Vestas

Company announcement No. 16/ 2016

Interim financial report
First quarter 2016

Vestas Wind Systems A/S
Hedeager 42,8200 Aarhus N, Denmark
Company Reg. No.: 10403782

Wind. It means the world to us.™

Contents

Information meeting (audiocast)
On Friday 29 April 2016 at 10 a.m. CEST (9 a.m. BST), 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 9814
USA:	+1 646 502 5118
Denmark:	+45 3544 5576

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

Contact details
Vestas Wind Systems A/S, Denmark
Hans Martin Smith, Senior Vice President,
Group Treasury and Investor Relations
Tel: +45 9730 8209

Vestas Wind Systems A/S
Hedeager 42
8200 Aarhus N
Denmark

Company reg. No.: 10 40 37 82

Tel: +45 9730 0000
Fax: +45 9730 0001
vestas@vestas.com

Summary

Earnings improved, while revenue and free cash flow decreased compared to the first quarter of 2015. Strong order intake and backlog at highest level recorded. Outlook for 2016 maintained.

In the first quarter of 2016, Vestas generated revenue of EUR 1,464m – a decrease of 4 percent compared to the year-earlier period. EBIT before special items increased by EUR 6m to EUR 85m. The EBIT margin before special items was 5.8 percent compared to 5.2 percent in the first quarter of 2015 and the free cash flow amounted to EUR (296)m compared to EUR 146m in the first quarter of 2015.

The intake of firm and unconditional wind turbine orders amounted to 2,403 MW in the first quarter of 2016. The value of the wind turbine order backlog amounted to EUR 8.6bn at 31 March 2016. In addition to the wind turbine order backlog, Vestas had service agreements with contractual future revenue of EUR 9.4bn at the end of March 2016. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 18.0bn – an increase of EUR 3.0bn compared to the year-earlier period.

Vestas maintains its 2016 guidance on revenue of minimum EUR 9bn, EBIT margin before special items of minimum 11 percent, total investments of approx EUR 500m (incl. the acquisition of Availon Holding GmbH), and free cash flow of minimum EUR 600m (incl. the acquisition of Availon Holding GmbH).

Group President & CEO Anders Runevad said: *"Vestas delivered record-high first quarter order intake as well as our largest ever combined wind turbine and service order backlog. EBIT margin also improved, while free cash flow, although at negative levels, was in line with expectations as we build up inventory preparing for a busy remainder of 2016. Full-year guidance remains unchanged".*

Key highlights

Record-high Q1 order intake
Order intake in the quarter reached 2,403 MW.

Highest combined order backlog ever
Wind turbine and service order backlog of EUR 18bn.

Improved earnings
EBIT margin before special items at 5.8 percent – an improvement of 0.6 percentage points.

Negative cash flow
Cash flow impacted by net working capital and service acquisition.

Highlights for the Group

mEUR	Q1 2016[1)]	Q1 2015[1)]	FY 2015
Financial highlights			
Income statement			
Revenue	1,464	1,519	8,423
Gross profit	247	226	1,505
Profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	175	161	1,212
Operating profit (EBIT) before special items	85	79	860
Profit before financial income and costs, depreciation and amortisation (EBITDA) after special items	175	161	1,258
Operating profit (EBIT) after special items	85	79	906
Net financial items	(20)	(7)	(15)
Profit before tax	46	76	925
Profit for the period	35	56	685
Balance sheet			
Balance sheet total	8,894	7,597	8,587
Equity	2,728	2,388	2,899
Provisions[2)]	474	397	458
Average interest-bearing position (net)	2,079	1,532	1,721
Net working capital	(1,068)	(1,148)	(1,383)
Investments in property, plant and equipment	63	40	220
Cash flow statement			
Cash flow from operating activities	(114)	209	1,472
Cash flow from investing activities	(182)	(63)	(425)
Free cash flow	(296)	146	1,047
Cash flow from financing activities	5	(97)	(360)
Change in cash at bank and in hand less current portion of bank debt	(291)	49	687
Financial ratios[3)]			
Financial ratios			
Gross margin (%)	16.9	14.9	17.9
EBITDA margin before special items (%)	12.0	10.6	14.4
EBIT margin before special items (%)	5.8	5.2	10.2
EBITDA margin after special items (%)	12.0	10.6	14.9
EBIT margin after special items (%)	5.8	5.2	10.8
Return on invested capital (ROIC) (%) before special items[4)]	119.1	43.8	117.2
Solvency ratio (%)	30.7	31.4	33.8
Net interest-bearing debt/EBITDA before special items[4)]	(1.6)	(1.7)	(1.9)
Return on equity[4)] (%)	24.8	20.5	26.2
Gearing (%)	18.3	20.9	17.1
Share ratios			
Earnings per share[5)] (EUR)	3.0	2.0	3.1
Book value per share (EUR)	12.2	10.7	12.9
Price/book value	5.1	3.6	5.0
P/E ratio	20.7	19.3	21.2
Cash flow from operating activities per share (EUR)	(0.5)	0.9	6.6
Proposed dividend per share (EUR)	-	-	0.91
Payout ratio (%)	-	-	29.9
Share price at the end of the period (EUR)	62.0	38.5	64.8
Average number of shares (million)	224	224	224
Number of shares at the end of the period (million)	224	224	224

1) Neither audited nor reviewed.
2) Incl. non-current deferred tax liability.
3) The ratios have been calculated in accordance with the guidelines from "Den Danske Finansanalytikerforening" (The Danish Society of Financial Analysis) (Recommendations and Financial ratios 2015).
4) Calculated over a 12-month period.
5) Earnings per share has been calculated over a 12-month period and in accordance with IAS 33 on earnings per share.

	Q1 2016[1]	Q1 2015[1]	FY 2015
Operational key figures			
Order intake (bnEUR)	2.0	1.6	8.2
Order intake (MW)	2,403	1,750	8,943
Order backlog – wind turbines (bnEUR)	8.6	7.5	7.9
Order backlog – service (bnEUR)	9.4	7.5	8.9
Produced and shipped wind turbines (MW)	1,814	1,331	7,948
Produced and shipped wind turbines (number)	735	518	3,330
Deliveries (MW)	1,214	1,271	7,486
Social and environmental key figures[2]			
Occupational health & safety			
Total recordable injuries (number)	70	100	335
- of which lost time injuries (number)	19	17	56
- of which fatal injuries (number)	0	0	1
Consumption of resources			
Consumption of energy (GWh)	161	145	516
- of which renewable energy (GWh)	74	66	283
- of which renewable electricity (GWh)	63	57	257
Consumption of fresh water (1,000 m^3)	92	96	427
Waste disposal			
Volume of waste (1,000 tonnes)	19	14	67
- of which collected for recycling (1,000 tonnes)	9	7	33
Emissions			
Direct emission of CO_2 (1,000 tonnes)	17	16	49
Indirect emission of CO_2 (1,000 tonnes)	8	7	25
Local community			
Environmental accidents (number)	0	0	0
Breaches of internal inspection conditions (number)	1	0	0
Employees			
Average number of employees	21,036	17,942	18,986
Number of employees at the end of the period	21,449	18,162	20,507
- of which outside EMEA	9,858	7,853	9,121
Social and environmental indicators[2]			
Occupational health and safety			
Incidence of total recordable injuries per one million working hours	6.7	11.4	8.7
Incidence of lost time injuries per one million working hours	1.8	1.9	1.5
Absence due to illness among hourly-paid employees (%)	2.3	2.2	1.9
Absence due to illness among salaried employees (%)	1.2	1.4	1.1
Products			
CO_2 savings over the lifetime on the MW produced and shipped (million tonnes of CO_2)	51	37	224
Utilisation of resources			
Renewable energy (%)	46	46	55
Renewable electricity for own activities (%)	100	100	100
Employees			
Women in Board of Directors[3] and Executive Management (%)	23	23	23
Women at management level (%)[4]	18	18	18
Non-Danes at management level (%)[4]	57	55	57

1) Neither audited nor reviewed.
2) Accounting policies for social and environmental key figures for the Group, see page 130-132 of the annual report 2015.
3) Only Board members elected by the general meeting are included.
4) Employees at management level comprise employees at level IPE54+ according to Mercer's International Position Evaluation System.

Financial performance

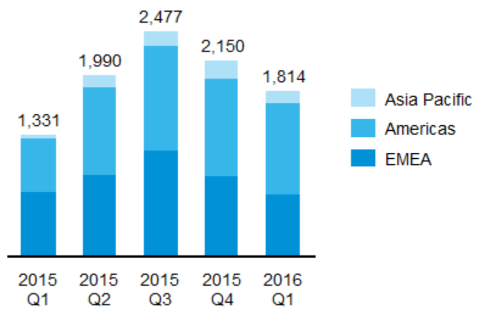
Order backlog and activities

Projects

The quarterly order intake was 2,403 MW, of which 75 percent was announced. This is an improvement of 653 MW or 37 percent compared to the first quarter of 2015. The order intake came from a total of 19 countries.

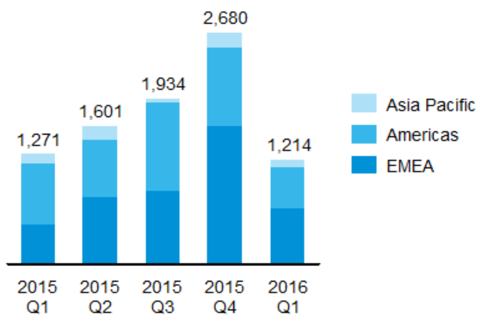
The order backlog amounted to 9,929 MW at the end of March 2016. This is an improvement of 1,838 MW equal to 23 percent compared to 31 March 2015. Europe, Middle East, and Africa (EMEA) accounted for 52 percent of the backlog, and Americas and Asia Pacific accounted for 39 and 9 percent, respectively. The value of the order backlog was EUR 8.6bn at 31 March 2016 compared to EUR 7.5bn at 31 March 2015; an increase of 15 percent.

Produced and shipped
MW



In the first quarter of 2016, Vestas produced and shipped wind turbines with an aggregate output of 1,814 MW (735 wind turbines) against 1,331 MW (518 wind turbines) in the first quarter of 2015, reflecting the high activity level in the supply chain in the quarter.

Deliveries (Transfer of Risk)
MW



Final capacity delivered (transfer of risk) to the customers amounted to 1,214 MW; a decrease of 57 MW equal to 4 percent compared to the first quarter of 2015. Deliveries in the USA decreased by 22 percent. This effect was offset by increased deliveries in the EMEA region, increasing by 40 percent primarily driven by higher deliveries in Germany as a result of strong market demand in the country.

Overview per region as per Q1 2016
MW

	EMEA	Americas	Asia Pacific	Total
Under completion, 1 January 2016	916	884	139	1,939
Delivered (TOR) to customers during the period	(641)	(484)	(89)	(1,214)
Produced and shipped during the period	1,009	672	133	1,814
Under completion, 31 March 2016	**1,284**	**1,072**	**183**	**2,539**

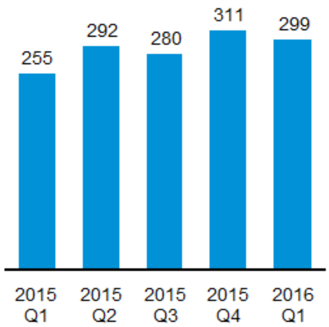
At the end of March 2016, wind turbine projects with a total output of 2,539 MW were under completion compared to 1,537 MW at the end of March 2015. The amount of MW under completion is reflected in the level of inventories as a large share of these MW has not yet been recognised as revenue. The revenue recognition of these MW will take place when the projects are finally delivered to the customers.

Revenue in the project segment decreased by 8 percent to EUR 1,165m compared to EUR 1,264m in first quarter of 2015 primarily driven by the decrease in MW deliveries. Vestas increased the EBIT margin of the project segment from 5.5 percent in first quarter 2015 to 6.5 percent in first quarter 2016.

Service

At the end of March 2016, Vestas had service agreements with contractual future revenue of EUR 9.4bn compared to EUR 7.5bn at 31 March 2015; an increase of 25 percent.

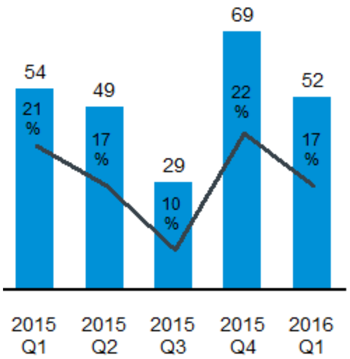
Service revenue
mEUR



Service revenue amounted to EUR 299m in the first quarter of 2016 – an increase of 17 percent compared to the first quarter of 2015. The increase was mainly driven by organic growth supplemented by the acquisitions of US independent service provider UpWind Solutions, Inc. in December 2015 and German independent service provider Availon Holding GmbH as per 1 March 2016.

Service EBIT margin amounted to 17 percent – 4 percentage points below the first quarter of 2015 however, in line with 2015 full-year service EBIT margin. Even though revenue and earnings from the service business are more stable than from the wind turbine business, the activities that generate revenue and earnings in the various types of service contracts may vary from quarter to quarter.

Service EBIT before special items
mEUR and percentage



By the end of March 2016, Vestas has delivered more than 75 GW in 75 countries. A high level of installed capacity and carefully planned service visits are key prerequisites for generating profit from the service business. Consequently, close monitoring of more than 33,000 wind turbines equivalent to more than 63 GW is one of the foundations of Vestas' service business' growth strategy.

At the end of March 2016, the average duration in the service order backlog was approx six years.

Income statement

Result for the period

In the first quarter of 2016, revenue amounted to EUR 1,464m – a decrease of 4 percent compared to the first quarter of 2015 primarily driven by the lower MW deliveries for the project segment.

Despite the lower revenue, gross profit increased by 9 percent to EUR 247m compared to the first quarter of 2015. The increase in gross profit was primarily a result of improved average project margins somewhat offset by lower project volume. Growth in the service segment also added to the gross profit increase however, a less favourable mix in the service business compared to the first quarter of 2015 as well as various dilutive effects from the acquisitions of Upwind Solutions, Inc. and Availon Holding GmbH partially countered that effect. Gross margin increased by 2 percentage points to 16.9 percent compared to 14.9 percent in the previous year.

It should be emphasised that quarter-on-quarter developments in gross margins may show substantial fluctuations due to volume and composition relating to countries, project complexities, orders, and wind turbine types as well as customers' demands for delivery flexibility.

Operating profit (EBIT) before and after special items amounted to EUR 85m – an increase of 8 percent compared to the first quarter of 2015. The increase in EBIT was mainly driven by the higher gross profit partly offset by an increase in R&D and distribution costs. EBIT margin increased by 0.6 percentage points to 5.8 percent compared to the first quarter of 2015. The increase in R&D costs was driven by higher innovation costs and a lower capitalisation rate, while the higher distribution costs were activity driven.

Income from investments accounted for using equity method

Income from investments accounted for using the equity method amounted to a loss of EUR 19m compared to an income of EUR 4m in the first quarter of 2015. The loss corresponds to Vestas' share of loss in the offshore joint venture on a standalone basis and can mainly be attributed to a significant increase in amortisation of the 8 MW platform.

Financial items

In the first quarter of 2016, net financial items amounted to a net loss of EUR 20m against a net loss of EUR 7m in the first quarter of 2015. The development in net financials was mainly driven by currency effects related to unrealised currency losses due to the USD/EUR exchange rate movement in the first quarter of 2016.

Profit before and after tax

Profit before tax amounted to EUR 46m in the first quarter of 2016 compared to EUR 76m in the first quarter of 2015 – impacted by the negative financial items and loss from investment in the joint venture. In the first quarter for 2016, the income tax expense was EUR 11m, compared to EUR 20m in the first quarter of 2015 and the resulting profit after tax decreased by EUR 21m to EUR 35m.

Balance sheet

Vestas had total assets of EUR 8,894m as of 31 March 2016 – 17 percent higher than 31 March 2015. The increased balance sheet was mainly driven by inventory build-up, a higher cash position, and acquisitions in the service segment.

Net working capital

At the end of March 2016, Vestas' net working capital amounted to EUR (1,068)m, largely in line with the level at the end of March 2015 (EUR (1,148)m). The development in net working capital was primarily driven by higher inventories and receivables almost offset by an increase in payables and prepayments – all driven by higher activity levels.

Other operating assets and liabilities

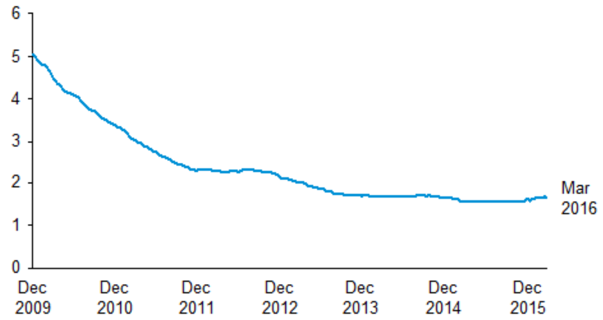
Warranty provisions

In the first quarter of 2016, warranty provisions charged to the income statement amounted to EUR 28m, equivalent to 1.9 percent of revenue. Warranty consumption amounted to EUR 19m – compared to EUR 22m in the first quarter of 2015. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.1 percent.

In general, provisions are made for all expected costs associated with wind turbine repairs or replacements, and any reimbursement from other involved parties is not offset unless a written agreement has been made to that effect. Provisions are made to cover possible costs of remedy and other costs in accordance with specific agreements. Provisions are based on estimates, and actual costs may deviate substantially from such estimates.

Lost Production Factor*

Percentage



* Data calculated across 30,229 Vestas wind turbines under full-scope service.

The ongoing improvement of the Lost Production Factor (LPF) on Vestas wind turbines implies that the customers achieve a consistently better return on their investment. At the end of March 2016, the overall average LPF for the wind power plants where Vestas guaranteed the performance was below 2 percent.

Capital structure

Total equity

Vestas' equity amounted to EUR 2,728m at 31 March 2016 – an increase of 14 percent compared to 31 March 2015 primarily driven by positive net results.

The solvency ratio decreased by 0.7 percentage points to 30.7 percent compared to 31 March 2015. The development in solvency ratio was impacted by the EUR 201m net dividend approved at the Annual General Meeting 30 March 2016 as well as net working capital effects. The approved dividend was paid to Vestas' shareholders on 4 April 2016 and corresponds to a pay-out ratio of 29.9 percent measured against net profit for 2015. For the financial year of 2014, a dividend of EUR 116m was paid out on 7 April 2015.

At Vestas' Annual General Meeting in March 2016 it was furthermore approved to reduce Vestas' share capital from nominally DKK 224,074,513 to nominally DKK 221,544,727 through cancellation of treasury shares. This was carried out during the second quarter of 2016.

Acquisitions

Since 31 March 2015 two independent service providers, UpWind Solutions, Inc. and Availon Holding GmbH, have been acquired and are reflected in the balance sheet as per 31 March 2016. Main impacts relate to intangible assets which have increased by EUR 150m of which EUR 93m is goodwill, representing synergies expected from combining the operations of the acquired companies and Vestas.

Cash flow

In the first quarter of 2016, cash flow from operating activities decreased by EUR 323m to EUR (114)m compared to the first quarter of 2015. The development was mainly driven by the change in net working capital.

Cash flow used for investments amounted to EUR (182)m in the first quarter of 2016, which is an increase of EUR 119m compared to the same period last year. The development was primarily driven by the acquisition of the German independent service provider, Availon Holding GmbH amounting to EUR 83m combined with higher general investments driven by activity in manufacturing and R&D.

Consequently, free cash flow decreased by EUR 442m to EUR (296)m in the first quarter of 2015 compared to the same period last year.

At the end of March 2016, Vestas had a net cash position of EUR 1,957m, representing an improvement of EUR 271m compared to the end of March 2015, mainly driven by improved underlying earnings.

Market development

Deliveries and wind turbine backlog per region

Vestas' total wind turbine backlog increased by 1,838 MW compared to the first quarter of 2015.

Order intake and wind turbine backlog per region
MW

	EMEA	Americas	Asia Pacific	Total
Order intake Q1 2016	1,885	460	58	**2,403**
Backlog as per 31 Mar 2016	5,155	3,862	912	**9,929**

Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 641 MW compared to 457 MW in the previous year. Deliveries were distributed in several different parts of the region, with Germany being the country in the region where most capacity was installed.

The order intake for the region amounted to 1,885 MW, up from 820 MW in the first quarter of 2015. The increase was mainly driven by the 1 GW order received in Norway as well as higher activity in Germany and France. The order backlog comprised 5,155 MW as of 31 March 2016.

Americas

Deliveries in the Americas region amounted to 484 MW compared to 718 MW in the first quarter of 2015 and primarily consisted of deliveries in the USA. Vestas announced US orders of 400 MW in the first quarter of 2016.

In the quarter, order intake amounted to 460 MW for the Americas region, of which 53 MW came from Uruguay. The order backlog for the region amounted to 3,862 MW as of 31 March 2016, of which the majority relates to orders in the USA.

Asia Pacific

Vestas received orders for a total of 58 MW for the Asia Pacific region, coming from China and India. Deliveries to the markets in Asia Pacific were 89 MW and the order backlog amounted to 912 MW as of 31 March 2016.

Deliveries (Transfer of Risk)
MW

	Q1 2016	Q1 2015	FY 2015
Germany	244	74	763
South Africa	93	68	117
Sweden	58	20	194
United Kingdom	56	18	136
France	51	31	347
Finland	40	50	221
Austria	36	-	27
Greece	27	11	25
Romania	15	-	13
Portugal	12	-	2
Netherlands	9	87	142
Poland	-	55	774
Turkey	-	13	341
Italy	-	16	214
Denmark	-	7	114
Jordan	-	-	114
Belgium	-	-	54
Croatia	-	-	42
Norway	-	-	13
Serbia	-	-	10
Spain	-	4	6
Ukraine	-	3	3
Total EMEA	**641**	**457**	**3,672**
USA	466	597	2,999
Uruguay	18	42	102
Chile	-	57	76
Guatemala	-	-	76
Dominican Republic	-	-	49
Costa Rica	-	-	33
Canada	-	22	22
Total Americas	**484**	**718**	**3,357**
Thailand	45	-	36
Vietnam	24	-	-
Australia	20	33	83
China	-	20	296
South Korea	-	21	22
India	-	22	20
Total Asia Pacific	**89**	**96**	**457**
TOTAL WORLD	**1,214**	**1,271**	**7,486**

Strategy and financial and capital structure targets

(*For an extended introduction to the Vestas strategy, please refer to the annual report 2015*).

Strategic objectives

Since the launch of its mid-term profitable growth strategy in the beginning of 2014, Vestas has taken a large step forward and, as evident from the strong performance in recent years, is now more than ever capable of delivering profitable growth to its shareholders.

The 2015 annual strategy planning cycle once again had an aim to secure alignment of strategic priorities across the organisation, while at the same time ensuring that adequate adjustments are made. The strategic review has not given reason to materially change any parts of the Vestas strategy, neither have the vision and mission been changed.

Thus, the overall strategic ambition to ensure profitable growth for Vestas remains, as does Vestas' ambition to maintain and expand its global leadership and create an even more flexible and robust company, able to consistently deliver best-in-class margins.

To achieve this, Vestas must balance and utilise its three key differentiators:

- Expand global reach (i.e. by increasing market presence and further localising manufacturing).
- Increase technology and service leadership (i.e. by reducing levelised cost of energy across the product portfolio and by strengthening product and service offerings).
- Leveraging global scale (i.e. by utilising installed base and sourcing opportunities).

To this end, Vestas has defined four strategic objectives which provide the operational basis for the implementation of the strategy.

1. Grow profitably in mature and emerging markets

Vestas will continue to focus on profitable growth in mature and emerging markets, partnering more closely with its customers, expanding its key account programme, involving customers in product development, and working closely with them to deliver tailored solutions.

With its strong global footprint, Vestas has a competitive edge, allowing it to grow profitably in both mature and emerging markets. Vestas will continue to scale production up and down in accordance with the level of demand in the different regions. Building on its long-standing global presence, Vestas will continue to pursue opportunities in markets where wind energy is set to expand.

To win additional business, Vestas seeks to partner with potential customers earlier in the project development phase through various measures and thereby potentially lock deals earlier than what would in some cases otherwise be possible whilst simultaneously offering significant value to the customer.

The mid-term ambition is to grow faster than the market.

2. Capture full potential of the service business

Having delivered an accumulated amount of more than 75 GW of wind power – a significantly higher amount than the closest competitor – Vestas has a unique platform from which to grow its service business, which today, is already the largest in the wind power industry. With the acquisitions of independent service providers UpWind Solutions, Inc. in 2015 and Availon Holding GmbH in 2016, Vestas has further accelerated that part of the strategy.

As the majority of Vestas' wind turbine contracts are sold with service agreements, typically running for five or ten years, the stable revenue stream from the service business is set to continue its growth as the installed base of wind turbines increases.

The mid-term ambition to grow the service business by more than 30 percent has been increased to 40 percent as a result of higher than anticipated growth in the service business.

3. Reduce levelised cost of energy

Vestas wants to remain the technology leader of the wind power industry. Continuing the recent years' focus on improvement and optimisation of the product and service offerings will be one of the most important enablers for Vestas to continue to hold that position in the future.

While complexity has been reduced and offerings simplified as part of that journey, Vestas is now able to even better meet the demands of its customers and markets.

Also, Vestas will further reduce the levelised cost of energy (LCOE) by outsourcing and using standard components. With this, Vestas reduces manufacturing costs and time-to-market, and thereby lowers the cost of energy for its customers.

The mid-term ambition is to reduce LCOE faster than the market average.

4. Improve operational excellence

Cost savings remain a priority for Vestas, and Vestas will continue its journey towards lower costs through further site simplification, shared service centres and increased efficiency by leveraging on the scale of its operations.

Launched at the end of 2012, the first Accelerated Earnings programme was concluded by the end of 2014 with a considerable achievement in the area of short-term cost-out. The next phase, called Accelerated Earnings Pro, is planned to run until 2017, and will aim at a sustainable optimisation of the total cost of the full value chain.

Finally, working capital management remains an area of high priority for Vestas. Consequently, the focus remains on improving the cash conversion cycle and, amongst others, lowering the working capital tied up while transporting and installing the wind turbine projects.

The ambition is to achieve cost leadership within the wind power industry.

Financial and capital structure targets and priorities

Vestas' financial and capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company. Financial stability and structural strength of the balance sheet remain key priorities for the company. Both the Board of Directors as well as Executive Management believe that strong financial performance and stability are prerequisites for delivering excellent commercial results, and therefore adopt a conservative approach to the structure of the company's balance sheet, whilst at the same time ensuring that management focuses on delivering strong financial results.

Mid-term financial targets

By increasing earnings and keeping investment and net working capital requirements low, Vestas aims to generate a double-digit return on invested capital (ROIC) each year over the cycle. Vestas expects to be able to finance its own growth and thus the free cash flow is expected to be positive each financial year.

Capital structure targets

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. Consequently, Vestas targets a net debt/EBITDA ratio of less than 1 by the end of each financial year, and a solvency ratio target in the range of 30-35 percent, in line with the company's prudent balance sheet approach.

Dividend policy and priorities for excess cash allocation

Any decision to distribute cash to shareholders will be taken in appropriate consideration of capital structure targets and availability of excess cash. Determining excess cash will be based on the company's growth plans and liquidity requirements, thus securing adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year after tax.

For the financial year 2015, a dividend payout ratio of 29.9 percent was thus adopted by the Annual General Meeting on 30 March 2016.

In addition, Vestas may from time to time supplement with share buyback programmes, as highlighted by the EUR 150m buyback programme launched and completed in the latter part of 2015.

Social and environmental performance

Standards, goals and priorities

Sustainable products and sustainable operations are integral for Vestas. The standards and goals build on global certificates for the three standards ISO 9001 for quality, ISO 14001 for environment and OHSAS 18001 for health and safety as well as recognised conventions established by international organisations such as the UN, ILO, and OECD.

The standards and goals are reflected in Vestas' social and environmental priorities:

- The lowest possible incidence of recordable injuries.
- CO_2 impact from wind power must excel against other energy forms.
- The highest possible recyclability percentage of the wind turbines.

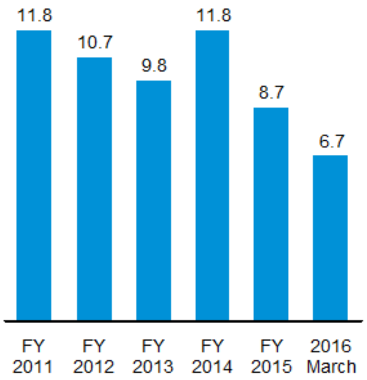
Employees

During the first three months of 2016, Vestas increased the number of employees by 942 to 21,449, mainly driven by ramp-up at the factories and the acquisition on 1 March 2016 of the service company Availon Holding GmbH, which contributed close to 400 employees.

Safety

In the first quarter of 2016, the number of total recordable injuries decreased to 70 from 100 in the first quarter of 2015. The incidence of total recordable injuries decreased from 11.4 in the first quarter of 2015 to 6.7 in the first quarter of 2016. The target for 2016 is maximum 8.0.

Incidence of total recordable injuries
Per one million working hours



As a direct result of the fatality in Denmark in October 2015 a safety dialogue was initiated, involving more than 15,000 employees across Vestas. The safety dialogue enabled Vestas to identify seven lifesaving rules that will contribute to the prevention of fatalities and serious incidents in the future. At the end of first quarter 2016, the seven rules have been implemented throughout Vestas and they will be a part of the mandatory safety training going forward.

Environmental performance

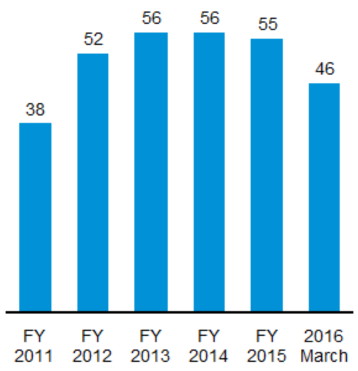
Vestas' environmental impacts have increased from the first quarter of 2015 to the first quarter of 2016 due to increased production, mainly affecting the waste generation in the manufacturing units in assembly and blades, which together generated 88 percent of the total waste in first quarter.

In the first quarter of 2016, a breach of the internal inspection conditions was observed at the towers factory in the USA as air emissions exceeded permit levels. The root cause has been identified and corrected to ensure proper control of the emissions levels.

Renewable energy

Vestas has achieved 100 percent sustainable renewable electricity consumption, partly by purchasing renewable electricity when available, and partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants. In the first quarter of 2016, 46 percent of all energy consumption came from renewable energy sources, which was the same percentage as in the year-earlier period. The decrease in the share of renewable energy for the quarter compared to full year is attributable to seasonality.

Renewable energy
Percentage of total energy consumption



Product waste

Nearly all parts of a Vestas wind turbine are recyclable. The composite materials of the blades are the largest barrier for not achieving 100 percent recyclability.

To address this issue, Vestas has engaged in a development project funded by the Innovation Fund of Denmark. Through the DreamWind project (Designing Recyclable Advanced Materials for Wind Energy); Vestas collaborates with material partners on developing sustainable composite materials for blades.

This project is an extension of Vestas' cooperation with the Ellen MacArthur Foundation on circular economy and retaining materials that create value – even after the product's end of life.

Vestas' aim within product waste management is that a wind turbine will be at least 3 percent more efficient compared to the 2015 baseline by 2020, and that it will generate no more than 3.9 grams of waste per kWh during its lifetime.

Outlook 2016

Revenue is expected to be minimum EUR 9bn including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin before special items of minimum 11 percent with the service EBIT margin remaining stable. Total investments are expected to amount to approx EUR 500m (incl. the acquisition of Availon Holding GmbH), and the free cash flow is expected to be minimum EUR 600m (incl. the acquisition of Availon Holding GmbH) in 2016.

It should be emphasised that Vestas' accounting policies only allow the recognition of supply-only and supply-and-installation projects as income when the risk has finally passed to the customer, irrespective of whether Vestas has already produced, shipped, and installed the wind turbines. Disruptions in production and challenges in relation to wind turbine installation, for example bad weather, lack of grid connections, and similar matters may thus cause delays that could affect Vestas' financial results for 2016.

Further, movements in exchange rates may also impact Vestas' financial results for 2016.

Outlook 2016

Revenue (bnEUR)	min. 9
EBIT margin before special items (%)	min. 11
Total investments (mEUR)*	approx 500
Free cash flow (mEUR)*	Min.600

* Incl. the acquisition of Availon Holding GmbH

Capital Markets Day 2016

Vestas is hosting a Capital Markets Day for analysts, investors, and the media on 21 June 2016 in London at Sofitel London St James.

Further information, including on how to register, is available at vestas.com/investor under Calendars > Other IR events.

Registration no later than 31 May 2016.

Consolidated financial statements 1 January-31 March

Condensed income statement 1 January-31 March

mEUR	Note	Q1 2016	Q1 2015
Revenue	1.1	**1,464**	**1,519**
Cost of sales		(1,217)	(1,293)
Gross profit		**247**	**226**
Research and development costs		(54)	(44)
Distribution costs		(46)	(42)
Administration costs		(62)	(61)
Operating profit (EBIT) before special items	1.1	**85**	**79**
Special items		0	0
Operating profit (EBIT)		**85**	**79**
Income from investments accounted for using the equity method		(19)	4
Net financial items		(20)	(7)
Profit before tax		**46**	**76**
Income tax		(11)	(20)
Profit for the period		**35**	**56**
Earnings per share (EPS)			
Earnings per share for the period (EUR), basic		0.16	0.25
Earnings per share for the period (EUR), diluted		0.16	0.25

Condensed statement of comprehensive income 1 January-31 March

mEUR	Q1 2016	Q1 2015
Profit for the period	**35**	**56**
Items that may be subsequently reclassified to the income statement:		
Exchange rate adjustments relating to foreign entities	(41)	93
Fair value adjustments of derivative financial instruments for the period	23	(64)
Fair value adjustments of derivative financial instruments transferred to the income statement (cost of sales)	4	20
Share of other comprehensive income of joint venture	8	1
Tax on items that may be subsequently reclassified to the income statement	(6)	11
Other comprehensive income after tax for the period	(12)	61
Total comprehensive income for the period	**23**	**117**

Condensed balance sheet – Assets

mEUR	Note	31 March 2016	31 March 2015	31 December 2015
Goodwill		305	215	252
Completed development projects		235	242	261
Software		30	28	32
Other intangible assets		54	-	20
Development projects in progress		146	152	122
Total intangible assets		**770**	**637**	**687**
Land and buildings		736	737	763
Plant and machinery		252	208	219
Other fixtures, fittings, tools and equipment		180	172	191
Property, plant and equipment in progress		98	81	106
Total property, plant and equipment		**1,266**	**1,198**	**1,279**
Investments accounted for using the equity method		212	194	225
Other investments		20	14	20
Tax receivables		109	-	109
Deferred tax		161	193	149
Other receivables	3.3	30	42	39
Total other non-current assets		**532**	**443**	**542**
Total non-current assets		**2,568**	**2,278**	**2,508**
Inventories		2,462	1,869	1,899
Trade receivables		785	673	795
Construction contracts in progress		24	98	15
Tax receivables		67	54	60
Other receivables		428	338	442
Cash and cash equivalents		2,457	2,184	2,765
Total current assets		**6,223**	**5,216**	**5,976**
Non-current assets held for sale		103	103	103
TOTAL ASSETS		**8,894**	**7,597**	**8,587**

Condensed balance sheet – Equity and liabilities

mEUR	Note	31 March 2016	31 March 2015	31 December 2015
Share capital	3.1	30	30	30
Other reserves		126	559	138
Retained earnings		2,572	1,799	2,731
Total equity		**2,728**	**2,388**	**2,899**
Provisions	2.1	327	234	314
Deferred tax		28	19	20
Financial debts	3.3	500	498	495
Tax payables		44	-	44
Other liabilities		10	11	10
Total non-current liabilities		**909**	**762**	**883**
Prepayments from customers		2,541	2,368	2,258
Construction contracts in progress		18	51	17
Trade payables		1,867	1,295	1,760
Provisions	2.1	119	144	124
Tax payables		170	61	147
Other liabilities	3.3	542	528	499
Total current liabilities		**5,257**	**4,447**	**4,805**
Total liabilities		**6,166**	**5,209**	**5,688**
TOTAL EQUITY AND LIABILITIES		**8,894**	**7,597**	**8,587**

Condensed statement of changes in equity – 3 months 2016

mEUR	Share capital	Premium	Trans-lation reserve	Cash flow hedging reserve	Other reserves	Total other reserves	Retained earnings	Total
Equity at 1 January 2016	**30**	**-**	**99**	**37**	**2**	**138**	**2,731**	**2,899**
Profit for the year	-	-	-	-	-	-	35	35
Other comprehensive income for the period	-	-	(41)	21	8	(12)	-	(12)
Total comprehensive income for the period	-	-	(41)	21	8	(12)	35	23
Transaction with owners:								
Dividend approved	-	-	-	-	-	-	(205)	(205)
Dividend, treasury shares	-	-	-	-	-	-	4	4
Acquisition(-) /disposal (+) of treasury shares	-	-	-	-	-	-	5	5
Share based payments	-	-	-	-	-	-	2	2
Equity at 31 March 2016	**30**	**-**	**58**	**58**	**10**	**126**	**2,572**	**2,728**

Condensed statement of changes in equity – 3 months 2015

mEUR	Share capital	Premium	Trans-lation reserve	Cash flow hedging reserve	Other reserves	Total other reserves	Retained earnings	Total
Equity at 1 January 2015	**30**	**439**	**37**	**15**	**7**	**498**	**1,851**	**2,379**
Profit for the year	-	-	-	-	-	-	56	56
Other comprehensive income for the period	-	-	93	(33)	1	61	-	61
Total comprehensive income for the period	-	-	93	(33)	1	61	56	117
Transaction with owners:								
Dividend approved	-	-	-	-	-	-	(116)	(116)
Acquisition(-) /disposal (+) of treasury shares	-	-	-	-	-	-	7	7
Share based payments	-	-	-	-	-	-	1	1
Equity at 31 March 2015	**30**	**439**	**130**	**(18)**	**8**	**559**	**1,799**	**2,388**

Condensed cash flow statement

mEUR	Q1 2016	Q1 2015
Profit for the period	35	56
Adjustments for non-cash transactions	158	116
Income tax received/(paid)	(15)	16
Interest paid	(14)	(28)
Cash flow from operating activities before change in net working capital	164	160
Change in net working capital	(278)	49
Cash flow from operating activities	**(114)**	**209**
Investments in intangible assets	(36)	(21)
Investments in property, plant and equipment	(63)	(40)
Acquisition of subsidiaries, net of cash	(83)	-
Other	-	(2)
Cash flow used for investments	**(182)**	**(63)**
Free cash flow	**(296)**	**146**
Disposal/(acquisition) of treasury shares	5	7
Repayment of financial debts	-	(600)
Raising of financial debts	-	496
Cash flow from financing activities	**5**	**(97)**
Change in cash and cash equivalents less current portion of bank debt	**(291)**	**49**
Cash and cash equivalents less current portion of bank debt at the beginning of period	2,765	2,014
Exchange rate adjustments of cash and cash equivalents	(17)	121
Cash and cash equivalents less current portion of bank debt at the end of the period	**2,457**	**2,184**
The amount can be specified as follows:		
Cash and cash equivalents without disposal restrictions	2,207	1,996
Cash and cash equivalents with disposal restrictions	250	188
Total cash and cash equivalents	**2,457**	**2,184**

Notes

1 Result for the period

1.1 Segment information

mEUR	Project	Service	Not allocated	Total Group
Q1 2016				
External revenue	1,165	299	-	1,464
Total revenue	**1,165**	**299**	**-**	**1,464**
Total costs	**(1,089)**	**(247)**	**(43)**	**(1,379)**
Operating profit (EBIT) before special items	**76**	**52**	**(43)**	**85**
Special items			0	0
Operating profit (EBIT)				**85**
Income from investments accounted for using equity method			(19)	(19)
Net financial items			(20)	(20)
Profit before tax				**46**
Amortisation and depreciation included in total costs	(79)	(6)	(5)	(90)

mEUR	Project	Service	Not allocated	Total Group
Q1 2015				
External revenue	1,264	255	-	1,519
Total revenue	**1,264**	**255**	**-**	**1,519**
Total costs	**(1,195)**	**(201)**	**(44)**	**(1,440)**
Operating profit (EBIT) before special items	**69**	**54**	**(44)**	**79**
Special items			0	0
Operating profit (EBIT)				**79**
Income from investments accounted for using equity method			4	4
Net financial items			(7)	(7)
Profit before tax				**76**
Amortisation and depreciation included in total costs	(74)	(4)	(4)	(82)

2 Other operating assets and liabilities

2.1 Warranty provisions (included in provisions)

mEUR	31 March 2016	31 March 2015	31 December 2015
Warranty provisions, 1 January	386	321	321
Provisions for the period	28	27	160
Warranty provisions consumed during the period	(19)	(22)	(95)
Warranty provisions	**395**	**326**	**386**
The provisions are expected to be payable as follows:			
< 1 year	99	124	103
> 1 year	296	202	283

3 Capital structure and financing items

3.1 Share capital

On 30 March 2016 it was approved at the Annual General Meeting to reduce the share capital from nominally DKK 224,074,513 to nominally DKK 221,544,727 through cancellation of treasury shares. This was carried out during the second quarter of 2016.

3.2 Financial risks

Financial risks and other risks, including liquidity, credit, and market risks are addressed in the notes to the consolidated financial statements in the annual report 2015, note 4.5, page 100. The risks remain unchanged from 2015.

3.3 Financial instruments

The book value of the Eurobond was EUR 495m with a corresponding fair value of EUR 507m at 31 March 2016. The fair value of derivative financial instruments at 31 March 2016 amounts to a positive market value of EUR 77m which equals book value.

4 Other disclosures

4.1 Related party transactions

Transactions with joint venture:

mEUR	Q1 2016	Q1 2015
Revenue for the period	41	140
Receivable at 31 March	29	40

No other significant changes have occurred to related parties or types and scale of transactions with these parties other than what is disclosed in the consolidated financial statements in the annual report 2015, note 6.4, page 116.

4.2 Business combinations

Acquisition of Availon

On 1 March 2016, the Group acquired 100 percent of the share capital of Availon Holding GmbH ("Availon"). The acquisition is the next step in accelerating the Group's profitable growth strategy in the service business.

The goodwill of EUR 56m arising from the acquisition is attributable to synergies expected from combining the operations of the Group and Availon.

mEUR	**Availon**
Cash	84
Total consideration	**84**

The acquisition price for Availon is EUR 88m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

mEUR	**Availon**
Know-how (included in other intangible assets)	9
Customer relationship (included in other intangible assets)	26
Trademark (included in other intangible assets)	1
Other intangible assets	1
Property, plant & equipment	3
Inventory	8
Trade receivables	9
Other receivables	3
Cash	1
Deferred tax asset	1
Deferred tax liability	(12)
Bank debt	(4)
Trade payables	(5)
Other liabilities	(13)
Total identifiable net assets	**28**
Goodwill	56
Total	**84**

The fair value of the acquired identifiable net asset of EUR 28m including allocations are provisional pending final valuations and closing conditions for those assets.

Had Availon been consolidated from 1 January 2016, the consolidated income statement would have been impacted with revenue of approx EUR 15m and profit after tax of approx EUR 0m.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas Wind Systems A/S comprises a summary of the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries.

The interim financial report has been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the EU and additional Danish disclosure requirements for interim financial reporting of listed companies.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected annual profit or loss.

5.2 Key accounting estimates and judgements

When preparing the interim financial reporting of the Group, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of the Group's assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances. There have been no changes to the accounting estimates in Q1 2016. Reference is made to the consolidated financial statements in the annual report 2015, note 7.2, page 124.

5.3 Changes in accounting policies and disclosures

The accounting policies remain unchanged compared to the annual report 2015, to which reference is made for full description of the accounting policies. The Group has implemented all new, amended, or revised accounting standards and interpretations (IFRSs) endorsed by the EU effective for the accounting period beginning on 1 January 2016. These IFRSs have not had any impact on the Group's interim financial report.

Management's statement

The Executive Management and the Board of Directors have today discussed and approved the interim financial report of Vestas Wind Systems A/S for the period 1 January to 31 March 2016.

The interim financial report has been prepared in accordance with IAS 34 on interim financial reporting as adopted by the EU, accounting policies set out in the Annual Report 2015 of the Group and additional Danish disclosure requirements for interim financial reports of listed companies. The interim financial report has neither been audited nor reviewed.

In our opinion the accounting policies used are appropriate and the interim financial report gives a true and fair view of the Group's assets, liabilities, and financial position at 31 March 2016 and of the results of the Group's operations and cash flow for the period 1 January to 31 March 2016.

Further, in our opinion the management report gives a true and fair review of the development in the Group's operations and financial matters, the results of the Group's operations for the period and the Group's financial position as a whole and describes the significant risks and uncertainties pertaining to the Group.

Besides what has been disclosed in the interim financial report, no changes in the Group's most significant risks and uncertainties have occurred relative to what was disclosed in the Annual Report 2015.

Aarhus, Denmark, 29 April 2016

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Anders Vedel
Executive Vice President & CTO

Jean-Marc Lechêne
Executive Vice President & COO

Juan Araluce
Executive Vice President & CSO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eija Pitkänen

Henrik Andersen

Henry Sténson

Kim Hvid Thomsen

Peter Lindholst

Lykke Friis

Michael Abildgaard Lisbjerg

Sussie Dvinge Agerbo

Torben Ballegaard Sørensen

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 new potential accounting standards and policies, and Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections, and assumptions. There are a number of factors that could affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, including (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; (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 from suppliers and vendors; and (m) customer readiness and ability to accept delivery and installation of products and transfer of risk.

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 2015 (available at vestas.com/investor) and these factors should also 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 others than 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.

Vestas Wind Systems A/S
Hedeager 42, 8200 Aarhus N, Denmark
Tel: +45 9730 0000, Fax: +45 9730 0001
vestas@vestas.com, **vestas.com**