# FULL YEAR 2018

**Vestas Wind Systems A/S**

Copenhagen, 7 February 2019

# 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.

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# KEY HIGHLIGHTS

## Financial and operational results

- Highest ever order intake of 14.2 GW across 43 countries; up 27 percent compared to 2017
- All-time high combined order backlog of more than EUR 26bn
- FY 2018 guidance met on all parameters; revenue of EUR 10.1bn, EBIT margin before special items of 9.5 percent, FCF of EUR 418m*, and net investments of EUR 603m*
- Organic growth of 13 percent in Service compared to 2017; EBIT margin of 25 percent
- MHI Vestas breaking even on net profit
- 25 percent improvement on safety performance; total recordable injuries down to 4.0
- Recommended dividend payment of DKK 7.44 per share, equal to a payout ratio of 30.0 percent

## Profitable growth strategy firmly on track

- Vestas strengthened its leadership position in a transitioning market

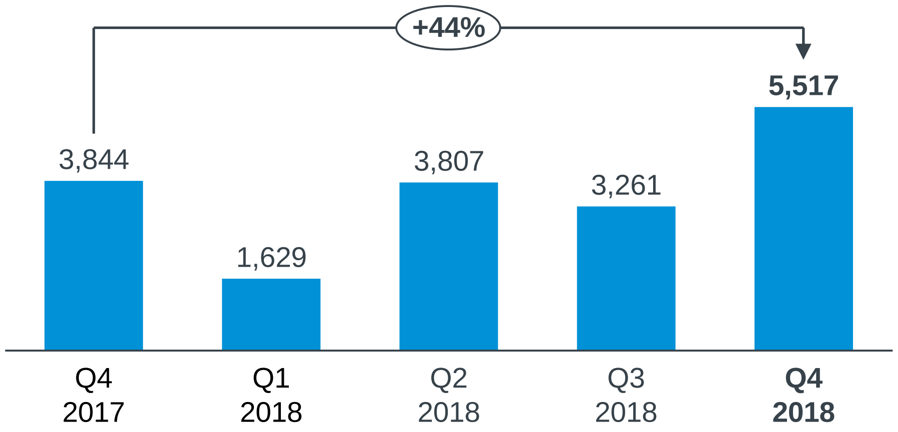
*Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

# AGENDA

# INCREASED Q4 ORDER INTAKE

## Order intake at 5,517 MW, with an average selling price of EUR 0.76m per MW in the quarter

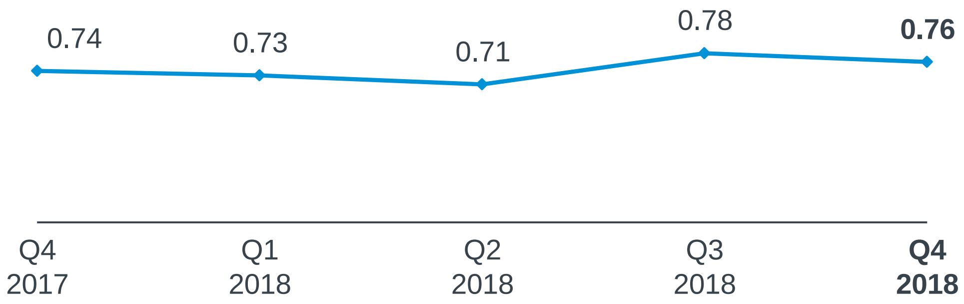
**Order intake**
MW




**Key highlights**

- Q4 2018 order intake was 1,673 MW higher than in Q4 2017
- US, Australia, South Africa, and China were the main contributors to order intake in Q4 2018
- 170 MW of PTC qualifying component orders

**Average selling price of order intake**
mEUR per MW




**Key highlights**

- Price per MW remained stable in Q4
- Geography, turbine type, scope, and uniqueness of the offering still a factor

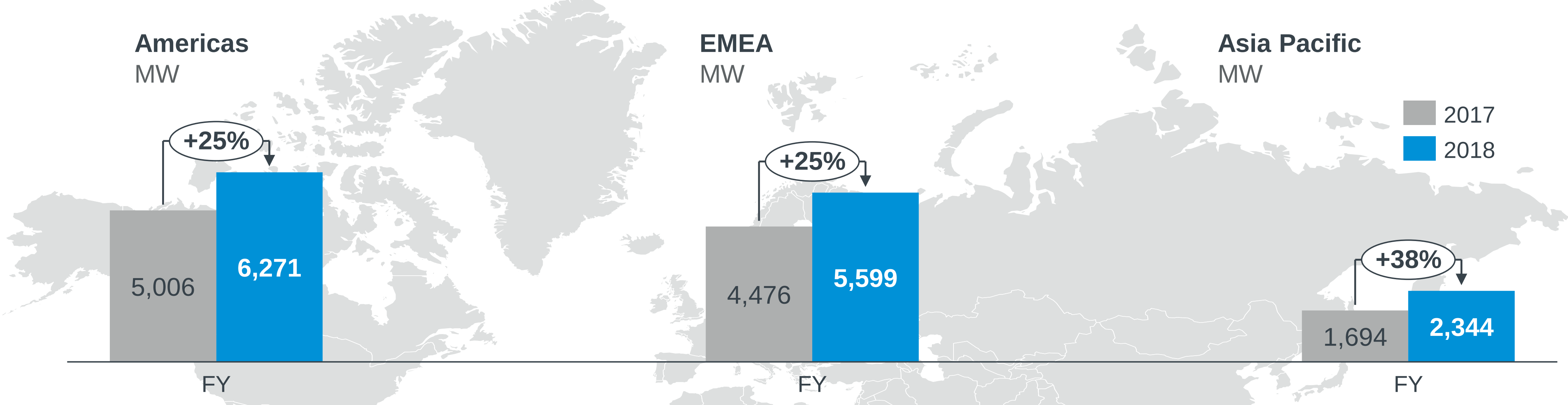
# GLOBAL REACH

## Order intake from 43 countries highlights unique global reach and strong global demand


First orders ever in:
- Senegal
- Panama
- Bolivia
- Kazakhstan

# ORDER INTAKE

## Highest-ever order intake in all regions totalling 14.2 GW; up 27 percent compared to 2017




- Increasing order intake in the US and Brazil
- Argentina, Canada, and Mexico remained at high level

- Strong development in South Africa and Norway more than offsetting decline in Germany
- High order intake in Sweden and France continued

- Australia driving the increase with more than 1 GW in order intake
- Diverse order intake from nine different countries underlines region’s potential

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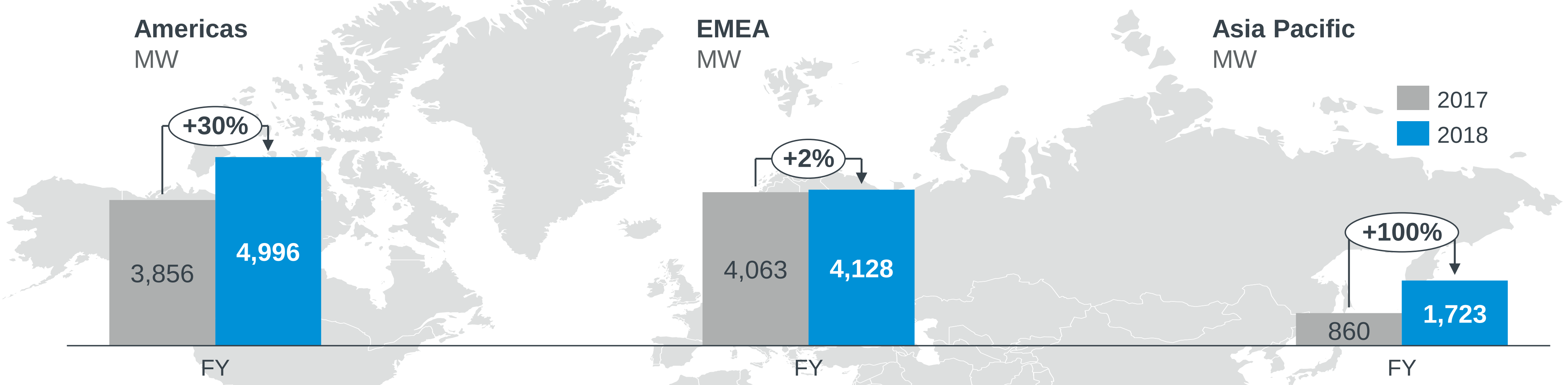
# DELIVERIES

## Increasing deliveries in all regions




- FY 2018 increase driven by Mexico and Argentina
- US deliveries remained at high level

- Increased deliveries in Scandinavia offsetting decline in Germany
- France and Italy deliveries at high level

- Strong development in Australia, India, and Thailand
- Lower level of deliveries in China



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# ALL-TIME HIGH ORDER BACKLOG OF MORE THAN EUR 26BN

## Combined backlog increased by EUR 5.3bn YoY, an increase of 25 percent

**Wind turbines:**

**EUR 11.9bn**

**EUR +3.1bn***

**Service:**

**EUR 14.3bn**

**EUR +2.2bn***

* Compared to FY 2017.

# MHI VESTAS OFFSHORE WIND

MHI VESTAS OFFSHORE WIND

## Ramping up in core and new markets as order book increases

### Track record…

**~3.8 GW** — **> 1.000 turbines installed across 28 projects**

### Pipeline…

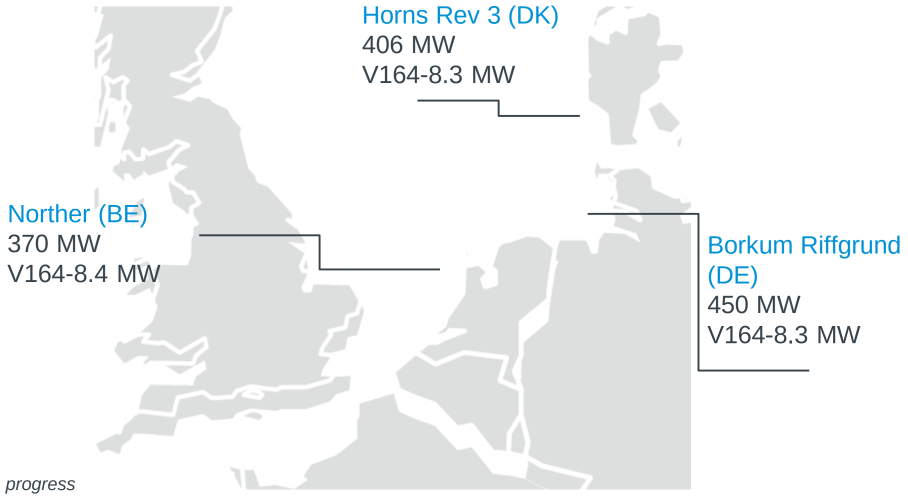
**~3.8 GW** — **Under installation/ unconditional orders**

**~1.7 GW** — **Conditional orders/ preferred supplier**

### Key highlights

- Firm order intake of 3,180 MW; all based on the industry-leading V164 turbine, which during the year was upgraded to a nominal rating of 10 MW
- Preferred supplier agreement for the 800 MW Vineyard Wind project – the first utility scale offshore wind project in the US
- Secured a strong position in Taiwan with 900 MW in preferred supplier agreements

### Near-term project execution




*Projects currently in progress*



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# AGENDA

Orders and markets

**Financials**

Strategy

Outlook and Q&A

# INCOME STATEMENT – FULL YEAR

## Increased competition impacting profitability

| mEUR | FY 2018 | FY 2017* | % change |
|---|---|---|---|
| Revenue | 10,134 | 9,953 | 2% |
| Production costs | (8,503) | (7,990) | (6)% |
| Gross profit | 1,631 | 1,963 | (17)% |
| SG&A costs** | (672) | (733) | 8% |
| EBIT before special items | 959 | 1,230 | (22)% |
| Income from investments in associates and joint ventures | 40 | (40) | 200% |
| Net profit | 683 | 894 | (24)% |
| Gross margin | 16.1% | 19.7% | (3.6)%-pts |
| EBITDA margin before special items | 13.8% | 16.6% | (2.8)%-pts |
| EBIT margin before special items | 9.5% | 12.4% | (2.9)%-pts |

**Key highlights**

- Revenue up 2 percent compared to 2017; mainly driven by increased revenue in Service, partly offset by lower prices in Power solutions
- Gross profit down by 3.6 percentage points, mainly driven by lower average margins in Power solutions
- EBIT margin before special items down by 2.9 percentage points, mainly driven by lower gross profit
- Result from JVs at EUR 40m; EUR 13m in stand-alone profit, and EUR 26m from delivery of 3 MW turbines

*Refer to note 7.3, Changes in accounting policies and disclosures, Annual report 2018
**R&D, administration, and distribution



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# INCOME STATEMENT – Q4

## Lower profitability driven by Power solutions

| mEUR | Q4 2018 | Q4 2017 | % change |
|---|---|---|---|
| Revenue | 3,369 | 3,119 | 8% |
| Production costs | (2,870) | (2,543) | (13)% |
| Gross profit | 499 | 576 | (13)% |
| SG&A costs* | (201) | (191) | (5)% |
| EBIT before special items | 298 | 385 | (23)% |
| Income from investments in associates and joint ventures | 12 | 10 | 20% |
| Net profit | 219 | 295 | (26)% |
| | | | |
| Gross margin | 14.8% | 18.5% | (3.7)%-pts |
| EBITDA margin before special items | 12.3% | 16.0% | (3.7)%-pts |
| EBIT margin before special items | 8.8% | 12.3% | (3.5)%-pts |

**Key highlights**

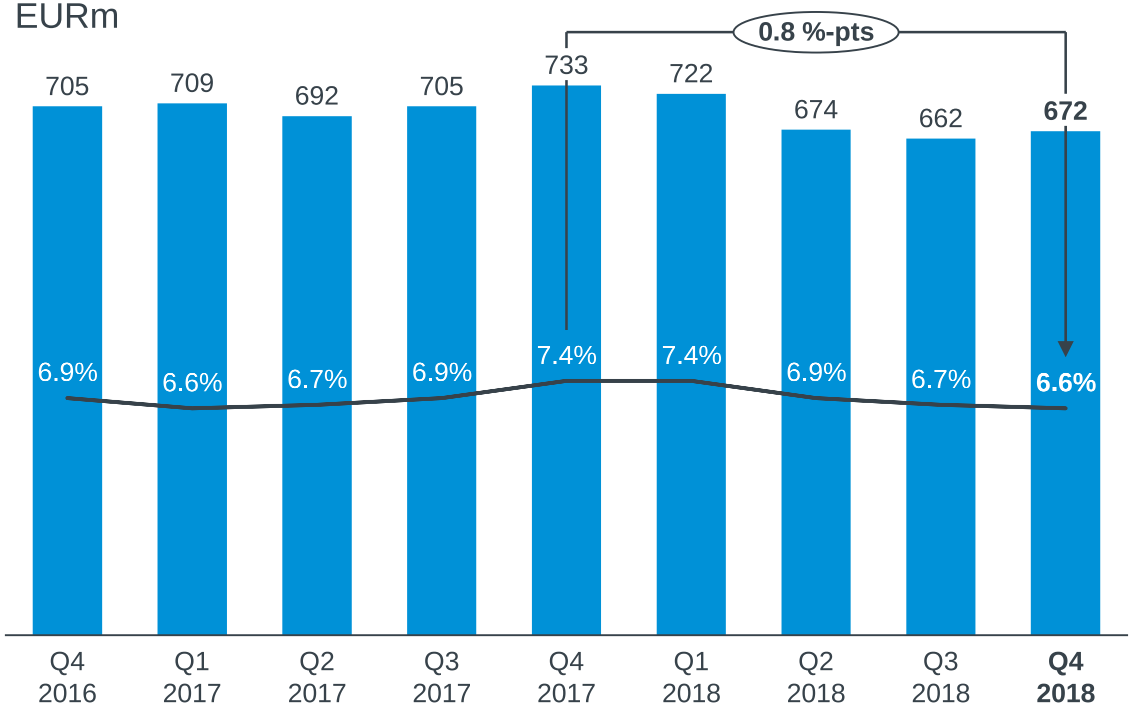
- Revenue increased 8 percent, primarily driven by higher activity in Power solutions and increased Service revenue
- Gross margin down by 3.7 percentage points, mainly driven by lower average margins in Power solutions
- EBIT down by 23 percent, mainly driven by lower gross profit

*R&D, administration, and distribution

# SG&A COSTS

## SG&A costs under control

**SG&A costs (TTM)***
EURm




**Key highlights**

- SG&A down YoY
- Relative to activity levels, SG&A costs amounted to 6.6 percent – a decrease of 0.8 percentage points compared to Q4 2017, primarily driven by distribution and administration costs

* R&D, administration, and distribution on trailing 12 months basis

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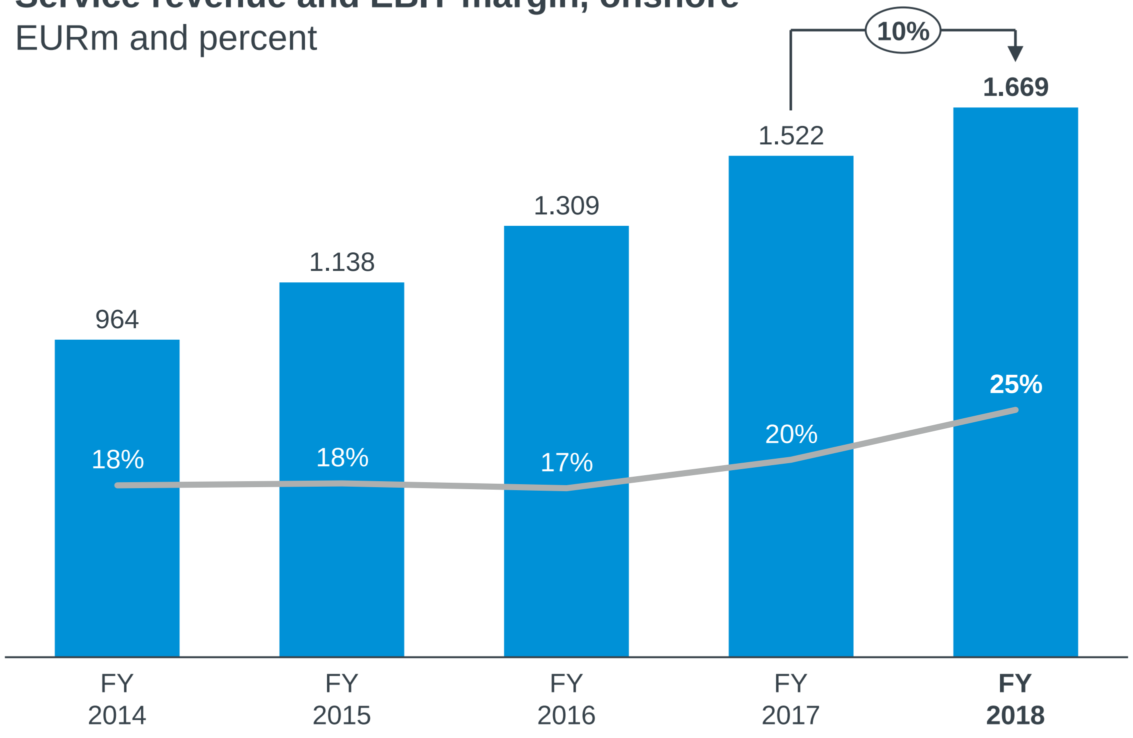
# SERVICE

## Strong service performance

**Service revenue and EBIT margin, onshore**
EURm and percent




**Key highlights**

- Service revenue increased by 10 percent compared to 2017, mainly driven by higher activity levels; FX headwind of EUR 54m, resulting in 13 percent organic growth
- 2018 EBIT: EUR 421m
  2018 EBIT margin: 25.2 percent
- Q4 2018 revenue: EUR 481m, up 16 percent YoY
  Q4 2018 EBIT Margin: 24.7 percent

# BALANCE SHEET

## Balance sheet remains strong

| Assets (mEUR) | FY 2018 | FY 2017* | Abs. change | % change |
|---|---|---|---|---|
| Non-current assets | 3,344 | 2,865 | 479 | 17% |
| Current assets | 8,555 | 8,006 | 549 | 7% |
| Total assets | 11,899 | 10,871 | 1,028 | 9% |
| **Liabilities (mEUR)** | | | | |
| Equity | 3,104 | 3,112 | (8) | (0)% |
| Non-current liabilities | 1,390 | 1,226 | 164 | 13% |
| Current liabilities | 7,405 | 6,533 | 868 | 13% |
| Total equity and liabilities | 11,899 | 10,871 | 1,028 | 9% |
| **Key figures (mEUR)** | | | | |
| Interest bearing position (net) | 3,046 | 3,359 | (313) | (9)% |
| Net working capital | (2,040) | (1,984) | (56) | 3% |
| Solvency ratio (%) | 26.1 | 28.6 | - | (2.5)%-pts |
| ROCE (%) | 20.4 | 25.1 | - | (4.7)%-pts |

**Key highlights**

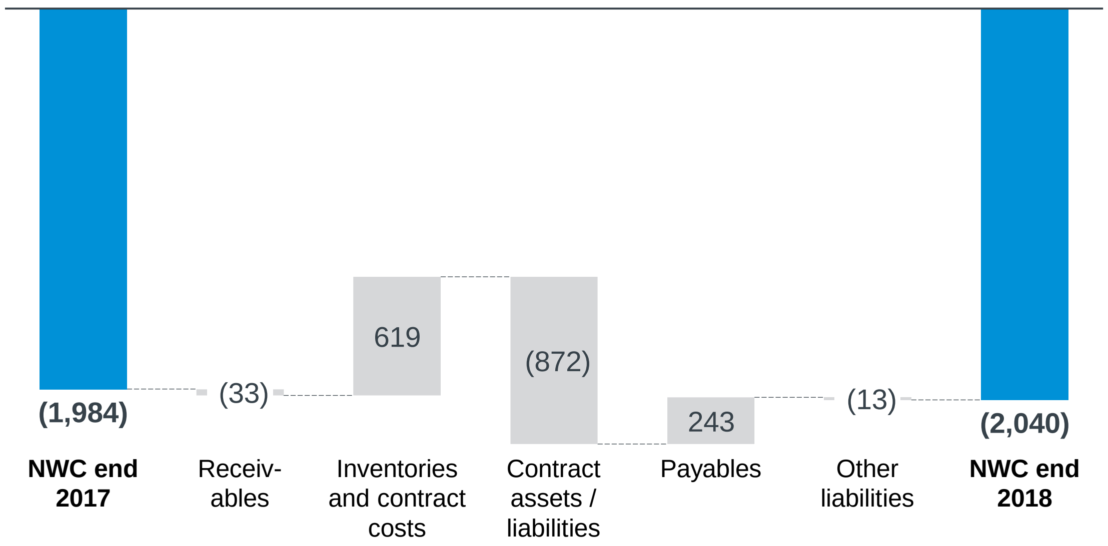
- Continued strong cash position of EUR 3,046m
- ROCE of 20.4 percent driven by lower operating profit

* Refer to note 7.3, Changes in accounting policies and disclosures, Annual report 2018

# CHANGE IN NET WORKING CAPITAL

## Satisfactory net working capital management

**NWC change over the last 12 months***
mEUR




**Key highlights**

- Improvement driven by higher down- and milestone payments partly driven by strong order intake, especially in Q4
- Higher level of inventory to cater for increased activity expected in 2019

* Refer to note 7.3, Changes in accounting policies and disclosures, Annual report 2018

# CASH FLOW STATEMENT – FULL YEAR

## Underlying free cash flow of EUR 418m

| mEUR | FY 2018 | FY 2017* | Abs. change |
|---|---|---|---|
| Cash flow from operating activities before change in net working capital | 1,190 | 1,461 | (271) |
| Change in net working capital** | (169) | 164 | (333) |
| Cash flow from operating activities | 1,021 | 1,625 | (604) |
| Cash flow from investing activities*** | (603) | (407) | (196) |
| Free cash flow before financial investments*** | 418 | 1,218 | (800) |
| Acquisition of subsidiaries | (65) | - | (65) |
| Purchase of financial investments | (422) | - | (422) |
| Free cash flow | (69) | 1,218 | (1,287) |
| Cash flow from financing activities | (639) | (974) | 335 |

**Key highlights**

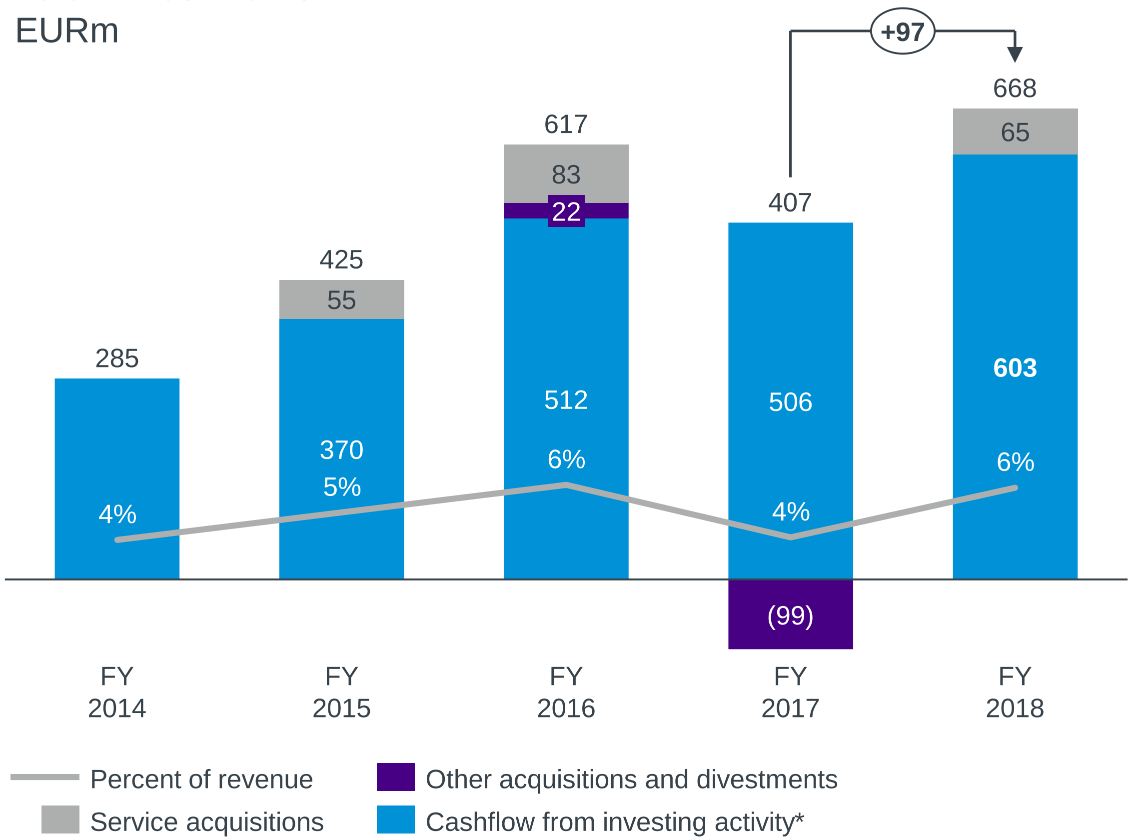
- Free cash flow was in line with the updated outlook of approx. EUR 400m disclosed on 8 January 2018
- Decline in free cash flow primarily driven by lower net profit and higher investments
- Net working capital impacted by non-cash adjustments and exchange rate adjustments with a total amount of net EUR (225)m

***** Refer to note 7.3, Changes in accounting policies and disclosures, Annual report 2018
** Change in net working capital in FY 2018 impacted by non-cash adjustments and exchange rate adjustments with a total amount of net EUR (225)m
******* Before investments in marketable securities and short-term financial investments

# TOTAL INVESTMENTS

## Total investments in line with expectations

**Total investments***
EURm




***** Before investments in marketable securities and short-term financial investments.

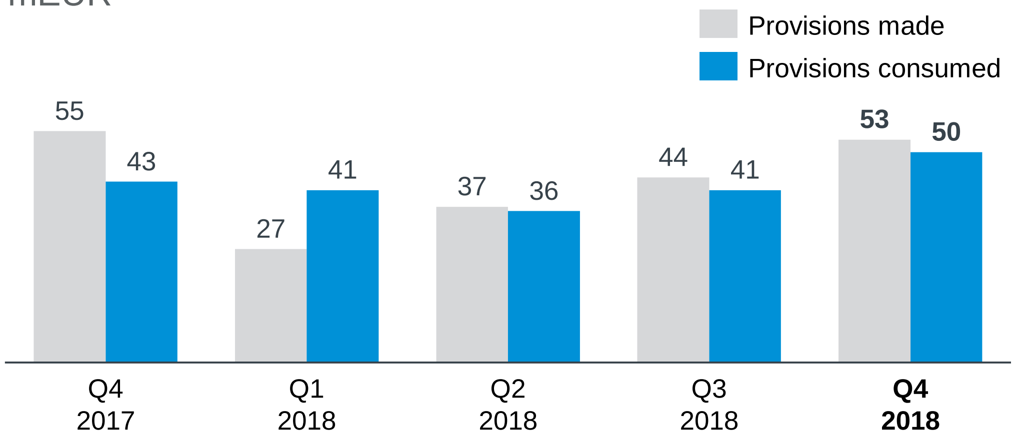
**Key highlights**

- Underlying investments increased approx. EUR 100m in order to meet strong demand for 2019 and new product launches
- Total investments increased by EUR 261m further driven by sale of office buildings in Aarhus in 2017, and acquisition of Utopus Insights, Inc. in 2018.

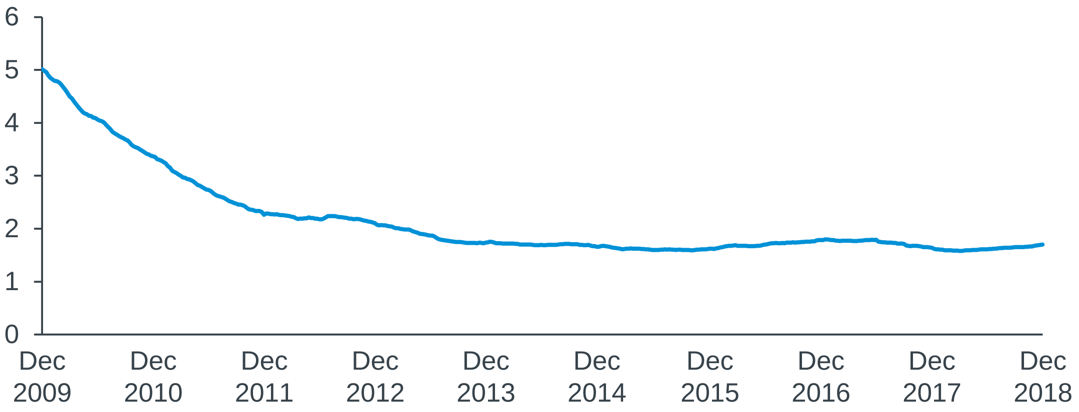
# WARRANTY PROVISIONS AND LOST PRODUCTION FACTOR

## Warranty consumption and LPF continue at a low level

**Warranty provisions made and consumed**
mEUR




**Lost Production Factor (LPF)**
Percent




**Key highlights**

- Warranty consumption increased, reflecting higher activity
- Warranty provisions made correlates with revenue in the quarter, corresponding to 1.6 percent in Q4 2018

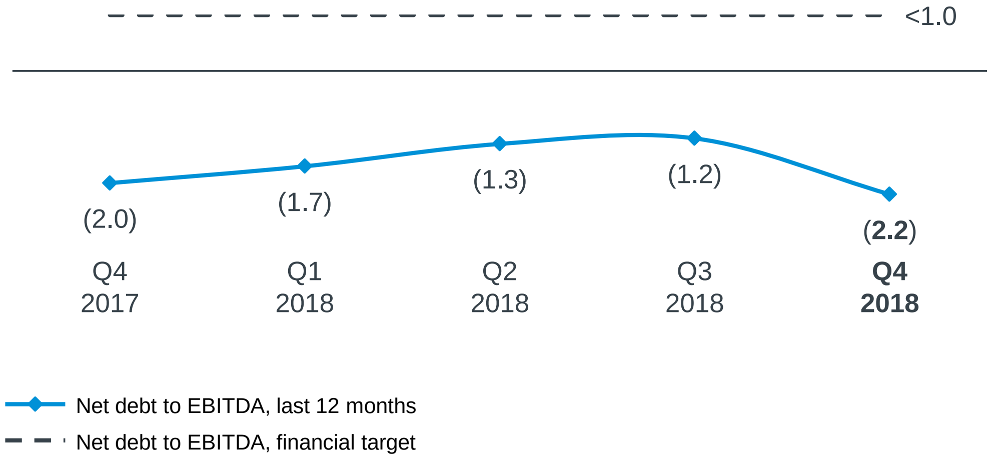
**Key highlights**

- LPF continues at a low level – below 2.0
- LPF measures potential energy production not captured by Vestas' wind turbines

# CAPITAL STRUCTURE

## Net debt to EBITDA well below threshold

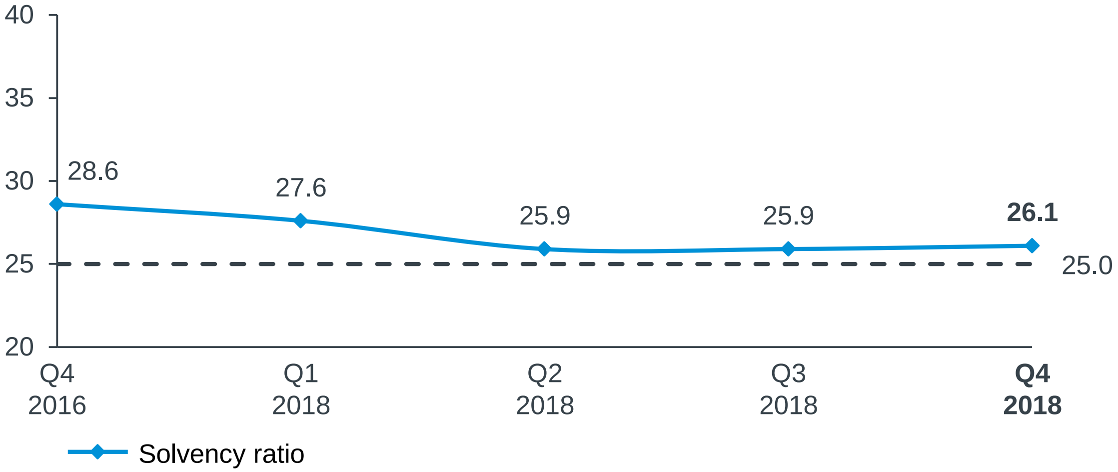
**Net debt to EBITDA before special items***
mEUR




**Key highlights**

- Net debt to EBITDA remains at low level of (2.2) in Q4 2018

**Solvency ratio***
Percent




**Key highlights**

- Solvency ratio of 26.1 percent in Q4 2018
- Low level primarily driven by share buy-back programmes

* Refer to note 7.3, Changes in accounting policies and disclosures, Annual report 2018

# CAPITAL ALLOCATION

## Total distribution to shareholders reaches EUR 607m

| EURm | FY 2018 | FY 2017 | FY 2016 |
|---|---|---|---|
| Dividend per share (DKK)* | 7.44 | 9.23 | 9.71 |
| Dividend per share (EUR)* | 1.00 | 1.24 | 1.31 |
| Dividend payout ratio* | 30.0 | 29.9 | 30.0 |
| | | | |
| Dividend based on net results (mEUR)** | 205 | 267 | 289 |
| Share buy-back programme (mEUR) | 402 | 694 | 401 |
| Total distribution (mEUR)* | 607 | 961 | 690 |

**Key highlights**

- For 2018, the Board recommends to the AGM to pay out a dividend of DKK 7.44 per share – corresponding to 30.0 percent of the net result for the year
- During 2018, Vestas completed two share buy-back programmes of EUR 402m in total

*Based on proposed dividend.
**Based on shares issued at year end.

# AGENDA

Orders and markets

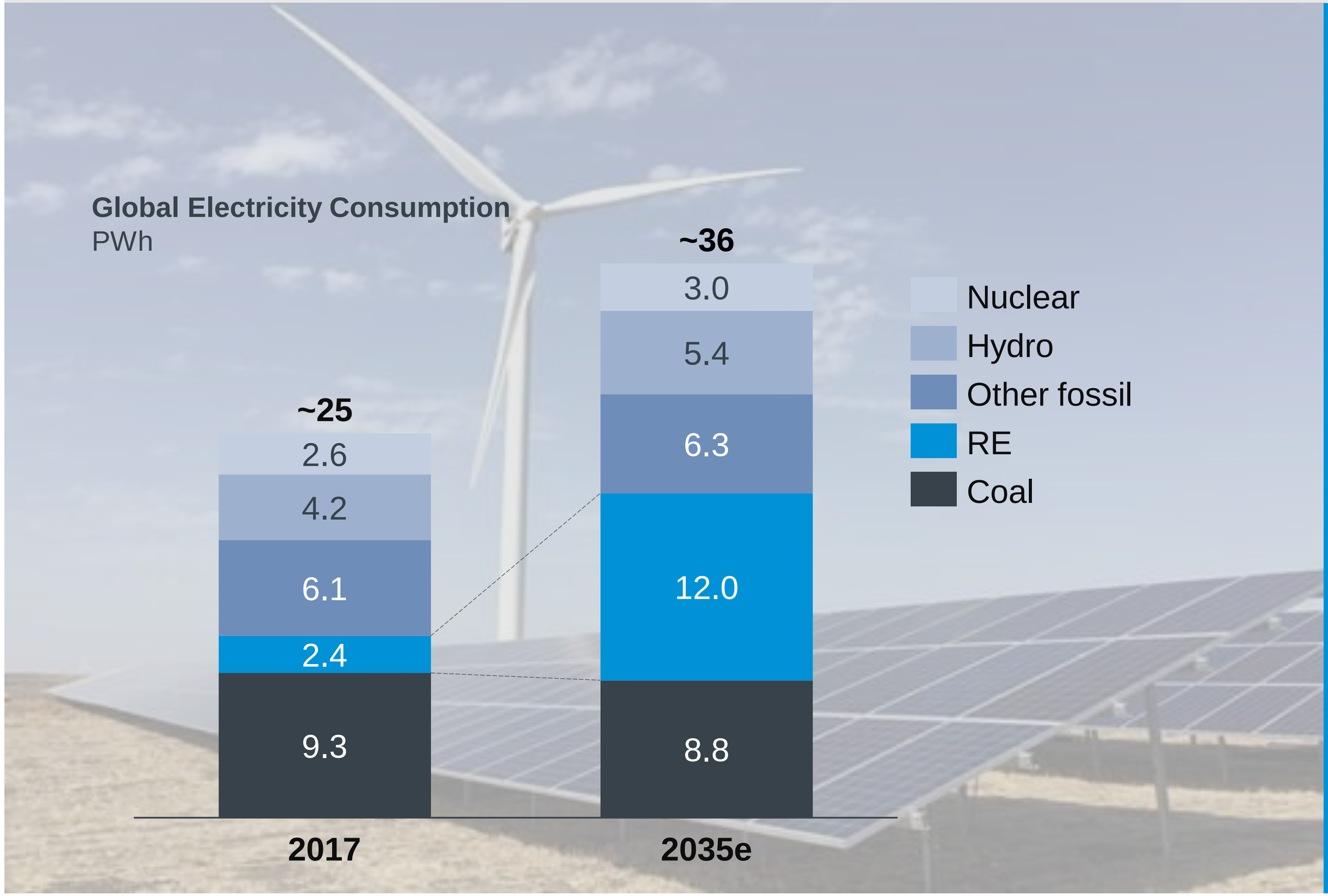
Financials

**Strategy**

Outlook and Q&A

# OUTSTANDING GROWTH OUTLOOK FOR THE SECTOR

## Renewable energy to become the dominant generation source




**Over the next +10 years…**

- Renewable energy capacity to grow significantly
- >USD 3tr to be invested by 2030
- Renewable energy to surpass coal and fossils

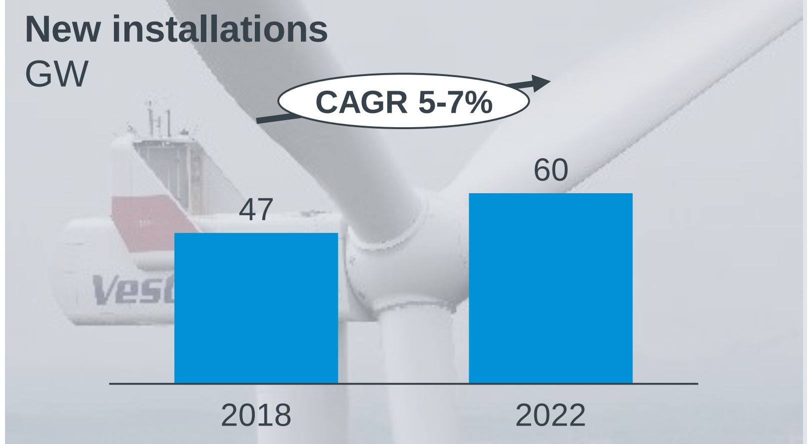
**… making renewable energy the dominant generation source**

Source: Bloomberg New Energy Outlook 2018

# OUR PORTFOLIO CONSISTS OF THREE ATTRACTIVE RE SEGMENTS

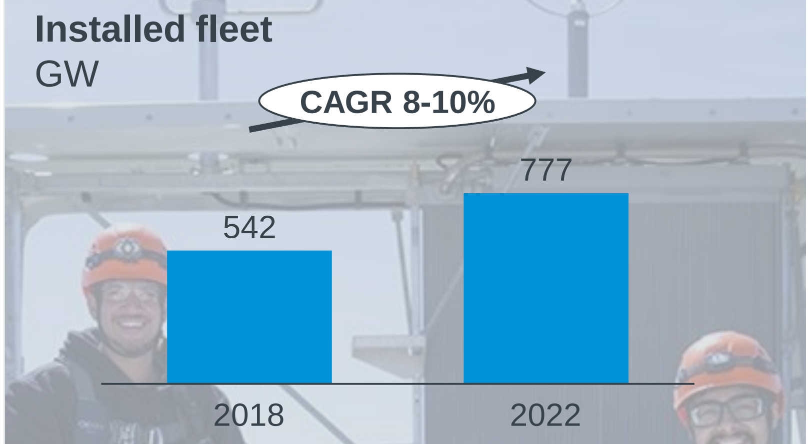
Vestas' market position

## #1 ONSHORE WIND
Large market, healthy growth



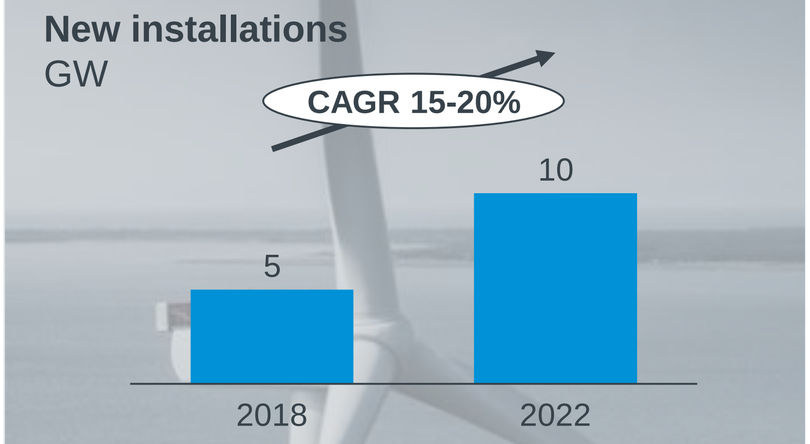

- Strong support for RE in replacement
- Increasing electricity consumption leads to growth in emerging markets
- Attractive repowering market beyond 2022

## #1 WIND SERVICE
Mid-sized market, high growth




- Continued high pace of installations
- More advanced service offerings
- Large multi-brand opportunity

## #2 OFFSHORE WIND
Small market, high growth




- UK as key driver in the North Sea region
- USA and Taiwan opening up
- High ambitions in China

Source: MAKE Q4 2018

# WE HAVE FOUR KEY DIFFERENTIATORS IN THIS MARKET

Vestas

**Global reach**

**Technology and service leadership**

**Scale**

**Proven execution**

# NEXT STEP: ADVANCED MODULAR DESIGN

## Modularity enhances the flexibility of our solutions, while maintaining benefits of scale

- Enabling more customised solutions to match customer needs
- Expanding number of variants, lowering number of components
- More standardised components enable efficiency and scale
- Increased opportunities to build supplier partnerships

# INTRODUCING TWO NEW VARIANTS

## Starting with V150-5.6 MW and V162-5.6 MW offering significant output increase

### Annual Energy Production*


* Average wind speed at same HH, standard site characteristics: k = 2; ρ = 1.225 Kg/m$^3$

# OUR STRATEGIC FRAMEWORK

## We have a clear strategy and priorities

**Our long-term vision**

**Global leader in Sustainable Energy Solutions**

**Our mid-term objectives**

| | |
|---|---|
| **Global leader in Wind Power Plant solutions** | **Global leader in Wind Service solutions** |

**Our mid-term priorities**

| | | | | |
|---|---|---|---|---|
| Transform commercial capabilities | Expand industry leading wind portfolio | Expand Service value and cost leadership | Pioneer solutions to increase wind penetration | Actively build project pipeline to grow margin |

Sustain a talented, agile and cost-effective organisation

**Our values**

Accountability · Collaboration · Simplicity

**Market leader in Revenue**
Grow faster than the market

**Best-in-class EBIT margin**
Minimum 10 percent

**Free Cash Flow**
Positive every year

**ROCE**
Minimum 20 percent

# MARKET LEADERSHIP

## Summarising our market-leading position

**Revenue:**

**EUR 11bn**

- Grow faster than the market
- Leading market share of 16 percent

**EBIT:**

**EUR 1bn**

- Best-in-class margins
- Largest R&D investments in the industry
- Modular design enabling flexibility and benefits of scale

**Backlog:**

**EUR 30bn**

- Annual order intake of almost 16 GW
- Largest installed base of more than 100 GW
- More than 90 GW under service

**Note:** Consolidation of Vestas and Vestas' proportionate share of MHI Vestas financial and operational figures per 31 December 2018. Combined market share for Vestas and MHI Vestas is based on MAKE 2017 market share statistics.

# AGENDA

Orders and markets

Financials

Strategy

**Outlook and Q&A**

# OUTLOOK 2019

| | Outlook |
|---|---|
| **Revenue (bnEUR)**<br>- Service is expected to grow approx. 10 percent | **10.75 - 12.25** |
| **EBIT margin before special items (%)**<br>- Service margin is expected to be approx. 24 percent | **8 - 10** |
| **Total investments (mEUR)**<br>(Excl. any investments in marketable securities and short-term financial investments) | **approx. 700** |

*The 2019 outlook is based on current foreign exchange rates*

Q&A

# Financial calendar 2019:

- Annual General Meeting in Aarhus (3 April)
- Disclosure of Q1 2019 (8 May)
- Disclosure of Q2 2019 (15 August)
- Disclosure of Q3 2019 (7 November)

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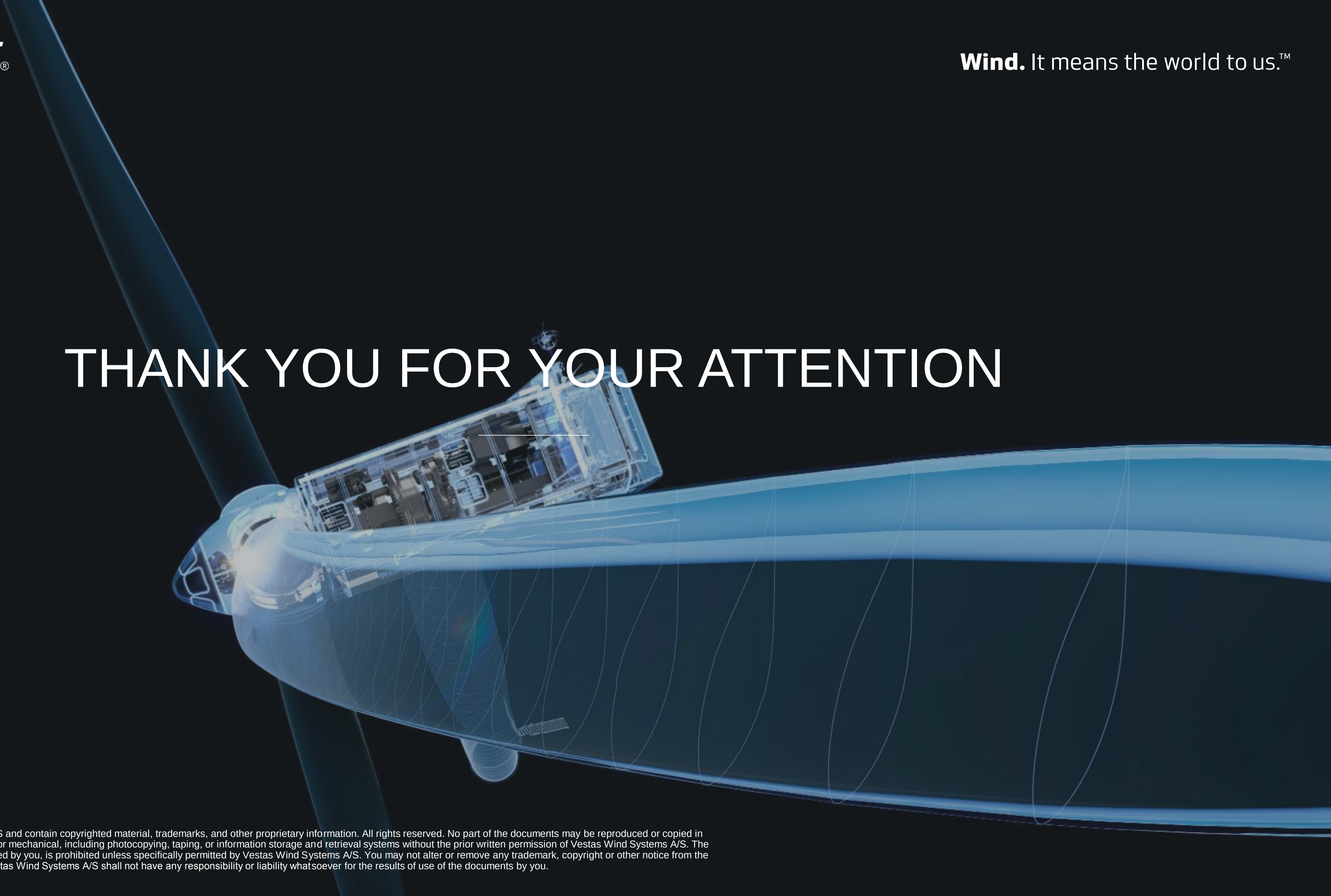
Wind. It means the world to us.™



# THANK YOU FOR YOUR ATTENTION