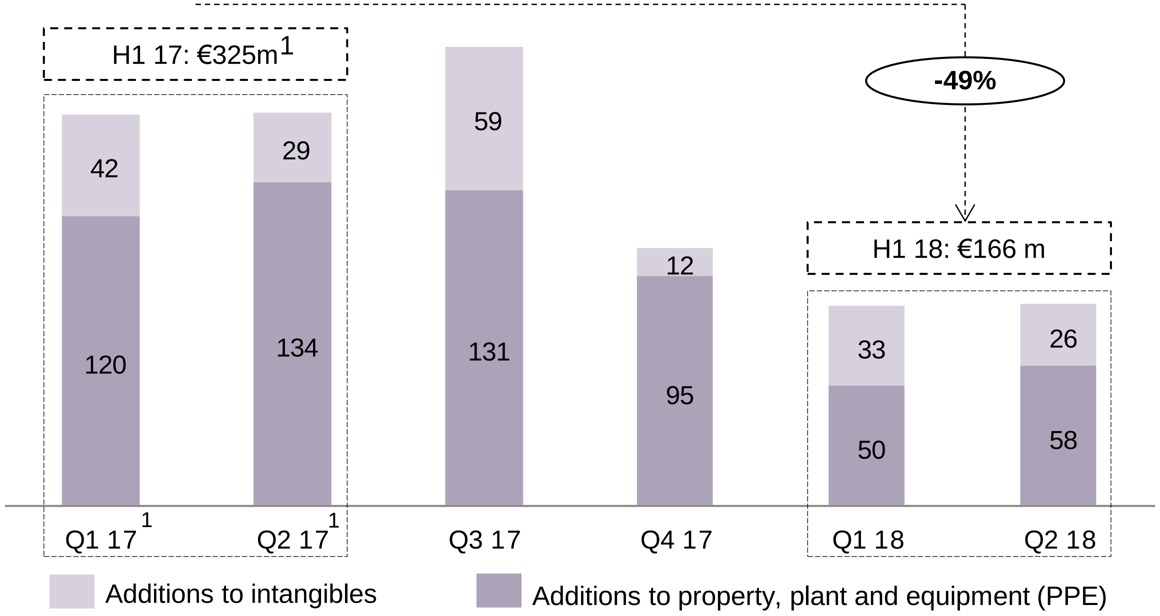
Focus on working capital management

- Weekly “cash calls”
- Receivables and inventories monitored closely
- Strong focus on payment terms

1) Trade payables include non-interest bearing liabilities to related parties (see footnote 2 in slide 17).

Targeting CAPEX < 5% of revenues and reinvestment rate ~1

Capital expenditure development (€m)



				Target
CAPEX (% of revenue)	H1 17: 5.5%[1]	H2 17: 5.9%	H1 18: 3.8%	< 5%
Reinvestment rate[2]	H1 17: 1.9[1]	H2 17: 1.5	H1 18: 1.0	~ 1

Going forward

- **Capex < 5% target**
- **H2 18 expected to be more capital intense**
- **Stringent control over planned and actual spending**

1) Financial data prior to April 2017 corresponds to non-audited pro-forma data.
2) CAPEX divided by Depreciation & Amortization excl. PPA amortization on intangibles' fair value.

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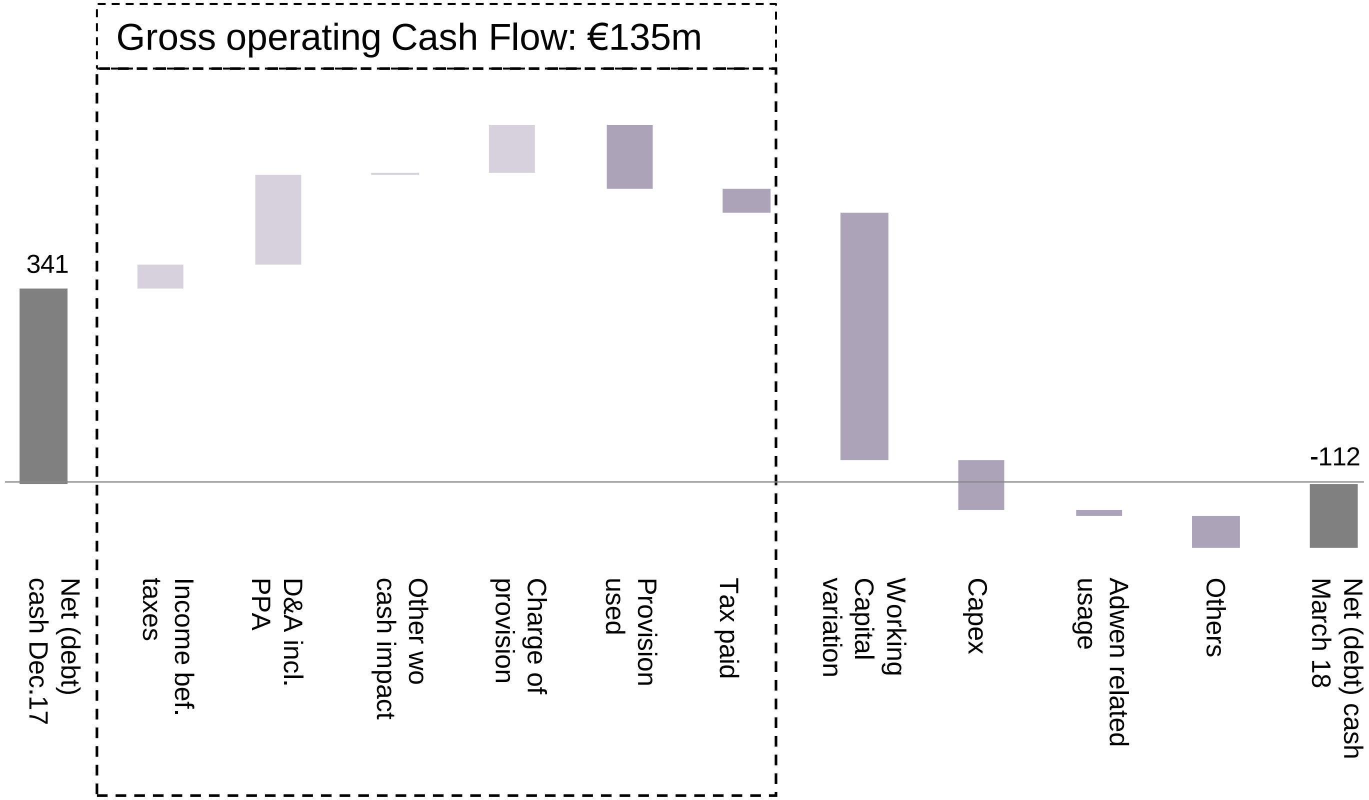
Committed to sustainable turnaround in cash development

Net Cash Variation Q2 18 (€m)



Comments

- Working capital seasonality, Adwen payments and reduction in trade payables days are the main drivers of the net debt evolution in Q2 18
- Total Adwen related provision usage to date: €61m and €12m in Q2 18
- Back to a net cash position in H2 18

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Q2 18 performance aligned with FY 18 guidance

Guidance FY2018

	H1 18		FY 18[1]
Revenues (€m)	4,369	✓	9,000 - 9,600
EBIT margin (in %) **(pre PPA, I&R cost)**	7.4%	✓	7% - 8%
Working Capital to LTM Sales (in %)	2.8%	✓	-3% to +3%
CAPEX (in €m)	166	✓	500

Comments

- Low end of revenue guidance fully covered by order backlog as of March 2018
- Synergies of 1.5% of revenues targeted by YE 2018 included in margin expectations
- Estimated impact of PPA amortization of intangible fair value of €321m for FY 18: €158m in H1 18 and €75 M in Q2 18
- Expected integration and restructuring costs of €160m in FY 2018: €75m in H1 18 and €61m in Q2 18
- Stronger H2 driven by project timing and cost optimization programs and expected synergy delivery in H2 18

1) This outlook excludes charges related to legal and regulatory matters and it is given at constant FX rates.

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Conclusion

Launch of L3AD2020

- Focus on: growth > market growth, transformation (costs), technology and digitalization and change management, to achieve global leadership

Recovery of commercial strength

- Highest ever order intake in onshore (2.5 GW)
- Preferred supply agreement for the largest offshore wind farm (1.4 GW in the UK) in Q2 18

Financial performance fully aligned with FY 2018 guidance

- 100% revenue coverage reached in March 18
- EBIT margin pre PPA, I&R costs of 8.4% in Q2 18 and 7.4% in H1 18

Sector prospects remain strong

Glossary & Definitions for Additional Performance Measures

EBIT (Earnings Before Interest and Taxes): operating profit per the consolidated income statement. It is calculated as Income (loss) from continuing operations before income taxes, before 'Income (loss) from investments accounted for using the equity method', interest income and expenses and 'Other financial income (expenses), net.

EBIT pre PPA: EBIT excluding the impact on amortization on intangibles' fair value from the Purchase Price Allocation (PPA).

EBIT pre PPA, integration and restructuring costs (I&R): EBIT excluding integration and restructuring costs (I&R) and the impact on amortization on intangibles' fair value from the Purchase Price Allocation (PPA).

EBITDA: EBIT before amortization and impairments of intangible assets and depreciation and impairments of property, plant and equipment and goodwill.

Net Financial Debt (NFD) is defined as long-term and short-term financial debt less cash and cash equivalents.

Capital Expenditure (CAPEX) refers to investments made in the period in property, plant and equipment and intangible assets in order to generate future profits (and maintain the current capacity to generate profits, in the case of maintenance capex).

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.

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. Book-to-bill can also be defined in EUR terms as the ratio of order intake (in EUR) to sales (in EUR).

Reinvestment rate: ratio of CAPEX divided by Depreciation and Amortization (excluding PPA amortization on intangibles' fair value).

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Glossary & Definitions for Additional Performance Measures

Free Cash Flow: is obtained by adding, to net income for the year, the ordinary non-cash items (depreciation and amortization, and provision charges) and income from equity-accounted affiliates, deducting working capital variations and capital expenditure (CAPEX). 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 pre tax excl. Adwen: is obtained by adding, to EBIT for the year, the ordinary non-cash items (depreciation and amortization, and provision charges), deducting working capital variation and capital expenditure (CAPEX). It indicates the funds available for use to pay taxes, meet Adwen payments, distribute dividends, buy back shares, pay down debt or other corporate activities not related to ordinary business.

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.

ASP in Order Intake: Average monetary order intake collected by the Wind Turbine segment per unit booked (measured in MW).