

Company announcement from Vestas Wind Systems A/S

Aarhus, 7 February 2018
Company announcement No. 3/2018
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Annual report 2017

Summary: For full year 2017, revenue amounted to EUR 10.0bn, the EBIT margin was 12.4 percent, total net investments were EUR 407m, and free cash flow* amounted to EUR 1,218m – in line with the expectations to revenue of EUR 9.50bn-10.25bn, an EBIT margin of 12-13 percent, total net investments* of approx. EUR 400m, and free cash flow* of EUR 1,150m-1,250m. Compared to 2016, revenue, earnings, and free cash flow decreased in 2017, but remain at a healthy level, despite highly competitive markets. Order intake in MW increased in 2017 compared to 2016, and the value of the combined order backlog continued to grow during the year.*

The wind turbine order intake increased from 10,494 MW in 2016 to 11,176 MW in 2017 and the value of the service order backlog increased by EUR 1.4bn to EUR 12.1bn.

For 2018, Vestas expects revenue to range between EUR 10bn and 11bn, including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin of 9-11 percent, with the service EBIT margin remaining stable.

*Total investments** are expected to amount to approx. EUR 500m, and free cash flow** is expected to be minimum EUR 400m in 2018.*

Vestas is able to present updated long-term financial ambitions that reflect its projection for market conditions and the presumed result of its strategy.

Vestas envisions market conditions which in the long term will reflect wind power having achieved merchant levels in the vast majority of markets. The wind power industry is undergoing a transition towards a more mature, unsubsidised renewable energy industry. This transition leads to a highly competitive market, and will likely drive a further consolidation in the industry. Beyond the transition, a matured market for wind energy creates opportunities for Vestas to leverage and strengthen its leadership position. Within this context, Vestas maintains its ambition to be the market leader in revenue, while the EBIT-margin ambition is changed to at least 10 percent from previously best-in-class margins.

As a result of the strong performance during the year, the Board of Directors proposes to the Annual General Meeting that a dividend of DKK 9.23 per share, compared to DKK 9.71 last year, and equivalent to 29.9 percent of the net profit for the year, be distributed to the shareholders. A new DKK 1.5bn (approx. EUR 200m) share buy-back programme is planned to be initiated shortly and to be conducted during the period until the disclosure of the interim financial report for first quarter of 2018 on 4 May 2018.

“2017 was a year that saw fierce competition, price pressure and the continued maturity of the wind energy sector. In this environment, Vestas’ 2017 performance was strong, as we once again led the industry on profit margins and produced solid revenue, free cash flow, record order intake, and a growing and profitable service business. We demonstrated that even in such challenging conditions, we can control costs and use our global presence and technology leadership to remain the industry leader,” says Anders Runevad, Group President & CEO.

*) Before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities.

***) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

Information meeting (audiocast)

On Wednesday, 7 February 2018 at 10 am CET (9 am GMT), Vestas will host an information meeting via an audiocast. The audiocast will be accessible via vestas.com/investor.

The meeting will be held in English and questions may be asked through a conference call. The telephone numbers for the conference call are:

Europe: +44 203 008 9806
USA: +1 855 831 5944
Denmark: +45 3544 5579

Further details at vestas.com/en/investor.

Presentation material for the information meeting will be available approx. one hour before the meeting at vestas.com/en/investor.

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Financial and non-financial figures, fourth quarter 2017

mEUR	Q4 2017	Q4 2016	Change
Financial figures			
Revenue	3,119	3,313	(6)%
- of which service revenue	414	372	11%
Gross profit	576	667	(14)%
Gross margin (%)	18.5	20.1	(1.6) pp
EBITDA	499	602	(17)%
EBITDA margin (%)	16.0	18.2	(2.2) pp
Operating profit (EBIT)	385	504	(24)%
EBIT margin (%)	12.3	15.2	(2.9) pp
Profit before tax	394	458	(14)%
Total net investments*	176	226	(22)%
Net working capital	(1,984)	(1,941)	43
Free cash flow*	1,175	1,375	(15)%
Operational figures			
Order intake (bnEUR)	2.9	4.3	(33)%
Order intake (MW)	3,844	4,532	(15)%
Produced and shipped – wind turbines (MW)	2,740	2,544	8%
Produced and shipped – wind turbines (number)	998	1,106	(10)%
Deliveries (MW)	2,988	3,167	(6)%
Social and environmental figures			
Employees at the end of the period (number)	23,303	21,824	7%
Incidence of total recordable injuries per one million working hours	3.5	6.4	(45)%
Renewable energy (%)	47	46	1 pp

Vestas generated revenue of EUR 3,119m – a decrease of 6 percent

- As expected, the fourth quarter was characterised by high levels of activity, though not reaching the record high levels in fourth quarter of 2016. The high activity levels were a result of high delivery volumes driven by the strong order intake observed in recent years and further supplemented by growth in the Service segment. Revenue was also impacted by negative currency developments with an effect of approx. EUR 145m, primarily driven by the EUR/USD development.

Gross profit amounted to EUR 576m – a decrease of EUR 91m

- The gross profit decrease was mainly driven by lower volumes, combined with lower average project margins in the Power solutions segment, but partly offset by improved performance within the Service segment.

EBIT margin amounted to 12.3 percent – a decrease of 2.9 percentage points

- The decreased EBIT margin in the quarter was mainly driven by lower gross profit and higher R&D, distribution, and administration costs, mainly as a consequence of increased depreciations.

Total net investments* amounted to EUR 176m – a decrease of EUR 50m

- Investments in the quarter were mainly driven by capitalised R&D and tangible investments related to blades.

Vestas reported a free cash flow* of EUR 1,175m – a decrease of 15 percent

- Free cash flow was mainly driven by net working capital movements.

*) Before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities.

Financial and non-financial figures, full year 2017

mEUR	2017	2016	Change
Financial figures			
Revenue	9,953	10,237	(3)%
- of which service revenue	1,522	1,309	16%
Gross profit	1,963	2,126	(8)%
Gross margin (%)	19.7	20.8	(1.1) pp
EBITDA	1,651	1,826	(10)%
EBITDA margin (%)	16.6	17.8	(1.2) pp
Operating profit (EBIT)	1,230	1,421	(13)%
EBIT margin (%)	12.4	13.9	(1.5) pp
Profit before tax	1,192	1,287	(7)%
Total net investments*	407	617	(34)%
Net working capital	(1,984)	(1,941)	43
Free cash flow*	1,218	1,564	(22)%
Operational figures			
Order intake (bnEUR)	8.9	9.5	(6)%
Order intake (MW)	11,176	10,494	6%
Order backlog – wind turbines (MW)	11,492	9,530	21%
Order backlog – wind turbines (bnEUR)	8.8	8.5	4%
Order backlog – service (bnEUR)	12.1	10.7	13%
Produced and shipped – wind turbines (MW)	11,237	9,957	13%
Deliveries (MW)	8,779	9,654	(9)%
Social and environmental figures			
Employees at the end of the period (number)	23,303	21,824	7%
Global bonus	112	120	(7)%
Incidence of total recordable injuries per one million working hours	5.3	6.9	(23)%
Renewable energy (%)	57	52	5 pp

Vestas generated revenue of EUR 9,953m – a decrease of 3 percent

- Revenue for the full year was realised within the outlook interval of EUR 9.50bn-10.25bn. Revenue decreased due to lower revenue in the Power solutions segment, but partly offset by higher revenue in the Service segment.

Gross profit amounted to EUR 1,963m – a decrease of 8 percent

- The gross profit decrease was mainly driven by lower volumes, combined with lower average project margins in the Power solutions segment, but partly offset by improved performance within the Service segment.

EBIT margin amounted to 12.4 percent – a decrease of 1.5 percentage points

- The decreased EBIT margin was mainly driven by the decreased gross profit.

Total net investments* amounted to EUR 407m – a decrease of EUR 210m

- Total net investments were largely in line with the outlook of approx. EUR 400m.

Vestas reported a free cash flow* of EUR 1,218m – a decrease of 22 percent

- Free cash flow was in line with the updated outlook of EUR 1,150m-1,250m disclosed on 8 January 2018. At the end of 2017, net interest-bearing position was positive of EUR 3,359m, an improvement of EUR 104m compared to the end of 2016.

The order intake was 11,176 MW – an increase of 682 MW

- Vestas achieved record-breaking order intake for the year, driven by Americas and Asia Pacific. Order intake was distributed across 33 countries.

The incidence of total recordable injuries per one million working hours was 5.3

- This was below the target of max. 6.0 in 2017.

*) Before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities.

Outlook

Outlook 2018

Revenue is expected to range between EUR 10bn and 11bn, including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin of 9-11 percent with the service EBIT margin remaining stable.

Total investments* are expected to amount to approx. EUR 500m, and free cash flow* is expected to be minimum EUR 400m in 2018.

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect Vestas' financial results for 2018. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2018.

Outlook 2018

Revenue (bnEUR)	10-11
EBIT margin (%)	9-11
Total investments* (mEUR)	approx. 500
Free cash flow* (mEUR)	min. 400

*) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

Updated long-term financial ambitions

Vestas envisions market conditions which in the long term will reflect wind power having achieved merchant levels in the vast majority of markets. The wind industry is undergoing a transition towards a more mature, unsubsidised renewable energy industry. This transition leads to a highly competitive market, and will likely drive a further consolidation in the industry. Beyond the transition, a matured market for wind energy creates opportunities for Vestas to leverage and strengthen its leadership position.

Within this context, Vestas is able to present updated long-term financial ambitions that reflect its projection for market conditions and the presumed result of its strategy – including initiatives that are currently being undertaken.

During the transition, revenue in the Service business is expected to grow organically by at least 10 percent annually, with stable EBIT-margins compared to 2017.

Updated long-term financial ambitions

Revenue	Grow faster than the market and be market leader in revenue
EBIT margin	At least 10 percent
Free cash flow	Positive each year
ROIC	Double-digit each year over the cycle

Highlights for the Group

mEUR	2017	2016	2015	2014	2013
FINANCIAL HIGHLIGHTS					
INCOME STATEMENT					
Revenue	9,953	10,237	8,423	6,910	6,084
Gross profit	1,963	2,126	1,505	1,178	896
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	1,651	1,826	1,258	977	530
Operating profit (EBIT)	1,230	1,421	906	607	102
Special items (included in EBITDA and EBIT)	-	-	46	48	(109)
Net financial items	2	(33)	(15)	(53)	(138)
Profit before tax	1,192	1,287	925	523	(36)
Profit for the year	894	965	685	392	(82)
BALANCE SHEET					
Balance sheet total	10,871	9,931	8,587	6,997	5,640
Equity	3,112	3,190	2,899	2,379	1,524
Investments in property, plant and equipment	268	304	220	163	73
Net working capital	(1,984)	(1,941)	(1,383)	(957)	(596)
Net invested capital	(397)	(361)	301	677	1,349
Interest-bearing position (net), end of year	3,359	3,255	2,270	1,411	86
CASH FLOW STATEMENT					
Cash flow from operating activities	1,625	2,181	1,472	1,126	1,248
Cash flow from investing activities before marketable securities	(407)	(617)	(425)	(285)	(239)
Free cash flow before marketable securities	1,218	1,564	1,047	841	1,009
Free cash flow	1,218	1,364	1,047	841	1,009
FINANCIAL RATIOS¹⁾					
FINANCIAL RATIOS					
Gross margin (%)	19.7	20.8	17.9	17.0	14.7
EBITDA margin (%)	16.6	17.8	14.9	14.1	8.7
EBIT margin (%) before special items	12.4	13.9	10.2	8.1	3.5
EBIT margin (%)	12.4	13.9	10.8	8.8	1.7
Return on invested capital (ROIC) (%) ^{2) 3)}	(9,044.1)	265.2	117.2	35.3	7.7
Net interest-bearing debt/EBITDA ³⁾	(2.0)	(1.8)	(1.9)	(1.5)	(0.1)
Solvency ratio (%)	28.6	32.1	33.8	34.0	27.0
Return on equity (%)	28.1	32.6	26.2	20.1	(5.2)
SHARE RATIOS					
Earnings per share (EUR)	4.2	4.4	3.1	1.8	(0.4)
Book value per share (EUR)	14.4	14.4	12.9	10.6	7.5
Price / book value (EUR)	4.0	4.3	5.0	2.9	2.9
P / E ratio	13.6	14.0	21.2	17.2	neg.
Dividend per share (EUR)	1.24 ⁴⁾	1.31	0.91	0.52	0.0
Payout ratio (%)	29.9 ⁴⁾	30.0	29.9	29.9	0.0
Share price 31 December (EUR)	57.6	61.7	64.8	30.4	21.5
Number of shares at the end of the year	215,496,947	221,544,727	224,074,513	224,074,513	203,704,103
OPERATIONAL KEY FIGURES					
Order intake (bnEUR)	8.9	9.5	8.2	5.8	5.8
Order intake (MW)	11,176	10,494	8,943	6,544	5,964
Order backlog – wind turbines (bnEUR)	8.8	8.5	7.9	6.7	6.8
Order backlog – wind turbines (MW)	11,492	9,530	8,732	7,513	7,417
Order backlog – service (bnEUR)	12.1	10.7	8.9	7.0	6.7
Produced and shipped wind turbines (MW)	11,237	9,957	7,948	6,125	4,513
Produced and shipped wind turbines (number)	4,241	4,264	3,330	2,527	2,025
Deliveries (MW)	8,779	9,654	7,486	6,252	4,862

1) The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios 2015).

2) Adjustment for tax based on effective tax rate for the year.

3) Before special items

4) Based on proposed dividend.

	2017	2016	2015	2014	2013
SOCIAL AND ENVIRONMENTAL KEY FIGURES					
OCCUPATIONAL HEALTH & SAFETY					
Total recordable injuries (number)	243	303	335	384	307
– of which lost time injuries (number)	92	82	56	53	66
– of which fatal injuries (number)	1	0	1	0	1
CONSUMPTION OF RESOURCES					
Consumption of energy (GWh)	569	567	516	501	586
– of which renewable energy (GWh)	325	296	283	278	325
– of which renewable electricity (GWh)	264	268	257	255	309
Consumption of fresh water (1,000 m ³)	454	428	427	366	512
WASTE DISPOSAL					
Volume of waste (1,000 tonnes)	71	75	67	51	71
– of which collected for recycling (1,000 tonnes)	39	37	33	27	42
EMISSIONS					
Emission of direct CO ₂ (1,000 tonnes)	60	58	49	50	56
Emission of indirect CO ₂ (1,000 tonnes)	26	26	25	29	44
LOCAL COMMUNITY					
Environmental accidents (number)	0	0	0	0	0
Breaches of internal inspection conditions (number)	0	1	0	3	1
EMPLOYEES					
Average number of employees	22,504	21,625	18,986	16,325	16,598
Number of employees at the end of the period	23,303	21,824	20,507	17,598	15,192
SOCIAL AND ENVIRONMENTAL INDICATORS					
OCCUPATIONAL HEALTH & SAFETY					
Incidence of total recordable injuries per one million working hours	5.3	6.9	8.7	11.8	9.8
Incidence of lost time injuries per one million working hours	2.0	1.9	1.5	1.6	2.1
Absence due to illness among hourly-paid employees (%)	2.3	2.2	1.9	2.3	2.5
Absence due to illness among salaried employees (%)	1.2	1.2	1.1	1.3	1.2
PRODUCTS					
CO ₂ savings over the lifetime of the MW produced and shipped (million tonnes of CO ₂)	317	281	224	173	125
UTILISATION OF RESOURCES					
Renewable energy (%)	57	52	55	56	56
Renewable electricity for own activities (%)	100	100	100	100	100
EMPLOYEES					
Women in Board of Directors ¹⁾ and Executive Management (%)	23	23	23	23	15
Women at management level (%) ²⁾	19	19	18	18	17
Non-Danes at management level (%) ²⁾	63	60	57	54	53

1) Only Board members elected by the general meeting are included.

2) Employees at management level comprise Leadership Track positions, i.e. managers, specialists, project managers, and above.

Disclaimer and cautionary statement

This document contains forward-looking statements concerning Vestas' financial condition, results of operations and business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. A number of factors that affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, include (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer-created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Additional factors that may affect future results are contained in Vestas' annual report for the year ended 31 December 2017 (available at www.vestas.com/en/investor) and these factors also should be considered. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events other than as required by Danish law. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this document.