

Company announcement from Vestas Wind Systems A/S

Aarhus, 7 February 2019
Company announcement No. 03/2019
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Annual report 2018 - Delivered best-in-class results and record high order intake

Summary: For full year 2018, revenue amounted to EUR 10.1bn, the EBIT margin before special items was 9.5 percent, total investments* were EUR 603m, and free cash flow* amounted to EUR 418m – in line with the expectations to revenue of EUR 10.0bn-10.5bn, an EBIT margin before special items of 9.5-10.5 percent, total investments* of approx. EUR 600m, and free cash flow* of approx. EUR 400m. Compared to 2017, revenue, earnings, and free cash flow decreased in 2018, but remained at a healthy level, despite highly competitive markets. Order intake increased in 2018 compared to 2017, and the value of the combined order backlog continued to grow during the year.

The wind turbine order intake increased from 11,176 MW in 2017 to 14,214 MW in 2018 and the value of the service order backlog increased by EUR 2.2bn to EUR 14.3bn.

For 2019, Vestas expects revenue to range between EUR 10.75bn and 12.25bn, including service revenue, which is expected to grow by approx. 10 percent. Vestas expects to achieve an EBIT margin before special items of 8-10 percent, with a service EBIT margin approx. 24 percent.

Total investments** are expected to amount to approx. EUR 700m in 2019.

As a result of the performance during the year, the Board of Directors of Vestas Wind Systems A/S proposes to the Annual General Meeting that a dividend of DKK 7.44 per share, compared to DKK 9.23 last year, and equivalent to 30.0 percent of the net profit for the year, be distributed to the shareholders.

“In 2018, wind energy manifested its position as the cheapest source of electricity in many parts of the world, creating a tremendous long-term growth outlook for the industry and a highly competitive environment short-term. As the industry continued to mature and became mainstream, Vestas met its 2018 guidance and clearly led the industry on all key parameters, including highest ever order intake of 14.2 GW across 43 countries, all-time high order backlog of more than EUR 26bn, and record-high service revenue and margins. Together with the continued underlying stabilisation in pricing and our strong focus on efficiency and cost management, we sustained and strengthened the foundation that enables us to execute a very busy 2019 as well as develop the sustainable energy solutions of the future,” says Anders Runevad, Group President & CEO.

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

**) Excl. any investments in marketable securities and short-term financial investments.

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Company Reg. Name: Vestas Wind Systems A/S

Information meeting (audiocast)

On Thursday, 7 February 2019 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: +44 333 300 9265
USA: +1 646 722 4957
Denmark: +45 7815 0108

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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Highlights, fourth quarter 2018

mEUR	Q4 2018	Q4 2017	Change
Financial figures			
Revenue	3,369	3,119	8.0%
- of which service revenue	481	414	16.2%
Gross profit	499	576	(13.3)%
Gross margin (%)	14.8	18.5	(3.7) pp
EBITDA before special items	414	499	(17.0)%
EBITDA margin (%) before special items	12.3	16.0	(3.7) pp
Operating profit (EBIT) before special items	298	385	(22.6)%
EBIT margin (%) before special items	8.8	12.3	(3.5) pp
Profit before tax	290	394	(26.4)%
Total net investments*	205	176	16.5%
Net working capital	2,040	1,984	2.8%
Free cash flow*	1,401	1,175	19.2%
Operational figures			
Order intake (bnEUR)	4.2	2.9	44.8%
Order intake (MW)	5,517	3,844	43.5%
Produced and shipped – wind turbines (MW)	2,478	2,740	(9.6)%
Produced and shipped – wind turbines (number)	862	998	(13.6)%
Deliveries (MW)	4,593	2,988	53.7%
Social and environmental figures			
Employees at the end of the period (number)	24,648	23,303	5.8%
Incidence of total recordable injuries per one million working hours	3.2	3.5	(9)%
Renewable energy (%)	42	47	(5) pp

Vestas generated revenue of EUR 3,369m – an increase of 8 percent

- As expected, the fourth quarter was characterised by high levels of activity, and with revenue of EUR 3,369m, the quarter proved to be the largest ever in terms of revenue in the history of Vestas. The high activity levels were a result of higher delivery volumes driven by the strong order intake observed in recent years and further supplemented by growth in the service business.

Gross profit amounted to EUR 499m – a decrease of EUR 77m

- The gross profit decrease was mainly driven by lower average project margins in the Power solutions segment due to increased competition, but partly offset by improved performance within the Service segment.

EBIT margin before special items amounted to 8.8 percent – a decrease of 3.5 percentage points

- The decreased EBIT margin in the quarter was mainly driven by lower gross profit and higher research and development costs. EBIT margin for the Service segment ended at 24.7 percent in fourth quarter.

Total net investments* amounted to EUR 205m – an increase of EUR 29m

- Investments in the quarter were mainly driven by capitalised research and development projects and tangible investments related to blades.

Vestas reported a free cash flow* of EUR 1,401m – an increase of 19.2 percent

- The increase in the free cash flow was mainly driven by net working capital movements.

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

Highlights, full year 2018

mEUR	2018	2017	Change
Financial figures			
Revenue	10,134	9,953	1.8%
- of which service revenue	1,669	1,522	9.7%
Gross profit	1,631	1,963	(16.9)%
Gross margin (%)	16.1	19.7	(3.6) pp
EBITDA before special items	1,394	1,651	(15.6)%
EBITDA margin (%) before special items	13.8	16.6	(2.8) pp
Operating profit (EBIT) before special items	959	1,230	(22.0)%
EBIT margin (%) before special items	9.5	12.4	(2.9) pp
Profit before tax	910	1,192	(23.7)%
Total net investments*	603	407	48.2%
Net working capital	2,040	1,984	2.8%
Free cash flow*	418	1,218	(65.7)%
Operational figures			
Order intake (bnEUR)	10.6	8.9	19.1%
Order intake (MW)	14,214	11,176	27.2%
Order backlog – wind turbines (MW)	15,646	11,492	36.2%
Order backlog – wind turbines (bnEUR)	11.9	8.8	35.2%
Order backlog – service (bnEUR)	14.3	12.1	18.2%
Produced and shipped – wind turbines (MW)	10,676	11,237	(5.0)%
Deliveries (MW)	10,847	8,779	23.6%
Social and environmental figures			
Employees at the end of the period (number)	24,648	23,303	5.8%
Incidence of total recordable injuries per one million working hours	4.0	5.3	(24.5)%
Renewable energy (%)	48	57	(15.8) pp

Vestas generated revenue of EUR 10,134m – an increase of 1.8 percent

- Revenue for the full year was realised within the outlook interval of EUR 10.0bn-10.5bn. Revenue increased due to higher revenue in the Service segment, but partly offset by lower prices in the Power solutions segment.

Gross profit amounted to EUR 1,631m – a decrease of 16.9 percent

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

EBIT margin before special items amounted to 9.5 percent – a decrease of 2.9 percentage points

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

Total net investments* amounted to EUR 603m – an increase of EUR 196m

- Total net investments were in line with the outlook of approx. EUR 600m.

Vestas reported a free cash flow* of EUR 418m – a decrease of 65.7 percent

- Free cash flow was in line with the updated outlook of approx. EUR 400m disclosed on 9 January 2019. At the end of 2018, net interest-bearing position was positive of EUR 3,046m, a decline of EUR 313m compared to the end of 2017.

The order intake was 14,214 MW – an increase of 3,038 MW

- Vestas achieved record-breaking order intake for the year, driven by all regions. Order intake was distributed across 43 countries.

The incidence of total recordable injuries per one million working hours was 4.0

- This was below the target of max. 4.8 in 2018.

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

Outlook

Outlook 2019

Revenue is expected to range between EUR 10.75bn and 12.25bn, including service revenue, which is expected to grow by approx. 10 percent. Vestas expects to achieve an EBIT margin before special items of 8-10 percent with a service EBIT margin approx. 24 percent.

Total investments* are expected to amount to approx. EUR 700m in 2019.

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 2019. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2019.

Outlook 2019

Revenue (bnEUR)	10.75-12.25
EBIT margin (%) before special items	8-10
Total investments* (mEUR)	approx. 700

*) Excl. any investments in marketable securities and short-term financial investments.

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 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 is able to present 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.

In the coming years, revenue in the Service segment is expected to grow faster than the market with an EBIT margin of approx. 24 percent. Return on Capital Employed has replaced Return on Invested Capital.

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
ROCE	Minimum 20 percent over the cycle

Highlights

mEUR	2018	2017	2016	2015	2014
FINANCIAL HIGHLIGHTS					
INCOME STATEMENT					
Revenue	10,134	9,953	10,237	8,423	6,910
Gross profit	1,631	1,963	2,126	1,505	1,178
Operating profit before amortisation, depreciation and impairment losses (EBITDA) before special items	1,394	1,651	1,826	1,212	929
Operating profit (EBIT) before special items	959	1,230	1,421	860	559
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	1,379	1,651	1,826	1,258	977
Operating profit (EBIT)	921	1,230	1,421	906	607
Operating profit (EBIT) before special items adjusted for tax	719	923	1,066	636	419
Net financial items	(51)	2	(33)	(15)	(53)
Profit before tax	910	1,192	1,287	925	523
Profit for the year	683	894	965	685	392
BALANCE SHEET					
Balance sheet total	11,899	10,871	9,931	8,587	6,997
Equity	3,104	3,112	3,190	2,899	2,379
Investments in property, plant and equipment	312	268	304	220	163
Net working capital	(2,040)	(1,984)	(1,941)	(1,383)	(957)
Net invested capital	(538)	(397)	(361)	301	677
Capital employed	3,602	3,609	3,686	3,394	2,986
Interest-bearing position (net), end of year	3,046	3,359	3,255	2,270	1,411
Interest-bearing debt, end of year	498	497	496	495	607
CASH FLOW STATEMENT					
Cash flow from operating activities	1,021	1,625	2,181	1,472	1,126
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(603)	(407)	(617)	(425)	(285)
Free cash flow before acquisitions of subsidiaries and financial investments	418	1,218	1,564	1,047	841
Free cash flow	(69)	1,218	1,364	1,047	841
FINANCIAL RATIOS¹⁾					
FINANCIAL RATIOS					
Gross margin (%)	16.1	19.7	20.8	17.9	17.0
EBITDA margin (%) before special items	13.8	16.6	17.8	14.4	13.4
EBIT margin (%) before special items	9.5	12.4	13.9	10.2	8.1
EBITDA margin (%)	13.6	16.6	17.8	14.9	14.1
EBIT margin (%)	9.1	12.4	13.9	10.8	8.8
Return on invested capital (ROIC) (%)	388.4	(9,044.1)	265.2	117.2	35.3
Return of capital employed (ROCE) (%)	20.4	25.1	30.8	20.3	16.0
Net interest-bearing debt/EBITDA before special items	(2.2)	(2.0)	(1.8)	(1.9)	(1.5)
Solvency ratio (%)	26.1	28.6	32.1	33.8	34.0
Return on equity (%)	22.6	28.1	32.6	26.2	20.1
SHARE RATIOS					
Earnings per share (EUR)	3.4	4.2	4.4	3.1	1.8
Book value per share (EUR)	15.1	14.4	14.4	12.9	10.6
P / E ratio	19.3	13.6	14.0	21.2	17.2
Dividend per share (EUR)	1.00 ²⁾	1.24	1.31	0.91	0.52
Payout ratio (%)	30.0 ²⁾	29.9	30.0	29.9	29.9
Share price 31 December (EUR)	65.9	57.6	61.7	64.8	30.4
Number of shares at the end of the year	205,696,003	215,496,947	221,544,727	224,074,513	224,074,513
OPERATIONAL KEY FIGURES					
Order intake (bnEUR)	10.6	8.9	9.5	8.2	5.8
Order intake (MW)	14,214	11,176	10,494	8,943	6,544
Order backlog – wind turbines (bnEUR)	11.9	8.8	8.5	7.9	6.7
Order backlog – wind turbines (MW)	15,646	11,492	9,530	8,732	7,513
Order backlog – service (bnEUR)	14.3	12.1	10.7	8.9	7.0
Produced and shipped wind turbines (MW)	10,676	11,237	9,957	7,948	6,125
Produced and shipped wind turbines (number)	3,729	4,241	4,264	3,330	2,527
Deliveries (MW) ³⁾	10,847	8,779	9,654	7,486	6,252

1) The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios 2018).

2) Based on proposed dividend.

3) In fourth quarter 2018, Vestas has aligned deliveries to follow timing of revenue recognition, see note 1.2 in the Consolidated financial statements, page 058. Consequently, 2018 deliveries is positively impacted by net 443 MW.

	2018	2017	2016	2015	2014
SOCIAL AND ENVIRONMENTAL KEY FIGURES					
OCCUPATIONAL HEALTH & SAFETY					
Total recordable injuries (number)	210	243	303	335	384
– of which lost time injuries (number)	80	92	82	56	53
– of which fatal injuries (number)	0	1	0	1	0
CONSUMPTION OF RESOURCES					
Consumption of energy (GWh)	614	569	567	516	501
– of which renewable energy (GWh)	294	325	296	283	278
– of which renewable electricity (GWh)	262	264	268	257	255
Consumption of fresh water (1,000 m ³)	470	454	428	427	366
WASTE DISPOSAL					
Volume of waste (1,000 tonnes)	81	71	75	67	51
– of which collected for recycling (1,000 tonnes)	42	39	37	33	27
EMISSIONS					
Emission of direct CO ₂ (1,000 tonnes)	69	60	58	49	50
Emission of indirect CO ₂ (1,000 tonnes)	32	26	26	25	29
LOCAL COMMUNITY					
Environmental accidents (number)	0	0	0	0	0
Breaches of internal inspection conditions (number)	0	0	1	0	3
EMPLOYEES					
Average number of employees	24,221	22,504	21,625	18,986	16,325
Number of employees at the end of the period	24,648	23,303	21,824	20,507	17,598
SOCIAL AND ENVIRONMENTAL INDICATORS					
OCCUPATIONAL HEALTH & SAFETY					
Incidence of total recordable injuries per one million working hours	4.0	5.3	6.9	8.7	11.8
Incidence of lost time injuries per one million working hours	1.5	2.0	1.9	1.5	1.6
Absence due to illness among hourly-paid employees (%)	2.1	2.3	2.2	1.9	2.3
Absence due to illness among salaried employees (%)	1.1	1.2	1.2	1.1	1.3
PRODUCTS					
CO ₂ savings over the lifetime of the MW produced and shipped (million tonnes of CO ₂)	275	317	281	224	173
UTILISATION OF RESOURCES					
Renewable energy (%)	48	57	52	55	56
Renewable electricity for own activities (%)	100	100	100	100	100
EMPLOYEES					
Women in Board of Directors ¹⁾ and Executive Management (%)	15	23	23	23	23
Women at management level (%) ²⁾	19	19	19	18	18

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 2018 (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.