# INTERIM REPORT
# Q1 2016

LM GROUP HOLDING A/S
CVR number 25 71 17 77

lmwindpower.com

# Management's review

## Summary

LM Group Holding A/S and its subsidiaries ("LM Wind Power", the "Company" or the "Group") posted significantly improved quarterly revenue, EBITDA and net profit in Q1 2016, reflecting the continuing strong demand for the Company's products.

Sales for the Group were EUR 231.6 million, an increase of EUR 58.6 million or 33.9% compared with EUR 173.0 million in Q1 2015, driven by volume growth. At constant exchange rates, Q1 sales increased 35.5% from the same quarter last year. Year-on-year sales increased in all regions at both actual and constant exchange rates. Sales more than doubled in Europe, and the Americas benefited from the inclusion of Brazil (which was not consolidated in Q1 2015 because it was then a joint venture).

EBITDA for Q1 2016 amounted to EUR 38.5 million, an increase of EUR 17.8 million or 86.0% compared with Q1 2015. Strong volume development and improved cost performance were the main reasons for the improved year-on-year EBITDA. At constant exchange rates, EBITDA growth was 116.0%.

Operating cash flow in Q1 2016 was a cash outflow of EUR 1.5 million versus a cash inflow of EUR 4.3 million in Q1 2015. This was due to an adverse working capital movement, primarily driven by two factors – (i) bringing overdue supplier payments up to date in Brazil, following the acquisition of the joint venture partner's 49% share in December 2015; and (ii) certain customers delaying payment at the quarter end (the payments from customers were received in early April). These two factors, plus an increase in capital expenditure to support growth (including the investment in a new factory in India) led to the Group's liquidity reducing to EUR 93.1 million at the end of Q1 2016 compared with EUR 129.2 million at the end of Q4 2015.

### *Forward-looking statements*

*This report may be deemed to include forward-looking statements, such as statements that relate to the listing of the corporate bonds, the performance of LM Wind Power. Forward-looking statements are typically identified by words or phrases, such as "about", "believe", "expect", "plan", "goal", "target", "strategy", and similar expressions or future or conditional verbs such as "may", "will", "should", "would", and "could". Forward-looking statements are LM Wind Power's current estimates or expectations of future events or future results. Actual results could differ materially from those indicated by these statements because the realization of those results is subject to many risks and uncertainties, including the risk that the bonds may not be listed on the date referenced herein. All forward-looking statements included in this press release are based on information available at the time of the release, and LM Wind Power assumes no obligation to update any forward-looking statement.*

**Cover page caption:** LM Wind Power has operated in Spain since the early 1990s, primarily providing blades for Southern Europe. Picture from Valdesamario Wind Farm near Leon in the northern part of Spain.

# Interim report for Q1 2016 (1 January – 31 March 2016)

## LM Wind Power reports:

- For Q1 2016, revenues of EUR 231.6 million (up 33.9% year-on-year) and EBITDA of EUR 38.5 million (up 86.0% year-on-year).
- EBIT of EUR 22.2 million for Q1 2016, compared with EUR 9.7 million in Q1 2015.
- A net profit of EUR 8.5 million for Q1 2016, compared with EUR 7.2 million in Q1 2015 (which benefited from an FX gain of EUR 14.5 million).
- Liquidity of EUR 93.1 million as at 31 March 2016, compared with EUR 129.2 million as at 31 December 2015.
- Net debt of EUR 131.2 million as at 31 March 2016 and a leverage ratio (Net Debt / EBITDA) of 1.08x, compared with net debt of EUR 94.6 million as at 31 December 2015 and a leverage ratio of 0.92x.

| EUR millions | Q1 2016 | Q1 2015 |
|---|---|---|
| Revenue | 231.6 | 173.0 |
| Operating profit before depreciation and amortization (EBITDA) | 38.5 | 20.7 |
| Results from operating activities before special items (EBIT) | 22.2 | 9.7 |
| Profit before income tax | 14.1 | 14.1 |
| Profit for the period | 8.5 | 7.2 |

| EUR millions | | |
|---|---|---|
| Results from operating activities before special items (EBIT) | 22.2 | 9.7 |
| Depreciation and amortization | 16.3 | 11.0 |
| **EBITDA** | **38.5** | **20.7** |

This interim report for Q1 2016 has not been audited or reviewed.

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# Financial review

## Revenue

Revenue in Q1 2016 increased EUR 58.6 million or 33.9% to EUR 231.6 million compared with EUR 173.0 million in Q1 2015. The increase at constant exchange rates was 35.5%.

This strong revenue growth was predominantly due to volumes, thanks to market growth and higher demand for the Group's products. The addition of Brazil (which was not consolidated in Q1 2015 when it was a joint venture) and a new Indian plant contributed EUR 12.5 million of the year-on-year increase. Sales increased year-on-year in all regions at both actual and constant exchange rates, and more than doubled in Europe.

## Operating expenses

Q1 2016 cost of sales of EUR 86.3 million represented 37.3% of revenue compared with EUR 78.9 million (45.6%) in Q1 2015, which was the highest quarter in 2015 (Q4 2015 was 39.4%). This improved performance is partly driven by the Group's cost saving programmes, and also due to revenue benefited from increasing levels of deferred income i.e. the release of non-refundable downpayments from customers, which have been increasing in line with capital expenditure.

Other external expenses of EUR 44.0 million (19.0% of revenue) in Q1 2016 were EUR 16.3 million higher than EUR 27.7 million (16.0%) in Q1 2015. The absolute increase is primarily due to volume, whereas the increase as a percentage of revenues is largely due to the addition of Brazil and the new Indian plant, neither of which are yet at the operational efficiency of the Group's more mature plants.

Q1 2016 staff expenses were EUR 62.9 million (27.2% of revenue), EUR 17.3 million higher than EUR 45.7 million in Q1 2015 (26.4% of revenue) due to both volume and the addition of Brazil and the new Indian plant.

The depreciation and amortization charges of EUR 16.3 million in Q1 2016 were EUR 5.3 million higher than Q1 2015. The higher charges were mainly due to the increased capex expenditure in 2015 to support growth, plus the additional depreciation on transport equipment, which were reclassified from inventory to tangible fixed assets from October 2015, as disclosed in the 2015 annual report.

## EBITDA (defined as results from operating activities, after adding back special items and depreciation and amortization)

The Group delivered EBITDA of EUR 38.5 million in Q1 2016 (16.6% of revenue), which is EUR 17.8 million or 86.0% higher than the EBITDA of EUR 20.7 million (12.0% of revenue) in Q1 2015. The increase at constant exchange rates was 116.0%. Higher EBITDA was driven by higher sales volumes, tight cost control and operational leverage with higher revenue over a cost base which is partly fixed. The EBITDA of EUR 38.5 million included an EBITDA loss of EUR 3.6 million from the addition of Brazil and the new Indian plant.

## Special items

There were no special items in Q1 2016 compared with costs of EUR 2.5 million in Q1 2015, which was mainly related to consultancy costs to improve the performance of the Brazilian business, which was a joint venture at that time.

## Share of loss of equity accounted investment

Q1 2015 included a EUR 4.1 million share of loss from the joint venture in Brazil. On 14 December 2015, the Group acquired the remaining 49% interest in LM Wind Power do Brasil S.A. from its joint venture partner. The plant is now a fully owned subsidiary of the Group and is therefore fully consolidated.

## Financial income and expenses

Net finance costs for Q1 2016 were EUR 8.1 million (FX loss of EUR 1.9 million, interest expense of EUR 5.7 million and amortization of borrowing costs of EUR 0.5 million) compared with net finance income of EUR 11.0 million in Q1 2015 (FX gain of EUR 14.5 million offsetting interest expenses of EUR 3.1 million and amortization of borrowing costs of EUR 0.4 million).

## Tax

The Group reported a tax expense of EUR 5.6 million in the first quarter of 2016, compared with a EUR 6.9 million expense in Q1 2015. The lower effective tax rate in Q1 2016 was largely due to the consolidation of Brazil and recognition of deferred tax assets for tax losses in Spain and the US as a result of the improved profitability outlook in these entities.

## Net result

The net result for Q1 2016 was a profit of EUR 8.5 million compared with a profit of EUR 7.2 million in Q1 2015, which benefited from an FX gain of EUR 14.5 million. The higher profit was due to higher sales and better operational performance, more than offsetting the FX gain in Q1 2015.

## Net debt

Net debt at the end of Q1 2016 was EUR 131.2 million compared with EUR 94.6 million at the end of 2015. This increase was due to capital expenditure of EUR 32.8 million in Q1 2016 (including investment in the new factory in India), plus an adverse working capital movement, primarily driven by two factors - (i) bringing overdue supplier payments up to date in Brazil, following the acquisition of the joint venture partner's 49% share in December 2015; and (ii) certain customers delaying payment at the quarter end (the payments from customers were received in early April).

## Cash flows

For Q1 2016, operating activities resulted in a cash outflow of EUR 1.5 million, compared with a cash inflow of EUR 4.3 million in Q1 2015. The operating cash outflow in Q1 2016 was due to the adverse working capital movement mentioned above.

Capital expenditure amounted to EUR 32.8 million in Q1 2016 compared with EUR 16.3 million in the same period in 2015. However, this higher capital expenditure was partially funded by downpayments received from customers. The increase in capital expenditures includes the completion of the new plant in India, which started production in February 2016, ahead of schedule.

## Group liquidity

Q1 2016 net cash and cash equivalents were EUR 58.4 million, compared with EUR 87.5 million at the end of 2015. In addition to the cash balance of EUR 58.4 million, the Group had unutilized credit facilities of EUR 34.7 million giving a total liquidity position of EUR 93.1 million at the end of March 2016, compared with EUR 129.2 million at the end of 2015 and EUR 69.2 million at Q1 2015. The lower liquidity in Q1 2016 was due to the adverse working capital movement and increased capital expenditure mentioned above.

# Management's statement

The Executive and Supervisory Boards have today considered and adopted the Interim Report of LM Group Holding A/S for the financial period 1 January 2016 – 31 March 2016.

The Interim Report is prepared in accordance with IAS 34 as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act. Management's Review is also prepared in accordance with Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the Interim Report gives a true and fair view of the financial position as at 31 March 2016 of the Group and of the results of the Group's operations and the cash flows for the financial period 1 January 2016 – 31 March 2016.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group, of the results for the financial period and of the financial position of the Group as well a description of the most significant risks and elements of uncertainty facing the Group. Besides what has been disclosed in the Interim Report, no changes in the Group's most significant risks and uncertainties have occurred relative to what was disclosed in the consolidated financial statements for 2015.

Kolding, 13 May 2016

## Executive Board of Management

Marc de Jong
Chief Executive Officer

## Supervisory Board

| | | |
|---|---|---|
| John Leahy<br>Chairman | Alex Moss | |
| Marc de Jong | Nick Smith | Søren Høffer |

# General information

## 1. Reporting entity

LM Group Holding A/S (the "Company") is a company domiciled in Denmark. These condensed consolidated interim financial statements ('interim financial statements") as at and for the three months ended 31 March 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in manufacturing wind turbine blades. The Company's functional currency is Danish kroner. These interim financial statements are, however, presented in Euro rounded up to the nearest thousand.

## 2. Basis of preparation

### (a) Statement of Compliance

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of IFRS financial statements. Any events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015 are disclosed in the "Financial Review". These interim financial statements were authorized for issue by the Company's Board of Directors on 13 May 2016.

### (b) Judgments and estimates

In preparing these interim financial statements, Management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015 on pages 41-42.

## 3. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2015 on pages 34-40.

## 4. Segment information

The internal reporting framework used for reporting on revenue and expenses to the Executive Leadership Team and the Board of Directors has been set up to reflect and report on the global functional responsibility setup at LM Wind Power. The functional responsibility setup consolidates functions by type, and management reviews the results of the Group as a whole to assess performance, thus there is only one operating segment. Therefore, the Group has not presented a segmental analysis.

## 5. Subsequent events

No events have occurred after the balance sheet date that will have material effect on the Group's financial standing.

# Consolidated income statement

| EUR thousands | Q1 2016 | Q1 2015 |
|---|---|---|
| Revenue | 231,571 | 173,038 |
| Other income | 132 | 3 |
| **Operating Income** | **231,703** | **173,041** |
| Cost of sales | (86,278) | (78,933) |
| Other external expenses | (44,020) | (27,693) |
| Staff expenses | (62,946) | (45,692) |
| Depreciation and amortization | (16,282) | (11,001) |
| **Operating expenses before special items** | **(209,526)** | **(163,319)** |
| **Results from operating activities before special items** | **22,177** | **9,722** |
| Special items | - | (2,518) |
| **Results from operating activities** | **22,177** | **7,204** |
| Share of result of equity accounted investment | - | (4,099) |
| Net finance costs | (8,123) | 10,958 |
| **Profit before income tax** | **14,054** | **14,063** |
| Income tax | (5,604) | (6,903) |
| **Profit for the period** | **8,450** | **7,160** |

# Consolidated statement of comprehensive income

| EUR thousands | Q1 2016 | Q1 2015 |
|---|---|---|
| **Profit for the period** | **8,450** | **7,160** |
| **Other comprehensive income** | | |
| Items that may be subsequently reclassified to income statement: | | |
| Exchange rate adjustments at period end | 431 | (869) |
| Exchange rate adjustments, foreign entities | (4,714) | 11,226 |
| Exchange rate adjustments, foreign entities recognized on disposal | (203) | - |
| **Other comprehensive income for the period, net of income tax** | **(4,486)** | **10,357** |
| **Total comprehensive income for the period** | **3,964** | **17,517** |

# Consolidated balance sheet

| EUR thousands | 31 March 2016 | 31 December 2015 |
|---|---|---|
| **Assets** | | |
| Goodwill | 277,937 | 277,694 |
| Completed development projects | 26,561 | 28,483 |
| Development projects in progress | 6,744 | 4,177 |
| **Intangible assets** | **311,242** | **310,354** |
| Land and buildings | 98,147 | 97,718 |
| Plant and machinery | 153,840 | 132,861 |
| Fixtures, fittings and equipment | 7,012 | 7,249 |
| Leasehold improvements | 2,314 | 2,678 |
| Property, plant and equipment under construction | 20,523 | 29,603 |
| **Property, plant and equipment** | **281,836** | **270,109** |
| Other securities | 538 | 421 |
| Deferred tax asset | 76,371 | 78,047 |
| **Other non-current assets** | **76,909** | **78,468** |
| **Total non-current assets** | **669,987** | **658,931** |
| Inventories | 91,050 | 77,092 |
| Trade and other receivables | 173,848 | 160,602 |
| Receivables from Group companies | 69,548 | 68,881 |
| Income taxes | 7,251 | 22,846 |
| Prepayments | 13,843 | 9,943 |
| Cash & cash equivalents | 58,375 | 87,488 |
| **Total current assets** | **413,915** | **426,852** |
| **Total assets** | **1,083,902** | **1,085,783** |

# Consolidated balance sheet

| EUR thousands | 31 March 2016 | 31 December 2015 |
|---|---|---|
| **Liabilities and equity** | | |
| Share capital | 9,385 | 9,375 |
| Other reserves | 7,850 | 6,078 |
| Retained earnings | 384,181 | 381,999 |
| **Total equity** | **401,416** | **397,452** |
| Provisions | 41,938 | 39,441 |
| Loans and borrowings | 181,425 | 175,278 |
| Finance leases | 2,782 | 1,258 |
| Prepayments from customers | 69,571 | 80,823 |
| Deferred tax liabilities | - | - |
| Deferred income | 64,216 | 39,934 |
| **Total non-current liabilities** | **359,932** | **336,734** |
| Provisions | 41,430 | 41,349 |
| Loans and borrowings | 3,772 | 5,211 |
| Finance leases | 1,604 | 294 |
| Prepayments from customers | 41,431 | 48,132 |
| Income taxes | 31,845 | 49,276 |
| Trade payables | 117,736 | 124,047 |
| Other payables | 68,640 | 73,278 |
| Deferred income | 16,096 | 10,010 |
| **Total current liabilities** | **322,554** | **351,597** |
| **Total liabilities** | **682,486** | **688,331** |
| **Total equity and liabilities** | **1,083,902** | **1,085,783** |

# Consolidated statement of changes in equity

| EUR thousands | Share capital | Translation reserve | Hedging reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Equity at 1 January 2016** | **9,375** | **6,663** | **(585)** | **381,999** | **397,452** |
| Profit for the period | - | - | - | 8,450 | 8,450 |
| Other comprehensive income | 10 | 1,976 | (204) | (6,268) | (4,486) |
| **Equity at 31 March 2016** | **9,385** | **8,639** | **(789)** | **384,181** | **401,416** |
| | | | | | |
| **Equity at 1 January 2015** | **9,399** | **1,730** | **-** | **377,091** | **388,220** |
| Profit for the period | - | - | - | 7,160 | 7,160 |
| Other comprehensive income | (21) | 2,524 | - | 7,854 | 10,357 |
| **Equity at 31 March 2015** | **9,378** | **4,254** | **-** | **392,105** | **405,737** |

# Consolidated statement of cash flows

| EUR thousands | January to March 2016 | January to March 2015 |
|---|---|---|
| Profit for the period | 8,450 | 7,160 |
| Adjustments for non-cash transactions | 57,295 | 26,201 |
| Changes in working capital | (52,608) | (14,728) |
| Cash flows from operations before financial items and tax | 13,137 | 18,633 |
| Net financial expenses | (8,824) | (6,418) |
| Cash flows from operations before tax | 4,313 | 12,215 |
| Income tax paid | (5,764) | (7,895) |
| **Cash flows from operating activities** | **(1,451)** | **4,320** |
| Purchase of property, plant and equipment | (30,280) | (12,419) |
| Purchase of intangible assets | (2,562) | (3,898) |
| **Cash flows from investing activities** | **(32,842)** | **(16,317)** |
| Repayment of long-term debt | (2,093) | - |
| Proceeds of long-term debt | 7,000 | - |
| **Cash flows from financing activities** | **4,907** | - |
| Net change in cash and cash equivalents | (29,386) | (11,997) |
| Cash and cash equivalents at beginning of period | 87,488 | 47,223 |
| Net change in cash and cash equivalents | (29,386) | (11,997) |
| Exchange rate adjustments on cash & cash equivalents | 273 | 1 |
| **Cash and cash equivalents at period end** | **58,375** | **35,227** |