Company announcement from Vestas Wind Systems A/S

Aarhus, 6 February 2013
Company announcement No. 7/2013

Annual report 2012
– Vestas is prepared for a tough 2013

Summary: 2012 was a challenging year for the wind power industry and for Vestas. Revenue amounted to EUR 7.2bn, EBIT before special items was EUR 4m and free cash flow amounted to EUR (359)m. A total of EUR 701m was recognised as special items primarily driven by write-downs. For 2013, Vestas expects shipments of 4-5 GW, revenue to amount to at least EUR 5.5bn with an EBIT margin before special items of at least 1 per cent and a positive free cash flow.

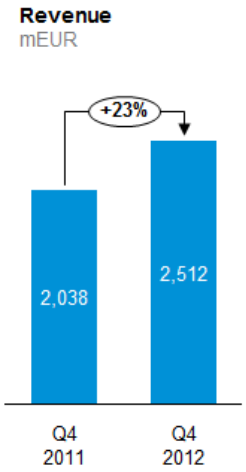
Fourth quarter 2012

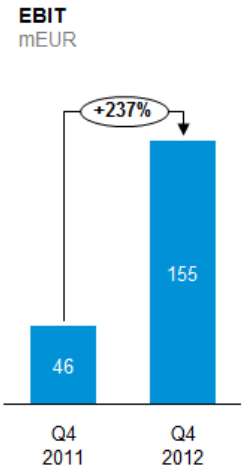
As expected, the fourth quarter was the largest quarter in 2012 in terms of revenue, EBIT before special items and free cash flow.

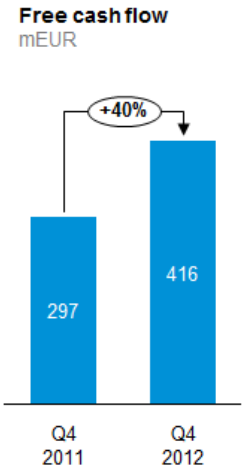
In the fourth quarter, revenue increased by 23 per cent to EUR 2,512m which was driven by an increase in deliveries of 10 per cent, higher price per delivered MW in the quarter and an increase in the service revenue of 10 per cent.

EBIT before special items more than tripled to EUR 155m – corresponding to an EBIT margin before special items of 6.2 per cent. The EBIT margin before special items thus increased by 3.9 percentage points compared to the fourth quarter of 2011.

In the fourth quarter, the free cash flow amounted to EUR 416m – an increase of 40 per cent compared to the year-earlier period. The free cash flow was positively impacted by release of net working capital during the quarter, lower investments and the improved earnings. As a result of the free cash flow generation, the net debt was reduced by EUR 387m during the fourth quarter.







Vestas Wind Systems A/S

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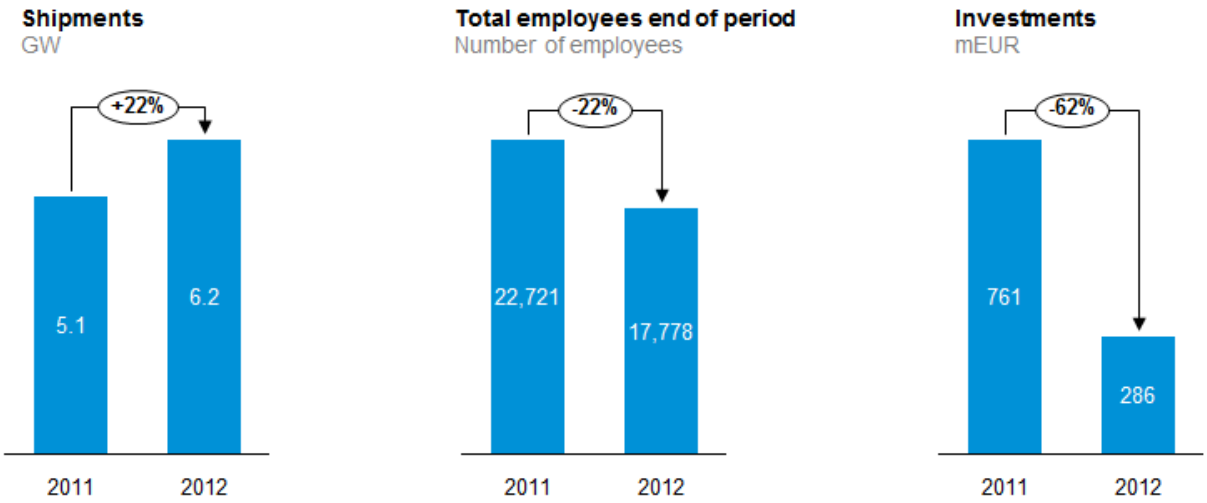
Company Reg. Name: Vestas Wind Systems A/S

Full year 2012



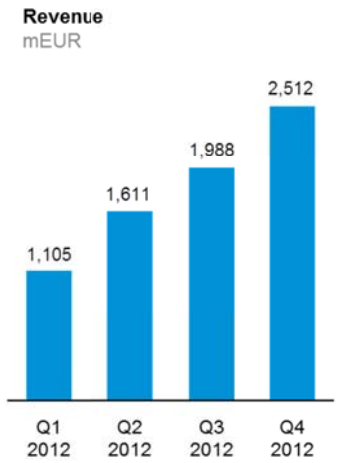
Towards the end of 2011, Vestas decided to implement a new organisation and a changed business model. This included three focus areas: cost reductions, reduced investments and improved capacity utilisation. During 2012, Vestas has been progressing on these areas. Investments have been reduced by EUR 475m (62 per cent), the number of employees has been reduced by 4,943 employees (22 per cent) contributing to savings of more than EUR 250m, and one factory has been sold, one has been closed, and some manufacturing plants have been put up for sale or scaled down. These initiatives were implemented while executing the busiest year ever in terms of produced and shipped MW.

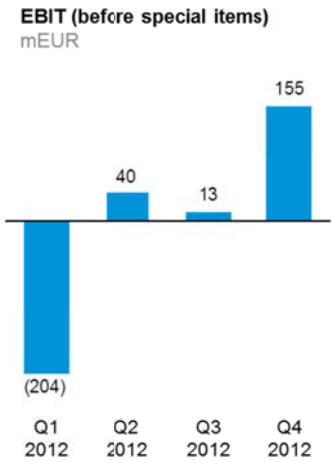
Bert Nordberg, Chairman of the Board of Directors says: *"On the Board of Directors, we are confident that the new management has charted the right course for Vestas and is capable of fully completing the changes, the effects of which have already begun to materialise.*" And he continues:" *However, based on Vestas' declining earnings and a more conservative view of the future world market for wind turbines, we have recognised write-downs of more than EUR 500m. This is, among other things, due to the fact that we have chosen to put some factories up for sale as part of our new business model."*

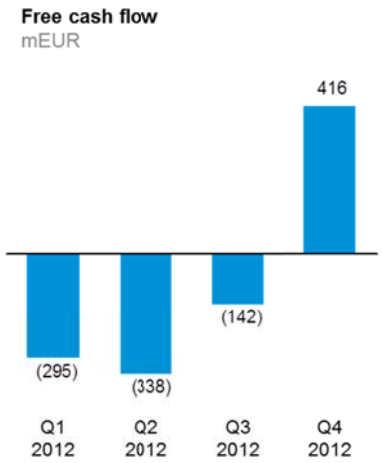
Ditlev Engel, Group President & CEO of Vestas states: "*Towards the end of 2011, we were preparing Vestas for 2012 and 2013. Assessing already then that we were facing some extremely difficult years, we resolved to handle the two years as one period. We have now overcome the first year, which as expected proved to be challenging. However, Vestas generally succeeded in implementing a number of initiatives in 2012 which makes us prepared for an even more challenging 2013.*"

After weak results in the first part of the year, Vestas recovered strongly in the fourth quarter where revenue, EBIT before special items and free cash flow improved significantly compared to the fourth quarter of 2011.

"*The fourth quarter of 2012 is important because that was when the initiatives we implemented started to materialise. EBIT before special items more than tripled and even though our free cash flow fell short of the original guidance, the free cash flow generated in the fourth quarter was the highest quarterly free cash flow we recorded for five years,*" elaborates Ditlev Engel.







Financial development and activities

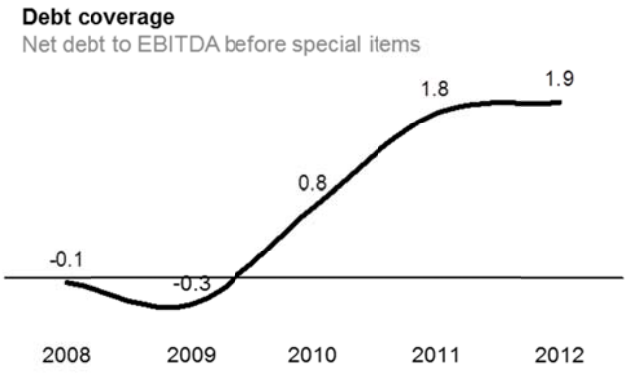
The intake of firm and unconditional wind turbine orders in 2012 decreased by 49 per cent to 3,738 MW corresponding to a value of EUR 3.8bn. At the end of the year, Vestas had a wind turbine order backlog of 7,156 MW or EUR 7.1bn. In addition to this, Vestas had service agreements with contractual future revenue of EUR 5.3bn. By the end of 2012, Vestas' total backlog of wind turbines and services amounted to EUR 12.4bn.

In 2012, Vestas produced and shipped 2,765 wind turbines with an aggregate capacity of 6,171 MW which is an increase of 22 per cent compared to 2011. Final capacity delivered to the customers amounted to 6,039 MW; an increase of 16 per cent. Vestas generated revenue of EUR 7,216m in 2012. This represents an increase of 24 per cent compared to 2011 and was in the middle of the guided range of EUR 6.5-8.0bn. Service revenue increased by 26 per cent and amounted to EUR 886m which was as expected.

EBIT before special items amounted to EUR 4m which corresponds to an EBIT margin before special items of 0.1 per cent. This is an improvement of 0.8 percentage points compared to 2011, but in the very low end of the expected EBIT margin range of 0-4 per cent. The EBIT margin was adversely affected by EUR 126m higher depreciation and amortisation, high product and production costs on the V112-3.0 MW turbine and the GridStreamer™ technology as well as the project composition of delivered projects in 2012.

In 2012, the free cash flow declined by EUR 438m to EUR (359)m, primarily as a result of an increasing net working capital. The net working capital amounted to EUR 233m, an increase of EUR 304m during the year. The increase was primarily driven by a decrease in trade payables which was not fully offset by a lower inventory level.

Warranty provisions amounted to EUR 148m or 2.1 per cent of revenue. Vestas constantly improves the reliability of its turbines to the benefit of both our customers and Vestas. By the end of 2012, the Lost Production Factor was lower than 2 and warranty consumption totalled EUR 119m which corresponds to 1.6 per cent of revenue. In percentage of revenue that is the lowest warranty consumption ever recorded.



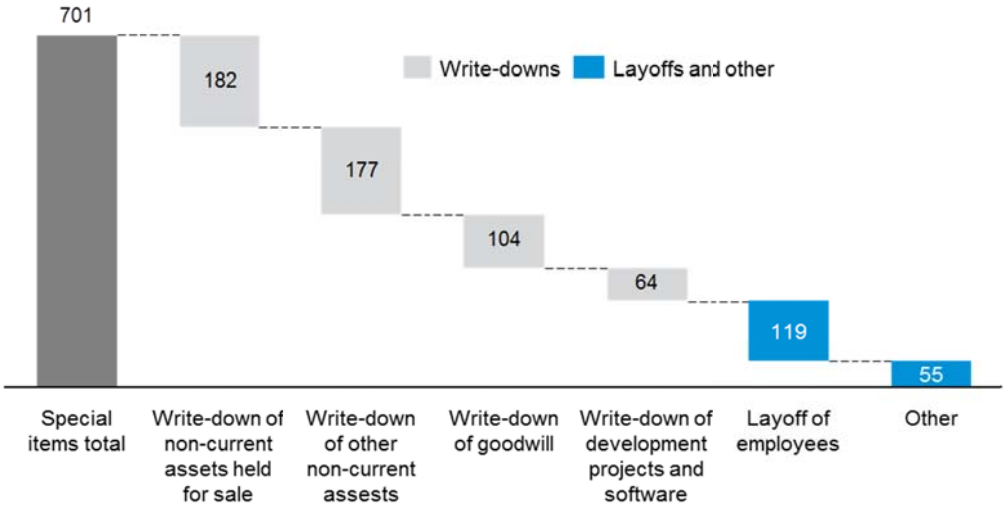
As a result of the negative free cash flow, the net debt increased by EUR 355m to EUR 900m at the end of 2012. The net debt/EBITDA ratio was 1.9 at the end of 2012 compared to 1.8 at the end of 2011.

Return on invested capital before special items amounted to 0.2 per cent up from (1.3) per cent in 2011.

Special Items

As a consequence of Vestas' declining earnings and a more conservative view on the future market a total review of all non-current assets has been performed. Consequently, write-downs of more than EUR 500m were recognised. In total, special items amounted to EUR 701m in 2012.

In alignment with the new operating business model, Vestas aims to become more asset light through divestments. A number of manufacturing plants has thus been reclassified as assets held for sale and are expected to be sold within the next year. In addition, factories with low utilisation, goodwill and development projects have been written down.



The write-downs of EUR 527m will lower the 2013 depreciation and amortisation level by approx EUR 50m.

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Revised banking facilities

Vestas revised its banking facilities in the second half of 2012 after deferring the covenant test on the former facilities in connection with the interim financial report for the first half year of 2012. The revised facilities agreed upon in November 2012 consist of:

- A EUR 900m syndicated loan facility with the existing lender group of nine international banks structured as a EUR 250m amortising term loan and a EUR 650m revolving credit facility.
- Term loans on an amortising basis with the European Investment Bank for EUR 200m and with the Nordic Investment Bank for EUR 55m.

In addition to the above facilities, Vestas has a corporate Eurobond of EUR 600m and has access to project-related guarantee facilities of EUR 519m.

Social and environmental issues

Personal safety is always given top priority at Vestas because the company's employees are entitled to it and the customers request it. Through increased focus, intensive training and the dedicated efforts of its employees, Vestas has managed to reduce the number of accidents year after year. Continuing its decline, the incidence of industrial injuries was 2.8 per one million working hours in 2012, which was below the 3.0 target and a great improvement on 2008, when the incidence rate was 15.6.

Vestas' share of renewable energy increased to 52 per cent in 2012 from 38 per cent in 2011, and renewable electricity increased to 89 per cent in 2012 from 68 per cent in 2011. Vestas has defined a goal that all electricity must come from renewable energy sources. This goal was not reached in full in 2012.

Outlook 2013

Shipments are expected to decline to 4-5 GW compared to the previous guidance of around 5 GW. The change is due to a weaker order intake than expected.

Revenue is expected to be at least EUR 5.5bn, including service revenue, which is expected to rise to approx EUR 1bn. Vestas expects to achieve an EBIT margin before special items of at least 1 per cent with the EBIT margin for service amounting to approx 17 per cent before allocation of Group costs.

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 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 2013.

The free cash flow is expected to be positive in 2013.

The development of the V164-8.0 MW turbine continues according to Vestas' plans, with installation of the first prototype still expected to take place in the second quarter of 2014. As previously announced, Vestas has received inquiries from potential partners on the V164-8.0 MW turbine. Vestas will also continue to upgrade the new 3 MW platform and the 2 MW platform.

There are no plans to invest in new production facilities, and thus investments in property, plant and equipment are expected to be around EUR 150m.

Vestas expects to further reduce the number of employees during 2013 and the year-end number of employees is expected to be no more than 16,000.

2012 and outlook for 2013 in brief

	Outlook for 2013	Full year 2012	Full year 2011	Q4 2012	Q4 2011
Shipments (GW)	4-5	6.2	5.1	1.5	1.5
Revenue (bnEUR)	≥ 5.5	7.2	5.8	2.5	2.0
- of which service revenue (bnEUR)	approx 1	0.9	0.7	0.2	0.2
EBIT margin (%) before special items	≥ 1	0.1	(0.7)	6.2	2.3
EBIT margin, service (%) before allocation of Group costs	approx 17	17	16	4	22
Free cash flow (mEUR)	> 0	(359)	79	416	297

Press and analyst meeting in Aarhus, Denmark

In connection with the disclosure of this annual report, an information meeting will be held today, Wednesday, 6 February 2013 at 10 a.m. CET (9 a.m. GMT) for analysts, investors and the media at:

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Highlights for the Group

mEUR	2012	2011	2010	2009[1]	2008[1]
HIGHLIGHTS					
INCOME STATEMENT					
Revenue	7,216	5,836	6,920	5,079	5,904
Gross profit	796	725	1,175	836	1,125
Profit before financial income and expenses, depreciation and amortisation (EBITDA) before special items	473	305	747	469	749
Operating profit/(loss) (EBIT) before special items	4	(38)	468	251	614
Profit before financial income and expenses, depreciation and amortisation (EBITDA) after special items	299	305	684	469	749
Operating profit/(loss) (EBIT) after special items	(697)	(60)	310	251	614
Profit/(loss) of financial items	(14)	(93)	(72)	(48)	46
Profit/(loss) before tax	(713)	(153)	238	204	660
Profit/(loss) for the year	(963)	(166)	156	125	470
BALANCE SHEET					
Balance sheet total	6,972	7,689	7,066	7,959	6,327
Equity	1,622	2,576	2,754	2,542	1,587
Provisions	353	329	370	534	393
Average interest-bearing position (net)	(1,189)	(990)	(593)	(55)	395
Net working capital	233	(71)	672	317	(73)
Investments in property, plant and equipment	167	406	458	606	509
CASH FLOW STATEMENT					
Cash flow from operating activities	(73)	840	56	(34)	277
Cash flow from investing activities	(286)	(761)	(789)	(808)	(680)
Free cash flow	(359)	79	(733)	(842)	(403)
Cash flow from financing activities	832	(13)	568	1,075	(91)
Change in cash at bank and in hand less current portion of bank debt	473	66	(165)	233	(494)
RATIOS[2]					
FINANCIAL RATIOS					
Gross margin (%)	11.0	12.4	17.0	16.5	19.1
EBITDA margin (%) before special items	6.6	5.2	10.8	9.2	12.7
EBIT margin (%) before special items	0.1	(0.7)	6.8	4.9	10.4
EBITDA margin (%) after special items	4.1	5.2	9.9	9.2	12.7
EBIT margin (%) after special items	(9.7)	(1.0)	4.5	4.9	10.4
Return on invested capital (ROIC) (%) before special items	0.2	(1.3)	10.8	9.5	43.4
Solvency ratio (%)	23.3	33.5	39.0	31.9	25.1
Net interest-bearing debt/EBITDA before special items	1.9	1.8	0.8	(0.3)	(0.1)
Return on equity (%)	(45.9)	(6.2)	5.9	6.1	33.9
Gearing (%)	108.0	35.7	33.2	13.8	7.8
SHARE RATIOS					
Earnings per share (EUR)	(4.8)	(0.8)	0.8	0.6	2.5
Book value per share (EUR)	8.0	12.6	13.5	12.5	8.6
Price / book value (EUR)	0.5	0.7	1.7	3.4	4.7
P / E-value (EUR)	(0.9)	(10.3)	30.8	71.0	16.3
Cash flow from operating activities per share (EUR)	(0.4)	4.1	0.3	(0.2)	1.5
Dividend per share (EUR)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Share price 31 December (EUR)	4.3	8.3	23.6	42.6	40.7
Average number of shares	203,704,103	203,704,103	203,704,103	197,723,281	185,204,103
Number of shares at the end of the year	203,704,103	203,704,103	203,704,103	203,704,103	185,204,103

1) The comparative figures have been adjusted in accordance with the changed accounting policies implemented in 2010.
2) The ratios have been calculated in accordance with the guidelines from "Den Danske Finansanalytikerforening" (The Danish Society of Financial Analysts) (Recommendations and Financial ratios 2010), ref. note 1 to the consolidated accounts.

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	2012	2011	2010	2009	2008
SOCIAL AND ENVIRONMENTAL KEY FIGURES[1)]					
OCCUPATIONAL HEALTH & SAFETY					
Industrial injuries (number)	110	132	201	306	534
– of which fatal industrial injuries (number)	0	1	0	0	0
PRODUCTS					
MW produced and shipped	6,171	5,054	4,057	6,131	6,160
Number of turbines produced and shipped	2,765	2,571	2,025	3,320	3,250
UTILISATION OF RESOURCES					
Consumption of metals (1,000 tonnes)	192	212	171	203	187
Consumption of other raw materials, etc. (1,000 tonnes)	121	105	107	127	129
Consumption of energy (GWh)	630	586	578	537	458
– of which renewable energy (GWh)	327	223	242	264	173
– of which renewable electricity (GWh)	310	208	209	238	167
Consumption of fresh water (1,000 m^3)	581	562	598	521	475
WASTE DISPOSAL					
Volume of waste (1,000 tonnes)	87	89	89	97	97
- of which collected for recycling (1,000 tonnes)	44	48	35	34	30
EMISSIONS					
Direct emission of CO_2 (1,000 tonnes)	59	58	57	51	42
LOCAL COMMUNITY					
Environmental accidents (number)	0	0	0	10	16
Breaches of internal inspection conditions (number)	1	3	3	3	5
EMPLOYEES					
Average number of employees	21,033	22,926	22,216	20,832	17,924
Number of employees at the end of the year	17,778	22,721	23,252	20,730	20,829
SOCIAL AND ENVIRONMENTAL INDICATORS[1)]					
OCCUPATIONAL HEALTH & SAFETY					
Incidence of industrial injuries per one million working hours	2.8	3.2	5.0	8.1	15.6
Absence due to illness among hourly-paid employees (%)	2.4	2.3	2.6	2.8	3.3
Absence due to illness among salaried employees (%)	1.1	1.3	1.3	1.3	1.1
PRODUCTS					
CO_2 savings over the life time on the MW produced and shipped (million tonnes of CO_2)	163	133	108	163	164
UTILISATION OF RESOURCES					
Renewable energy (%)	52	38	42	49	38
Renewable electricity for own activities (%)	89	68	74	85	68
EMPLOYEES					
Women at management level (%)	17	18	19	19	17
Non-Danes at management level (%)	56	53	49	46	42
MANAGEMENT SYSTEM					
OHSAS 18001 – occupational health & safety (%)	100[2)]	97	98	97	98
ISO 14001 – environment (%)	100[2)]	96	98	97	100
ISO 9001 – quality (%)	100[2)]	94	98	98	98

1) Accounting policies for social and environmental highlights for the Group, see page 36 in the annual report 2012.
2) As Vestas is fully covered by an umbrella certificate for its worldwide activities, the accounting policy for the certified management system has been changed. Vestas aims for all new sites/locations of a certain size to be visited by the external certification body within six months.

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, 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, 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 2012 (available at www.vestas.com/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 others 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.

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