

Company announcement from Vestas Wind Systems A/S

Aarhus, 8 February 2023
Company announcement no. 02/2023
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Vestas Annual Report 2022 – A challenging year with negative profitability

Summary: Vestas' 2022 revenue amounted to EUR 14,486m (outlook: EUR 14.5-15.5bn), with an EBIT margin before special items of (8) percent (outlook: approx. (5) percent), and total investments¹ of EUR 758m (outlook: approx. EUR 850m). The value of the combined order backlog increased to EUR 49.5bn across Power Solutions and Service.

As announced on 27 January 2023, Vestas' outlook for 2023 is as follows: Revenue is expected to range between EUR 14.0bn and 15.5bn, including Service revenue. Vestas expects to achieve an EBIT margin before special items of (2)-3 percent, and total investments¹ are expected to amount to approx. EUR 1bn in 2023.

In addition to what has already been communicated, revenue in the Service segment is expected to grow by min. 5 percent in 2023, with a service EBIT margin of approx. 22 percent.

The Board of Directors of Vestas Wind Systems A/S proposes to the Annual General Meeting that no dividend payment will be distributed to the shareholders in 2023.

Henrik Andersen, Group President & CEO said: *“Vestas and the wind industry remained challenged in 2022 as external headwinds and industry immaturity hampered profitability and resulted in unsatisfying financial results for the full year. In a business environment characterised by unforeseen geo-political uncertainty, high inflation, and supply chain constraints, Vestas' more than 28,000 employees helped achieve EUR 14.5bn in revenue, 13.3 GW of deliveries and a firm order intake of 11.2 GW. Through strong commercial discipline, we managed to raise the average selling price with 29 percent to EUR 1.07m/MW and finished the year with an all-time high order intake in terms of value in the fourth quarter. Our Service business progressed well and grew 27 percent year-over-year, continuing to increase its positive contribution to our revenue and earnings. In 2022, we also made strategic progress within Offshore by securing more than 5 GW of preferred supplier agreements for the V236-15.0 MW turbine, while a technological milestone was reached when the V236-15.0 MW prototype produced its first kWh in late December. Our Development business also progressed well by securing 13 GW of new pipeline. Throughout 2022, increasing costs, product impairments and increased warranty provisions heavily impacted our profitability and resulted in an EBIT margin of minus 8 percent. Everyone at Vestas is therefore fully focused on returning to profitability in 2023 to reaffirm that we are on the right strategic path. Building a sustainable, scalable, and profitable wind industry also requires we continue to build industry maturity and commercial discipline, and we want to say a special thanks to our shareholders for their continuous support during these challenging times.”*

¹ Excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments.

Key highlights

Revenue of EUR 14.5bn

Revenue decline compared with 2021 driven by Russia/Ukraine exit as well as project delays.

EBIT margin of (8) percent

EBIT hampered by supply chain disruptions, inflation, higher warranty provisions and offshore impairments.

Total order intake of 11.2 GW with ASP of EUR 1.07m/MW

Wind turbine order intake in GW down 19 percent but increased 3 percent in value due to strong price increases.

Strong performance in Service

27 percent revenue growth in 2022 at 21.4 percent EBIT margin.

Sustainability progress and recognition

Our circularity solution for wind turbine blades creates industry break-through; #2 Corporate Knights ranking.

Strategy reaffirmed with progress within core areas and business enablers

Restoring profitability in turbine segment remains the focus while building industry discipline and maturity.

Information meeting (audiocast)

On Wednesday 8 February 2023 at 10 am CET (9 am GMT), Vestas will host an information meeting via an audiocast.

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: +44 808-101-1183
- USA: +1 785-424-1738
- Denmark: +45 7877 4197

Conference PIN code: 22677#

The presentation used at the information meeting will be available approximately one hour before the meeting and can be found at www.vestas.com/en/investor, together with the link to the audiocast.

Contact details

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Condensed full-year and Q4 key figures

mEUR	2022	2021 ²	Change	Q4 2022	Q4 2021 ²	Change
Financial figures						
Revenue	14,486	15,587	(7)%	4,783	4,551	5%
- of which service revenue	3,155	2,484	27%	1,015	721	41%
Gross profit	118	1,556	(92)%	(162)	393	(141)%
Gross margin (%)	0.8	10.0	(9.2)pp	(3.4)	8.6	(12.0)pp
Operating profit (EBIT) before special items	(1,152)	428	(369)%	(514)	94	(647)%
EBIT margin (%) before special items	(8.0)	2.8	(10.8)pp	(10.7)	2.1	(12.8)pp
Profit for the period	(1,572)	143	(1,199)%	(541)	8	(6,863)%
Total net investments ³	(758)	(773)	(2)%	(253)	(247)	2%
Net working capital	(1,349)	(1,049)	29%	(1,349)	(1,049)	29%
Free cash flow ³	(953)	183	(621)%	1,282	598	114%
Operational figures						
Order intake (bnEUR)	11.9	11.6	3%	4.8	2.5	92%
Order intake (MW)	11,189	13,896	(19)%	4,193	2,863	46%
Order backlog – wind turbines (bnEUR)	19.1	18.1	6%	19.1	18.1	6%
Order backlog – Service (bnEUR)	30.4	27.8 ⁴	9%	30.4	27.8 ⁴	9%
Produced and shipped wind turbines (MW)	13,106	17,845	(27)%	2,938	3,595	(18)%
Deliveries (MW)	13,328	16,594	(20)%	4,383	4,882	(10)%
Sustainability figures						
Carbon emissions from own operations (scope 1 & 2) (1,000 t)	100	102	(2)%	27	25	8%
Expected CO ₂ e avoided over the lifetime of the capacity produced and shipped during the period (million t)	408	532	(23)%	91	107	(15)%
Total Recordable Injury Rate (TRIR)	3.3	3.1	6%	3.1	2.7	15%

Outlook 2023

In 2023, we expect high inflation levels throughout the supply chain and reduced wind power installations to impact revenue and profitability negatively. The lower level of installations is caused by slow permitting processes in Europe as well as dampened activity levels in the USA due to a steep ramp-up ahead of a busy 2024 driven by the Inflation Reduction Act. Increasing prices on our order intake is an offsetting factor, but still leaves Vestas challenged on profitability in 2023. We remain adamant that to improve industry profitability we must continue to strengthen our commercial discipline and the value chain together with our partners.

Revenue for full year 2023 is expected to range between EUR 14.0bn and 15.5bn including Service revenue, which is expected to grow min. 5 percent. Vestas expects to achieve an EBIT margin before special items of (2)-3 percent with a Service EBIT margin of approx. 22 percent. Total investments³ are expected to amount to approx. EUR 1bn in 2023. It should be emphasised that, similar to the preceding years, there is greater uncertainty than usual around forecasts related to execution in 2023, and the outlook seeks to include the current situation and challenges.

² Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation costs in cloud computing arrangements, ref. Note 7.2 in the Annual Report 2022.

³ Excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments.

⁴ The Service order backlog value disclosed in the Annual Report 2021 has been corrected from EUR 29.2bn to EUR 27.8bn.

The outlook for 2023 includes the impact of the sale of Vestas' converter factories announced on 10 August 2022 with an expected impact on EBIT before special items of approx. EUR 150m.

Vestas' Development business continues to grow and to reflect the business area's increasing financial and strategic importance, income related to sale of Development projects from joint ventures and associates is included as part of normal operations from 1 January 2023. The impact on EBIT before special items from this change is expected to reach a lower double-digit million EUR amount in 2023.

In relation to forecasts on financials from Vestas in general, it should be noted 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 2023. Further, the full-year results may also be impacted by movements in exchange rates from current levels.

Outlook 2023

Revenue (bnEUR)	14.0-15.5
EBIT margin (%) before special items	(2)-3
Total investments ⁵ (bnEUR)	approx. 1

Long-term financial ambitions

Wind power has outcompeted fossil fuel alternatives in most parts of the world, and the prospects for the coming years are promising, with wind power's increasingly central role as critical infrastructure. Consequently, forecasts indicate average annual growth in total wind power capacity of 9 percent towards 2030.⁶

Onshore

The demand for onshore wind power globally is expected to decline in 2023. But from 2024, a new phase of growth is expected driven by new increased ambitions for renewable energy, increased electrification, and corporate ambitions and activities. Adding to that, Vestas expects to see increasing contributions from its Development activities. On this background, Vestas maintains its long-term ambitions to grow faster than the market and be market leader in revenue within Onshore wind.

Offshore

The projections for the offshore business continue to build, and the long-term potential for the market remains very attractive. Based on the order backlog, Vestas expects to see a decline in activity towards 2025, while necessitating to invest heavily both in the organisation, supply chain, and technology. By 2025, upon the steep increase in annual offshore installations and Vestas' new platform gaining traction in the market, Vestas aims to be a leading player in offshore wind power.

Based on these assumptions, Vestas has an ambition to achieve revenue in the Offshore business area of EUR +3bn by 2025, with an EBIT margin on par with the Onshore business.

Service

The wind power service market is expected to grow at a high single-digit rate, and Vestas maintains its ambitions for the long term for the Service revenue to grow faster than the market. In the longer term, the Service EBIT margin is expected at a level of around 25 percent, taking into account the integration of the Offshore business, which currently generates lower margins than Onshore.

⁵ Excl. acquisitions of subsidiaries, joint ventures, associates, and financial investments.

⁶ The forecast does not include China. Source: Wood Mackenzie: Global wind power market outlook update, Q4 2021. November 2021.

General ambitions

Our industry needs structural change to increase profitability, especially within the wind turbine segment. The structural changes primarily entail strengthening the commercial discipline in customer dialogues, lowering the frequency of new technology introductions as well as maturing the assessment of risk.

In 2022, the gap between our financial results and our long-term financial ambitions increased, but the year underlined that Vestas is on the right strategic path to improve the industry structurally and build the commercial and operational maturity to achieve our financial ambitions. In that context, a 10 percent EBIT margin in 2025 remains realistic, although external headwinds from a challenging business environment continues to cloud near-term visibility and create uncertainty.

Long-term financial ambitions

Revenue	Grow faster than the market and be market leader in revenue
EBIT margin before special items	At least 10 percent
Free cash flow ⁷	Positive
ROCE	20 percent over the cycle

⁷ Excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments.

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 2022 (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.