

Company announcement No.13/2020

Interim financial report **First quarter 2020**

Vestas Wind Systems A/S
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Company Reg. No.: 10403782

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How to read this interim financial report – definitions:

Vestas

“Vestas” is the entity covering the two business areas Power solutions and Service. The entity includes all subsidiaries over which Vestas has control.

The Group

“The Group” refers to activities in all three business areas, including the offshore business area in the joint venture MHI Vestas Offshore Wind A/S.

The three business areas are:



Power
solutions



Service



Offshore

The offshore business area is accounted for using the equity method and the net result for the period for the joint venture is recognised in the income statements as “Income from investments in joint ventures and associates”.

Information meeting (audiocast)

On Tuesday 5 May 2020 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 3333 000 804

USA: +1 6319 131 422

Denmark: +45 3544 5577

Conference PIN code: 81250319#

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

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Summary

Revenue increased compared to same quarter 2019. Increased order intake and combined order backlog at all-time high level. Uncertainty around the full impact from COVID-19 prevails – suspension of full-year guidance maintained.

In the first quarter of 2020, Vestas generated revenue of EUR 2,235m – an increase of 29 percent compared to the year-earlier period. EBIT before special items decreased by EUR 97m to EUR (54)m. This resulted in an EBIT margin before special items of (2.4) percent, compared to 2.5 percent in the first quarter of 2019. Free cash flow* amounted to EUR (919)m compared to EUR (876)m in the first quarter of 2019.

The quarterly intake of firm and unconditional wind turbine orders amounted to 3,311 MW. The value of the wind turbine order backlog was EUR 15.9bn as at 31 March 2020. In addition to the wind turbine order backlog, at the end of March 2020, Vestas had service agreements with expected contractual future revenue of EUR 18.2bn. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 34.1bn – an increase of EUR 5.8bn compared to the year-earlier period.

The continuing uncertainty as regards the full impact of COVID-19 makes Vestas maintain the suspension of the 2020 guidance.

According to Vestas' current judgement, however, meeting the initial guidance on revenue and EBIT margin before special items is still possible. Further, with the current visibility for the rest of the year, Vestas assesses revenue growth and EBIT margin before special items for full year in Service to be able to meet the initial expectations of approx. 7 percent and approx. 25 percent, respectively. Additionally, as the focus on cost savings continues, total investments^{*)} are currently assessed to be below EUR 700m.

Group President & CEO Henrik Andersen said: *"In the first quarter of 2020, the global demand for wind energy remained strong in spite of the COVID-19 pandemic's continuing impact on societies and operations across all continents. In this environment, Vestas delivered increased revenue and order intake year on year, continued strong Service performance, and a record high order backlog of more than EUR 34bn that provides us with stability in the current period of high uncertainty. In line with our expectations, our EBIT margin in the first quarter was negatively impacted by the delivery of low-margin projects, while we also incurred increased execution costs from logistical challenges and supply chain bottlenecks, which were further amplified by the pandemic. Across the company, we have done well to ensure business continuity during the pandemic, but the uncertainty around the full-year impact prevails, and our guidance therefore remains suspended. As the global pandemic and economic crisis move into their next phase, Vestas continues to ensure business continuity and that renewables become a key part in restarting the global economy."*

Key highlights

Safety first in a challenging environment

Measures to secure business continuity in the COVID-19 crisis in place.

Increased order intake

Firm order intake of 3.3 GW; up 10 percent compared to Q1 2019.

All-time high order backlog

Combined order backlog of more than EUR 34bn.

Revenue and profitability in line with Vestas' expectations

Revenue increased 29 percent to EUR 2.2bn; profitability impacted by low gross margin in the quarter.

Strong performance in Service

Organic growth of 12 percent in Service compared to Q1 2019; EBIT margin of 26 percent.

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

Financial highlights

mEUR	Q1 2020	Q1 2019	FY 2019
Financial highlights			
Income statement			
Revenue	2,235	1,730	12,147
Gross profit	159	235	1,761
Operating profit before amortisation, depreciation and impairment (EBITDA) before special items	97	169	1,550
Operating profit (EBIT) before special items	(54)	43	1,004
Operating profit before amortisation, depreciation and impairment (EBITDA)	87	169	1,550
Operating profit (EBIT)	(112)	43	1,004
Net financial items	(2)	(15)	(98)
Profit before tax	(107)	34	909
Profit for the period	(80)	25	700
Balance sheet			
Balance sheet total	14,885	12,383	14,331
Equity	3,449	3,084	3,345
Net working capital	(631)	(1,248)	(1,583)
Capital employed	4,317	3,813	4,165
Interest-bearing position (net positive), end of the period	1,482	1,971	2,452
Cash flow statement			
Cash flow from operating activities	(760)	(700)	823
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(159)	(176)	(729)
Free cash flow before acquisitions of subsidiaries and financial investments	(919)	(876)	94
Free cash flow	(919)	(895)	332
Financial ratios¹⁾			
Financial ratios			
Gross margin (%)	7.1	13.6	14.5
EBITDA margin (%) before special items	4.3	9.8	12.8
EBIT margin (%) before special items	(2.4)	2.5	8.3
EBITDA margin (%)	3.9	9.8	12.8
EBIT margin (%)	(5.0)	2.5	8.3
Return on capital employed (ROCE) ²⁾ (%) before special items	17.4	18.4	19.7
Net interest-bearing debt / EBITDA ²⁾	(1.0)	(1.5)	(1.6)
Solvency ratio (%)	23.2	24.9	23.3
Return on equity ²⁾ (%)	18.4	20.1	22.1
Share ratios			
Earnings per share ³⁾ (EUR)	3.1	3.0	3.6
Dividend per share (EUR)	-	-	1.06
Pay-out ratio (%)	-	-	30.0
Share price at the end of the period (EUR)	77.9	75.1	90.1
Number of shares at the end of the period (million)	199	206	199
Operational key figures			
Order intake (bnEUR)	2.4	2.4	13.8
Order intake (MW)	3,311	3,004	17,877
Order backlog – wind turbines (bnEUR)	15.9	13.3	16.0
Order backlog – wind turbines (MW)	22,049	17,175	20,974
Order backlog – service (bnEUR)	18.2	15.0	17.8
Produced and shipped wind turbines (MW)	4,917	2,745	12,618
Produced and shipped wind turbines (number)	1,476	891	4,185
Deliveries (MW)	2,228	1,601	12,884

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

2) Calculated over a 12-month period.

3) Earnings per share has been calculated over a 12-month period and in accordance with IAS 33 on earnings per share.

Vestas financial performance

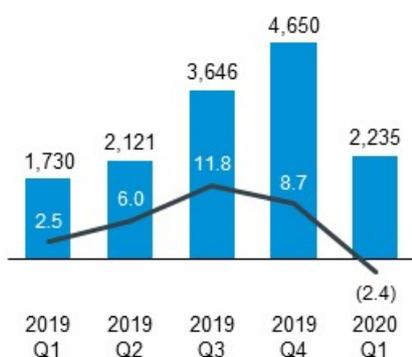
Income statement

Revenue

Revenue in the first quarter of 2020 amounted to EUR 2,235m, an increase of 29 percent compared to EUR 1,730m in the first quarter of 2019. The increase was particularly driven by wind turbine deliveries in USA, Australia, Brazil, and Russia. Compared to the first quarter of 2019, revenue for the first quarter of 2020 includes a negative impact of approx. EUR 75m from foreign exchange rate translations effects.

Revenue and EBIT margin before special items

mEUR and percentage



Gross profit

Gross profit amounted to EUR 159m, corresponding to a gross margin of 7.1 percent, which is a 6.5 percentage point decrease relative to the first quarter of 2019. The gross margin decrease was driven by lower average project margins in the Power solutions segment, where logistical challenges and supply chain bottlenecks, commissioning of delayed projects from 2019, and the COVID-19 situation increased cost levels. Furthermore, the first quarter of 2020 reflected a negative impact from an overall lower share of revenue from the more profitable service business and a higher level of warranty provisions made.

Research and development costs, Distribution costs and Administration costs

Research and development costs recognised in the income statement amounted to EUR 72m, which is above the level in first quarter of 2019 of EUR 66m and a result of higher amortisation from last year's investments in new wind power solutions.

Distribution costs amounted to EUR 90m in the first quarter of 2020 compared to EUR 57m in the first quarter of 2019. The increase was mainly due to additional depreciation in transport equipment driven by new blade types and higher provisions for overdue receivables.

Administration costs amounted to EUR 51m, compared to EUR 69m in the first quarter of 2019, and constituted 2.3 percent of revenue in the first quarter of 2020, a reduction of 1.7 percentage points compared to the first quarter of 2019.

Depreciation, amortisation and impairment

In the first quarter of 2020, overall depreciation, amortisation and impairment amounted to EUR 199m, of which EUR 48m impairment loss was reflected in special items in the income statement. This compares to EUR 126m in the same quarter 2019; the increase in depreciation and amortisation level primarily being a result of recent years' introduction of new technologies and product variants, including new transport equipment.

Operating profit (EBIT) before special items

EBIT before special items amounted to negative EUR 54m in the first quarter of 2020, compared to positive EUR 43m in the first quarter of 2019, and equivalent to an EBIT margin of negative 2.4 percent. The EBIT margin before special items decreased by 4.9 percentage points compared to the first quarter of 2019, driven by the lower gross profit.

Special items

As announced on 20 April 2020, Vestas has decided to optimise and simplify the product portfolio for the coming years to ensure Vestas' long-term success and to ensure that it, despite the COVID-19 situation, exits 2020 in the position of strength with which it was entered. As a consequence, costs amounting to EUR 58m have been recognised in the income statement as special items in the first quarter 2020. Of this, EUR 48m is related to the impairment of capitalised development costs and associated equipment, and further EUR 10m related to purchase commitments with suppliers. As a further consequence, Vestas has laid off approx. 400 employees. An additional cost of EUR 5m is expected to be recognised in the income statement in the second quarter of 2020 related to the layoff.

Operating profit (EBIT) after special items

In the first quarter of 2020, EBIT after special items amounted to negative EUR 112m, equivalent to an EBIT margin after special items of negative 5.0 percent.

Income from investments in joint ventures and associates

Income from investments in joint ventures and associates amounted to a profit of EUR 7m in the first quarter of 2020, compared to a profit of EUR 6m in the first quarter of 2019. The profit was mainly derived from Vestas' share of the result in MHI Vestas Offshore Wind A/S on a standalone basis.

Net financial items

Financial items for the first quarter of 2020 amounted to negative EUR 2m compared to negative EUR 15m in the first quarter of 2019 and comprised interests, fees, and currency related items.

Income tax

Income tax amounted to an income of EUR 27m, equivalent to an effective tax rate of 25 percent in line with the first quarter 2019.

Net result for the period

Net result for the period amounted to a loss of EUR 80m in the first quarter of 2020 compared to a profit of EUR 25m in the first quarter of 2019. The decrease in net result was mainly a result of lower gross profit and impact from special items.

Financial ratios

Earnings per share amounted to negative EUR 0.38 in the first quarter of 2020, a decrease of EUR 0.51 compared to EUR 0.13 in the first quarter of 2019, driven by the negative net profit.

Return on capital employed (ROCE) before special items was 17.4 percent in the first quarter of 2020, a decline compared to 18.4 percent for the first quarter of 2019. This negative development can be attributed to the decrease in net profit in the first quarter of 2020 as the main driver, supplemented by an increasing total equity.

Return on equity was 18.4 percent in the first quarter of 2020, compared to 20.1 percent in the first quarter of 2019, a decrease of 1.7 percentage points which can also be attributed to a negative net profit and increasing total equity.

Costs for warranty

Costs for warranty provisions amounted to EUR 70m in the first quarter of 2020, equivalent to a warranty ratio of 3.1 percent of revenue which was 1.0 percentage points above the ratio in the first quarter of 2019. The increased warranty provisions are a consequence of a steep delivery ramp-up and the acceleration of new product introductions, which require additional rework and repairs on new blade variants.

Working capital and free cash flow

Net working capital

Net working capital amounted to a net liability of EUR 0.6bn as at 31 March 2020, compared to a net liability of EUR 1.2bn as at 31 March 2019. The increase was mainly driven by build-up of inventory for deliveries during the rest of 2020. This effect was only partly offset by higher down- and milestone payments from customers and higher trade payables to suppliers. Despite the deterioration compared to 2019, the overall net working capital level remains negative.

Cash flow from operating activities

Cash flow from operating activities was negative EUR 760m in the first quarter of 2020, which is a decrease of 9 percent compared to the first quarter of 2019. The development was mainly driven by the loss for the period.

Cash flow from investing activities

Cash flow from investing activities amounted to a net outflow of EUR 159m, compared to EUR 176m in the first quarter of 2019. The EUR 17m decrease in the net investment level was driven by lower investments in manufacturing.

Free cash flow

Free cash flow amounted to negative EUR 919m, compared to negative EUR 876m in the first quarter of 2019, excluding short-term financial investments. The negative balance was driven by negative cash flow from operating activities reflecting net working capital build-up in the first quarter of the year.

Capital structure and financing items

Equity and solvency ratio

As at 31 March 2020, total equity amounted to EUR 3,449m, an increase from 31 March 2019 level of EUR 3,084m and can be attributed to the net profit development in the last nine months of 2019.

As at 31 March 2020, the solvency ratio was 23.2 percent, which is a decline of 1.7 percentage points from the first quarter of 2019. The solvency ratio was negatively impacted by a higher overall asset balance, mainly driven by net working capital components, in particular inventory and receivables.

Net interest-bearing position and cash position

As at 31 March 2020, the net interest-bearing position was positive EUR 1,482m, a decline of EUR 489m, compared to a positive position of EUR 1,971m at the end of the first quarter of 2019. This development was primarily a result of the negative free cash flow of EUR 919m in the first quarter of 2020.

Cash and cash equivalents amounted to EUR 1,965m as at 31 March 2020 compared to EUR 2,054 at the end of the first quarter of 2019.

On 1 May 2020, Vestas established new committed loan facilities totalling EUR 1,000m to supplement its existing EUR 1,150m credit facility, maturing in 2024. The new credit facilities will mature in 2021. Subsequently to the establishment, Vestas has EUR 1,550m credit facilities available for cash drawing.

The ratio net interest-bearing debt/EBITDA of negative 1.0 as at 31 March 2020 increased compared to negative 1.5 at the end of the first quarter of 2019. However, the ratio remains well below the capital structure target of a net interest-bearing debt/EBITDA ratio below 1x.



Power solutions

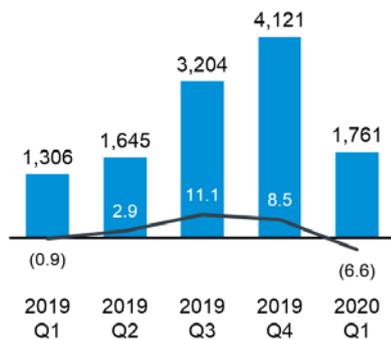
Result for the period

In the first quarter of 2020, revenue from the Power solutions business amounted to EUR 1,761m, which is well above the first quarter of 2019 revenue at EUR 1,306m. Comparing the first quarter of 2020 to the same period last year, there was a negative impact of approx. EUR 75m from translation effects in relation to foreign exchange rate developments.

EBIT before special items amounted to negative EUR 117m in the first quarter of 2020, equal to an EBIT margin of negative 6.6 percent. Compared to the first quarter of 2019, this is a decrease of 5.7 percentage points. The decrease was driven by lower average project margins where logistical challenges and supply chain bottlenecks, commissioning of delayed projects from 2019, and the COVID-19 situation increased cost levels. Furthermore, the first quarter of 2020 reflected a negative impact from a higher level of warranty provisions made.

Power solutions revenue and EBIT margin before special items

mEUR and percentage

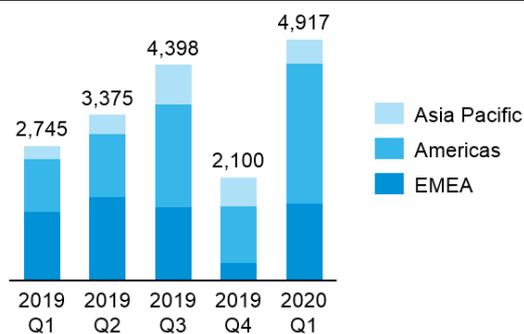


Level of activity

In the first quarter of 2020, Vestas produced and shipped wind turbines with an aggregated output of 4,917 MW against 2,745 MW in the first quarter of 2019, which corresponds to an increase of 79 percent.

Produced and shipped

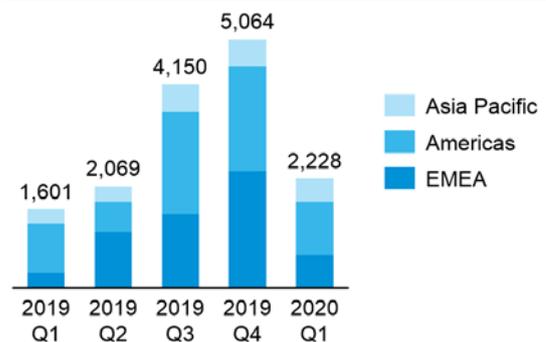
MW



Deliveries to customers amounted to 2,228 MW in the first quarter of 2020, compared to 1,601 MW in the first quarter of 2019. The increase was driven by deliveries in all regions with the most significant increases in Brazil, Australia, and Russia.

Onshore deliveries

MW



By the end of March 2020, Vestas had installed a total capacity of 115 GW in 81 countries.

Wind turbine order intake

In the first quarter of 2020, wind turbine order intake amounted to 3,311 MW, corresponding to EUR 2.4bn, which reflects an increase of 10 percent compared to an order intake of 3,004 MW in the first quarter of 2019. The average price per MW was EUR 0.72m in the first quarter of 2020, compared to EUR 0.81m in the first quarter of 2019 and EUR 0.77m for full-year 2019, and this lower average pricing was mainly a result of a large increase in supply-only orders in China. Excluding the order intake in China, the average price per MW was EUR 0.77m.

Order backlog

At the end of the first quarter of 2020, the wind turbine order backlog amounted to 22,049 MW, which corresponds to EUR 15.9bn. This is an increase of 20 percent compared to EUR 13.3bn at the end of the first quarter of 2019.

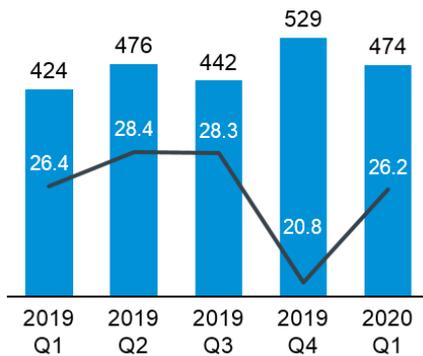


Service

Result for the period

The Service business generated revenue of EUR 474m in the first quarter of 2020, which corresponds to a 12 percent increase compared to the first quarter of 2019. The increase in revenue was driven by a higher volume of service contracts.

Service revenue and EBIT margin before special items mEUR and percentage



EBIT before special items amounted to EUR 124m in the first quarter of 2020, corresponding to an EBIT margin of 26.2 percent, largely in line with the EBIT margin before special items in the same period last year at 26.4 percent. This performance was a result of reliable performance of the wind turbines under service contracts in combination with efficient cost management.

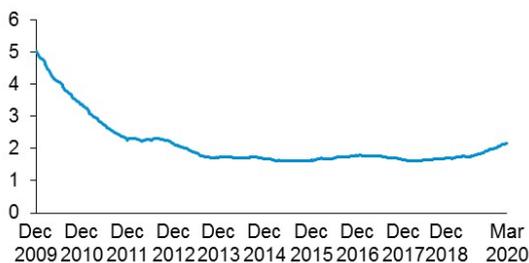
Level of activity

At the end of March 2020, Vestas had approx. 46,000 onshore wind turbines under service, equivalent to approx. 98 GW.

At the end of March 2020, the overall average Lost Production Factor continued at a low level for the wind power plants where Vestas guarantees the performance.

Lost Production Factor*

Percent



*) Data calculated across approx. 28,900 Vestas wind turbines under full-scope service.

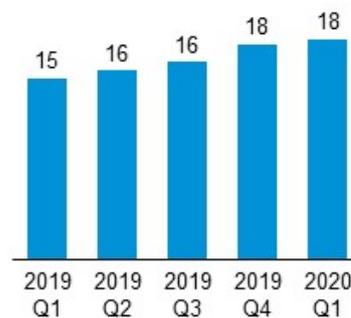
Order backlog

At the end of March 2020, Vestas had service contracts in the order backlog with expected contractual future revenue of EUR 18.2bn, an increase of EUR 3.2bn compared to 31 March 2019.

At the end of the quarter, the average duration in the service order backlog was approx. nine years; up by one year compared to end of 2019.

Service order backlog

bnEUR





Offshore

MHI Vestas Offshore Wind A/S (MHI Vestas Offshore Wind) is a 50:50 joint venture between Mitsubishi Heavy Industries, Ltd. and Vestas Wind Systems A/S.

Order intake

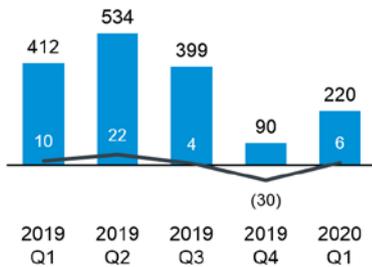
MHI Vestas Offshore Wind announced three firm and unconditional orders in the first quarter of 2020 of combined 728 MW. Two orders totalling 589 MW received in Taiwan and one order of 139 MW in Japan mark the first orders for MHI Vestas Offshore Wind in both markets and in the Asia Pacific region in general.

Result for the period in MHI Vestas Offshore Wind

Revenue for MHI Vestas Offshore Wind amounted to EUR 220m for the first quarter of 2020, a decrease of EUR 192m compared to the same period last year. The revenue in the first quarter mainly reflected deliveries to the Northwester 2 offshore wind park in Belgium.

MHI Vestas Offshore Wind revenue and net result

mEUR



Net profit in the joint venture amounted to EUR 6m in the quarter on a stand-alone basis, compared to EUR 10m in the first quarter of 2019.

Vestas' accounting for MHI Vestas Offshore Wind

The joint venture is accounted for using the equity method, and Vestas' share of MHI Vestas Offshore Wind's overall net result of EUR 3m for the first quarter of 2020 was recognised in the income statement as "Income from investments in joint ventures and associates".

Onshore market development

Deliveries and wind turbine backlog per region

Vestas' onshore order backlog amounted to 22,049 MW as at 31 March 2020, an increase compared to the order backlog level of 20,974 MW ultimo 2019.

Order intake and wind turbine order backlog per region

MW	EMEA	Americas	Asia Pacific	Total
Order intake Q1 2020	1,912	612	787	3,311
Backlog as at 31 March 2020	9,146	10,100	2,803	22,049

Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 664 MW compared to 309 MW in the previous year. Deliveries were distributed throughout a number of countries in the region, with Russia, Germany, and Greece being the countries where most capacity was delivered.

The order intake for the region amounted to 1,912 MW, up from 720 MW in the first quarter of 2019. The order intake in the quarter was coming mainly from Sweden, Poland, and France. The order backlog comprised 9,146 MW as at 31 March 2020.

Americas

Deliveries in the Americas region amounted to 1,092 MW, compared to 991 MW in the first quarter of 2019. The higher level of activity was attributable to an increase in deliveries in Brazil and Mexico.

In the quarter, order intake amounted to 612 MW for the Americas region, down from 1,663 MW in the first quarter of 2019. The order backlog for the region amounted to 10,100 MW as at 31 March 2020, of which the majority related to orders in the USA and Brazil.

Asia Pacific

Deliveries to the markets in Asia Pacific totalled 472 MW compared to 301 MW in the same quarter the previous year. The increase in activity was mainly related to Australia.

The order intake for the region amounted to 787 MW, up from 621 MW in the first quarter of 2019. The order backlog amounted to 2,803 MW as at 31 March 2020.

Onshore deliveries

MW	Q1 2020	Q1 2019	FY 2019
Russia	131	-	151
Germany	110	45	445
Greece	105	7	184
France	94	60	710
Sweden	68	7	995
Poland	42	-	76
Turkey	41	-	-
Senegal	22	16	128
Netherlands	17	11	45
Ukraine	8	58	319
Jordan	8	9	70
Italy	4	21	322
Norway	4	18	470
United Kingdom	4	17	114
Finland	4	-	126
South Africa	2	-	3
Serbia	-	30	72
Austria	-	7	121
Kenya	-	3	3
Spain	-	-	597
Romania	-	-	171
Belgium	-	-	79
Kazakhstan	-	-	52
Ireland	-	-	29
Czech Republic	-	-	20
Denmark	-	-	17
EMEA	664	309	5,319
USA	523	704	4,379
Brazil	263	-	-
Mexico	115	78	395
Argentina	60	115	502
Chile	46	-	29
Panama	40	-	24
Canada	21	93	410
El Salvador	23	-	1
Bolivia	1	1	41
Dominican Rep.	-	-	58
Americas	1,092	991	5,839
Australia	312	87	666
China	61	31	515
Taiwan	36	-	25
India	23	103	401
Sri Lanka	19	-	26
New Zealand	17	-	13
Vietnam	4	33	33
Thailand	-	47	47
South Korea	-	-	-
Asia Pacific	472	301	1,726
Total	2,228	1,601	12,884

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the Annual report 2019.)

Leadership through unprecedented change

Energy is the cornerstone of modern society and the key to a better quality of life for those living in less developed areas. At the same time, energy today accounts for two-thirds of total global greenhouse gas emissions, making it the main contributor to the climate crisis.¹⁾ Moreover, burning of fossil fuels results in millions of deaths per year caused by air pollution.²⁾ Unless the world fundamentally changes the way it produces, distributes, and uses energy, these figures will continue to rise as energy demand increases.

To limit global warming to 1.5°C requires unprecedented transitions in all areas. In response to this challenge, countries, governments, states, cities, and companies are beginning to introduce increasingly ambitious climate and renewable energy targets. But there is still much to be done. With availability today at a scale and cost that can meet the world's energy demand and limit the impact of human activity,³⁾ the case for renewables has become too strong to ignore. As the leader and pioneer in wind energy, Vestas is well positioned to lead the global energy transition. But the company is also aware that although renewables are now cheaper than fossil fuel in two-thirds of the world, this transition – and Vestas' journey within it – has only just begun.

For the last 40 years, Vestas has worked passionately to develop solutions to address both the climate crisis and the world's growing need for energy. Today, as Vestas works towards becoming the global leader in sustainable energy solutions, with wind at its core, Vestas remains as committed to protecting the environment as Vestas was in 1979, when it installed the very first wind turbine. Ensuring a healthy planet for future generations is a key part of what Vestas does – it is Vestas' purpose as a company and as individuals.

To guide its efforts in the future, Vestas has introduced a goal: **To lead the transition towards a world powered by sustainable energy.** Through this goal, Vestas commits to taking a leading role in driving electrification and decarbonisation beyond the power sector; to team up with sustainability leaders to drive change and; to support Vestas' partners in their journey to become more sustainable. But preventing the release of billions of tonnes of CO₂ into the atmosphere is not enough. Vestas therefore expands its ambitions beyond leading the global energy transition and introduces three additional goals that will ensure sustainability in everything Vestas does. They are:

- Carbon neutrality, without carbon offsets, by 2030.
- Zero-waste wind turbines by 2040.
- The safest, most inclusive, and socially responsible workplace in the energy industry.

Through these goals, Vestas aims to integrate sustainability across and through all businesses and operations. Vestas will also use them to explore the real meaning of its vision of being the Global Leader in Sustainable Energy Solutions. In doing so, Vestas will embark on the next phase of its journey.

Strategic focus areas

Vestas is driving the energy transition forward by focusing on three core business areas: **onshore wind**, **service solutions** and **offshore wind**. Vestas is present in all key markets globally and offers the most compelling and sustainable wind power plant and service solutions, thereby expanding the global reach of renewable energy.

Through its operational scope and efficiency, as well as its investments and innovations, Vestas is able to keep pushing the technology and economics of wind power. In particular, Vestas' global scale and operating model are critical to driving supply chain industrialisation and sustaining cost leadership. With localisation becoming a requirement in an increasing number of markets, close partnerships with suppliers and local governments remain key to sustaining Vestas' competitiveness across the globe. Because of its stable leadership position, Vestas is able to re-invest more of its profit into new technology than any other player in the renewables sector. As the industry continues to consolidate, its ability to generate sustainable profits, which can be reinvested to drive innovation, becomes increasingly important, and Vestas remains committed to sustaining its industry-leading profitability and investing in new technology. In this way, Vestas is able to maintain and expand its leadership – for the benefit of the planet, Vestas' customers and shareholders.

Global leader in onshore wind energy solutions

Vestas' legacy and current position as the global leader in wind power is measured on scale, market reach, innovation, and global footprint. Vestas uses this position to expand the reach of wind energy and develop, sell, and deliver superior onshore wind power plant solutions. These solutions ensure enhanced performance for both owners of wind power plants and operators of broader electricity systems. In 2019, for example, Vestas introduced the EnVentus™ platform, leveraging its unparalleled scale, research and development investments, and experience to deliver further improvements in the annual output, cost and value of wind energy.

1) Source: International Energy Agency (IEA): Global Energy & CO₂ Status Report 2019. March 2019.

2) Source: World Health Organization: COP24 Special Report, Health & Climate Change. 2018.

3) Source: The Boston Consulting Group: The Economic Case for Combating Climate Change. September 2018.

Global leader in wind energy service solutions

With a tremendous short- and long-term outlook for renewables, there is also a major growth potential for wind energy service solutions. The value of the service solutions market is expected to continue growing at a rate of more than 5 percent a year towards 2025,⁴⁾ driven by growth in the number of wind turbines globally and the need for predictable energy production and revenues.

Being the service partner of choice for customers, asset owners, and operators therefore puts Vestas on a strong value and growth trajectory. To sustain its position and accelerate its growth in the service segment, Vestas aims to enhance customer and shareholder value through expanded offerings, service scope, and more integrated digitised operations and solutions.

Global leader in offshore wind energy solutions

Within wind energy, the offshore segment is set to expand by 13 percent per year under current investment plans and policies, becoming a USD 1 trillion business by 2040.⁵⁾ The outlook for offshore wind power is underpinned by volume certainty (linked to long-term planning horizons) extending to the mid-to-late 2020s. Annual installed volumes are expected to experience double-digit percentage growth until late 2020s.⁶⁾

The impressive expansion of offshore wind power is being driven by rapid reductions in cost of energy. Investor appetite and regulatory support are also strong due to the size of projects and the consistency and predictability of electricity generation. This has led to increased offshore capacity and land area allocations in established markets, plus growth in new markets such as the USA, Taiwan, and Japan.

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.

Long-term financial ambitions

The wind power industry is maturing into a commercially viable, unsubsidised industry. On the global agenda is now an acute call for renewable energy to replace fossil fuels in the energy mix, and hence the growth potential is immense. There is furthermore a strong demand for technology that can improve energy efficiency and displace CO₂ emissions created by conventional sources of electricity. With its global reach, scale, and leading technology, Vestas is well positioned to explore the unprecedented opportunities that the great growth potential and demand for innovation create.

The company observes an industry that despite moving towards the end of the transition period is still highly competitive and impacted from current trade restrictions.

Vestas' long-term financial ambitions reflect the projected market conditions as well as the company's strategy and priorities. Within this context, Vestas aims to grow faster than the market and be the market leader in revenue, to achieve an EBIT margin of at least 10 percent and to generate a return on capital employed (ROCE) of minimum 20 percent over the cycle. Vestas expects to be able to finance its own growth and hence the free cash flow is expected to be positive each financial year.

In the coming years, revenue in the Service segment is expected to grow faster than the market with an EBIT margin of approx. 24 percent.

Capital structure targets

As a player in a market where projects, customers, and wind energy investors are becoming larger, Vestas aims to be a strong financial counterpart. Capital resources will be maintained to secure compliance with Vestas' capital structure target:

Net interest-bearing debt/EBITDA ratio below 1x at any point in the cycle – as well as related dividend policy, linked to the strategic aspirations of the company.

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.

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.

In addition, Vestas may from time to time supplement with share buyback programmes in order to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major investments or extraordinary events, the total distribution to shareholders through dividends and share buy-backs may constitute the majority of the free cash flow.

4) Source: Wood Mackenzie: 2019 Global Onshore Wind Operations & Maintenance Report. December 2019.

5) Source: International Energy Agency (IEA): Offshore Wind Outlook 2019. 25 October 2019.

6) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. 25 November 2019.

Sustainability highlights and performance

	Q1 2020 ¹⁾	Q1 2019 ¹⁾	FY 2019
Social and environmental key figures²⁾			
Occupational health & safety			
Total recordable injuries (number)	46	50	213
- of which lost time injuries (number)	13	20	67
- of which fatal injuries (number)	0	1	1
Consumption of resources			
Consumption of energy (GWh)	167	185	638
- of which renewable energy (GWh) ³⁾	59	57	258
- of which renewable electricity (GWh) ³⁾	49	45	227
Consumption of fresh water (1,000 m ³)	90	103	473
Waste disposal			
Volume of waste (1,000 tonnes)	22	21	85
- of which collected for recycling (1,000 tonnes)	11	11	43
Emissions			
Direct emission of CO ₂ (1,000 tonnes)	20	23	71
Indirect emission of CO ₂ (1,000 tonnes) ³⁾	8	13	38
Local community			
Environmental accidents (number)	0	0	0
Breaches of internal inspection conditions (number)	0	0	0
Employees⁴⁾			
Average number of employees	25,757	24,476	24,964
Number of employees at the end of the period	25,948	24,578	25,542
Social and environmental indicators²⁾			
Occupational health and safety			
Incidence of total recordable injuries per one million working hours	3.4	3.8	3.9
Incidence of lost time injuries per one million working hours	1.0	1.5	1.2
Absence due to illness among hourly-paid employees (%)	2.0	2.2	2.0
Absence due to illness among salaried employees (%)	0.9	1.1	1.0
Products			
CO ₂ savings over the lifetime on the MW produced and shipped (million tonnes of CO ₂)	125	71	322
Utilisation of resources			
Renewable energy (%) ³⁾	35	31	40
Renewable electricity for own activities (%) ³⁾	82	71	82
Employees			
Women in Board of Directors ⁴⁾ and Executive Management at the end of the period (%)	23	23	23
Women in leadership positions at the end of the period (%) ⁵⁾	20	19	19

1) Neither audited nor reviewed.

2) Notes to Sustainability highlights, see page 042 of the Annual report 2019.

3) Calculation changed to the effect that non-renewable electricity is no longer compensated with Vestas-owned wind power plants.

4) Only Board members elected by the general meeting are included.

5) Employees in leadership positions comprise managers, specialists, project managers, and above.

The Vestas Sustainability Strategy

A passion for sustainability has been driving Vestas, and the company is working to embed sustainability into everything it does – including the value chain and Vestas' own operations. To drive this, in the beginning of 2020, Vestas launched its Sustainability Strategy with four key ambitions: to become carbon-neutral by 2030, without using carbon offsets; to produce zero waste wind turbines by 2040; to become the safest, most inclusive and socially responsible workplace in the energy industry; and to lead the transition to a world powered by sustainable energy. Reporting on the progress on each of the targets, ref. Vestas Annual report, page 036, will take place on an annual basis.

The UN Sustainable Development Goals

Vestas is committed to supporting the UN Sustainable Development Goals (SDGs). Six SDGs have been identified, which support the approach of how sustainability is powering development for Vestas, its stakeholders, and the many communities where the company plays a role. With SDG No. 7, Affordable and clean energy as the overarching goal, the other five selected SDGs are: Quality education (4); Decent work and economic growth (8); Responsible consumption & production (12); Climate action (13); and Partnerships for the goals (17).

DSV Panalpina as new global partner

In support of SDG 17 (strengthening the means of implementation and revitalise the global partnership for sustainable development), in January, Vestas announced a partnership with DSV Panalpina A/S – including a commitment to reduce and eliminate CO₂ emissions related to transport and logistics.

Business ethics

As an ongoing effort to keep focusing on compliance, Vestas launched a campaign in first quarter 2020, aiming at "Hard Decisions". There was a special focus on the role of managers to discuss challenging scenarios with their employees, cover decision-making and how to identify potentially non-compliant behaviour before it unfolds.

Employees

During the first quarter of 2020, the number of employees increased by 406 to 25,948.

As announced on 20 April 2020, Vestas has decided to optimise and simplify the product portfolio for the coming years to ensure Vestas' long-term success and to ensure that it, despite the COVID-19 situation, exits 2020 in the position of strength with which it was entered. Hence, Vestas will lay off approx. 400 employees, mainly in Denmark. Vestas will continue to scale the organisation

⁷ International renewable electricity certificates (I-RECs) are not considered carbon offsets. Each I-REC guarantees that one additional MWh of renewable electricity is generated.

according to, among other things, the expected activity level.

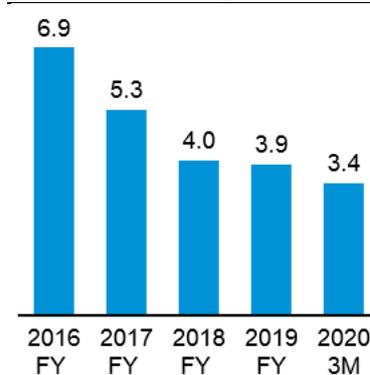
As part of its Diversity & Inclusion initiatives, in March, Vestas announced its participation in Women in Wind 2020 – aiming to drive gender parity in the wind energy sector.

Safety

In the first three months of 2020, 46 total recordable injuries were registered, giving an incidence rate of 3.4, compared to 3.8 in the same period the year before. The target for 2020 is a max. of 3.1 total recordable injuries per one million working hours.

Incidence of total recordable injuries

Per one million working hours



Environmental performance

Mainly owing to efficiency improvements implemented in 2019, which took full effect this quarter, the energy and water consumption decreased compared to the same period last year, despite increased activity in both manufacturing, service, and installation.

The waste generation in manufacturing increased compared to first quarter 2019 as the activity level increased.

In 2019, Vestas decided no longer to compensate for non-renewable electricity with Vestas-owned wind power plants. Without this compensation, in the first three months of 2020, the share of renewable electricity in Vestas' own operations increased 11 percentage-points from first quarter last year due to the increased use of local renewable electricity certificates (I-RECs)⁷. As a member of RE100, Vestas remains committed to sourcing 100 percent of its electricity from renewable sources.

The increased share of renewable electricity has led to a 22 percent decrease in CO₂ emissions from Vestas' own operations compared to the same period last year.

Outlook 2020

On 7 April 2020, Vestas suspended its financial guidance for 2020 as a consequence of insufficient visibility regarding the impact of the COVID-19 pandemic for the remainder of the year. Vestas will maintain the suspension of the outlook for 2020 and provide the market with updated guidance as soon as the company can assess the full-year results with reasonable confidence.

According to Vestas' current judgement, meeting the initial guidance on revenue and EBIT margin before special items is still possible. Further, with the current visibility, Vestas' assessment for the year shows the following: For the Service segment, due to its predictable nature and more supply chain resilience, revenue growth and EBIT margin before special items for full year are expected to be unchanged from the initial guidance, i.e. approx. 7 percent and approx. 25 percent, respectively. Additionally, Vestas' total investments^{*)} are estimated to be below EUR 700m in 2020.

Outlook 2020 (suspended)

	Current guidance	Initial guidance
Revenue (bnEUR)	Suspended	14-15
EBIT margin (%) before special items	Suspended	7-9
Total investments ^{*)} (mEUR)	Suspended	approx. 700

^{*)} Excl. investments in marketable securities and short-term financial investments

Consolidated financial statements 1 January - 31 March

Condensed income statement 1 January - 31 March

mEUR	Note	Q1 2020	Q1 2019
Revenue	1.1, 1.2	2,235	1,730
Production costs		(2,076)	(1,495)
Gross profit		159	235
Research and development costs		(72)	(66)
Distribution costs		(90)	(57)
Administration costs		(51)	(69)
Operating profit (EBIT) before special items	1.1	(54)	43
Special items	1.3	(58)	-
Operating profit (EBIT)		(112)	43
Income from investments in joint ventures and associates		7	6
Net financial items		(2)	(15)
Profit before tax		(107)	34
Income tax		27	(9)
Profit for the period		(80)	25
Profit is attributable to:			
Owners of Vestas		(75)	25
Non-controlling interests		(5)	(0)
Earnings per share (EPS)			
Earnings per share for the period (EUR), basic		(0.38)	0.13
Earnings per share for the period (EUR), diluted		(0.38)	0.13

Condensed statement of comprehensive income 1 January - 31 March

mEUR	Q1 2020	Q1 2019
Profit for the period	(80)	25
Items that may be reclassified to the income statement subsequently:		
Exchange rate adjustments relating to foreign entities	(32)	49
Fair value adjustments of derivative financial instruments for the period	304	(12)
Gain/(loss) on derivative financial instruments transferred to the income statement	(23)	(4)
Exchange rate adjustments relating to joint ventures	(1)	1
Share of fair value adjustments of derivatives financial instruments of joint ventures and associates	22	(51)
Share of fair value adjustments of derivatives financial instruments transferred to the income statement of joint ventures and associates	3	0
Tax on items that may be reclassified to the income statement subsequently	(72)	5
Other comprehensive income after tax for the period	201	(12)
Total comprehensive income for the period	121	13

The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed balance sheet – Assets

mEUR	Note	31 March 2020	31 March 2019	31 December 2019
Goodwill		389	381	386
Completed development projects		341	274	374
Software		160	115	157
Other intangible assets		23	48	30
Development projects in progress	1.3	285	300	261
Total intangible assets		1,198	1,118	1,208
Land and buildings		648	668	653
Plant and machinery		299	260	338
Other fixtures, fittings, tools and equipment	1.3	355	260	345
Right-of-use assets		192	194	139
Property, plant and equipment in progress		154	183	196
Total property, plant and equipment	2.1	1,648	1,565	1,671
Investments in joint ventures and associates		203	219	169
Other investments		64	36	65
Tax receivables		156	140	156
Deferred tax		316	309	324
Other receivables	3.4	154	78	85
Financial investments	3.4	211	205	211
Total other non-current assets		1,104	987	1,010
Total non-current assets		3,950	3,670	3,889
Inventories		4,900	3,899	4,098
Trade receivables		1,456	791	1,460
Contract assets		556	420	528
Contract costs		518	383	418
Tax receivables		175	104	125
Other receivables	3.4	1,191	621	752
Financial investments	3.4	174	441	173
Cash and cash equivalents	3.2	1,965	2,054	2,888
Total current assets		10,935	8,713	10,442
Total assets		14,885	12,383	14,331

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed balance sheet – Equity and liabilities

mEUR	Note	31 March 2020	31 March 2019	31 December 2019
Share capital	3.1	27	28	27
Other reserves		118	16	(67)
Retained earnings		3,259	3,028	3,333
Attributable to owners of Vestas		3,404	3,072	3,293
Non-controlling interests		45	12	52
Total equity		3,449	3,084	3,345
Provisions	2.2	453	409	459
Deferred tax		205	135	147
Financial debts	3.4	674	658	661
Tax payables		296	297	296
Other liabilities	3.4	89	78	76
Total non-current liabilities		1,717	1,577	1,639
Contract liabilities		5,473	4,429	5,020
Trade payables		3,064	2,481	3,119
Provisions	2.2	234	199	221
Financial debts	3.4	194	71	159
Tax payables		39	90	128
Other liabilities	3.4	715	452	700
Total current liabilities		9,719	7,722	9,347
Total liabilities		11,436	9,299	10,986
Total equity and liabilities		14,885	12,383	14,331

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed statement of changes in equity – 3 months 2020

mEUR	Reserves					Retained earnings	Non-controlling interests	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves			
Equity as at 1 January 2020	27	(4)	(4)	(59)	(67)	3,333	52	3,345
Profit for the period	-	-	-	-	-	(75)	(5)	(80)
Other comprehensive income for the period	-	(30)	209	24	203	-	(2)	201
Total comprehensive income for the period	-	(30)	209	24	203	(75)	(7)	121
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	(18)	-	(18)	-	-	(18)
Transaction with owners:								
Share-based payments	-	-	-	-	-	6	-	6
Tax on equity transactions	-	-	-	-	-	(5)	-	(5)
Total transactions with owners	-	-	-	-	-	1	-	1
Equity as at 31 March 2020	27	(34)	187	(35)	118	3,259	45	3,449

Condensed statement of changes in equity – 3 months 2019

mEUR	Reserves					Retained earnings	Non-controlling interests	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves			
Equity as at 1 January 2019	28	(22)	47	(3)	22	3,042	12	3,104
Effect of initially applying IFRIC 23	-	-	-	-	-	(43)	-	(43)
Adjusted equity as at 1 January 2019	28	(22)	47	(3)	22	2,999	12	3,061
Profit for the period	-	-	-	-	-	25	(0)	25
Other comprehensive income for the period	-	49	(11)	(50)	(12)	-	-	(12)
Total comprehensive income for the period	-	49	(11)	(50)	(12)	25	(0)	13
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	6	-	6	-	-	6
Transaction with owners:								
Share-based payments	-	-	-	-	-	4	-	4
Tax on equity transactions	-	-	-	-	-	(0)	-	(0)
Total transactions with owners	-	-	-	-	-	4	-	4
Equity as at 31 March 2019	28	27	42	(53)	16	3,028	12	3,084

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed cash flow statement 1 January - 31 March

mEUR	Note	Q1 2020	Q1 2019
Profit for the period		(80)	25
Adjustment for non-cash transactions		114	150
Income tax paid		(107)	(9)
Interest paid / received, net		(12)	(10)
Cash flow from operating activities before change in net working capital		(85)	156
Change in net working capital		(675)	(856)
Cash flow from operating activities		(760)	(700)
Purchase of intangible assets		(70)	(69)
Purchase of property, plant and equipment		(90)	(105)
Disposal of property, plant and equipment		-	4
Purchase of other non-current financial assets		(1)	(1)
Disposal of other non-current financial assets		2	-
Acquisition of joint ventures and associates		-	(5)
Cash flow from investing activities before acquisitions of financial investments		(159)	(176)
Free cash flow before acquisitions of financial investments		(919)	(876)
Purchase of financial investments		-	(19)
Cash flow from investing activities		(159)	(195)
Free cash flow		(919)	(895)
Payment of lease liabilities		(11)	(14)
Proceeds from borrowings		53	33
Cash flow from financing activities		42	19
Net decrease in cash and cash equivalents		(877)	(876)
Cash and cash equivalents at the beginning of period		2,888	2,918
Exchange rate adjustments of cash and cash equivalents		(46)	12
Cash and cash equivalents at the end of the period		1,965	2,054

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

Notes

1 Result for the period

1.1 Segment information

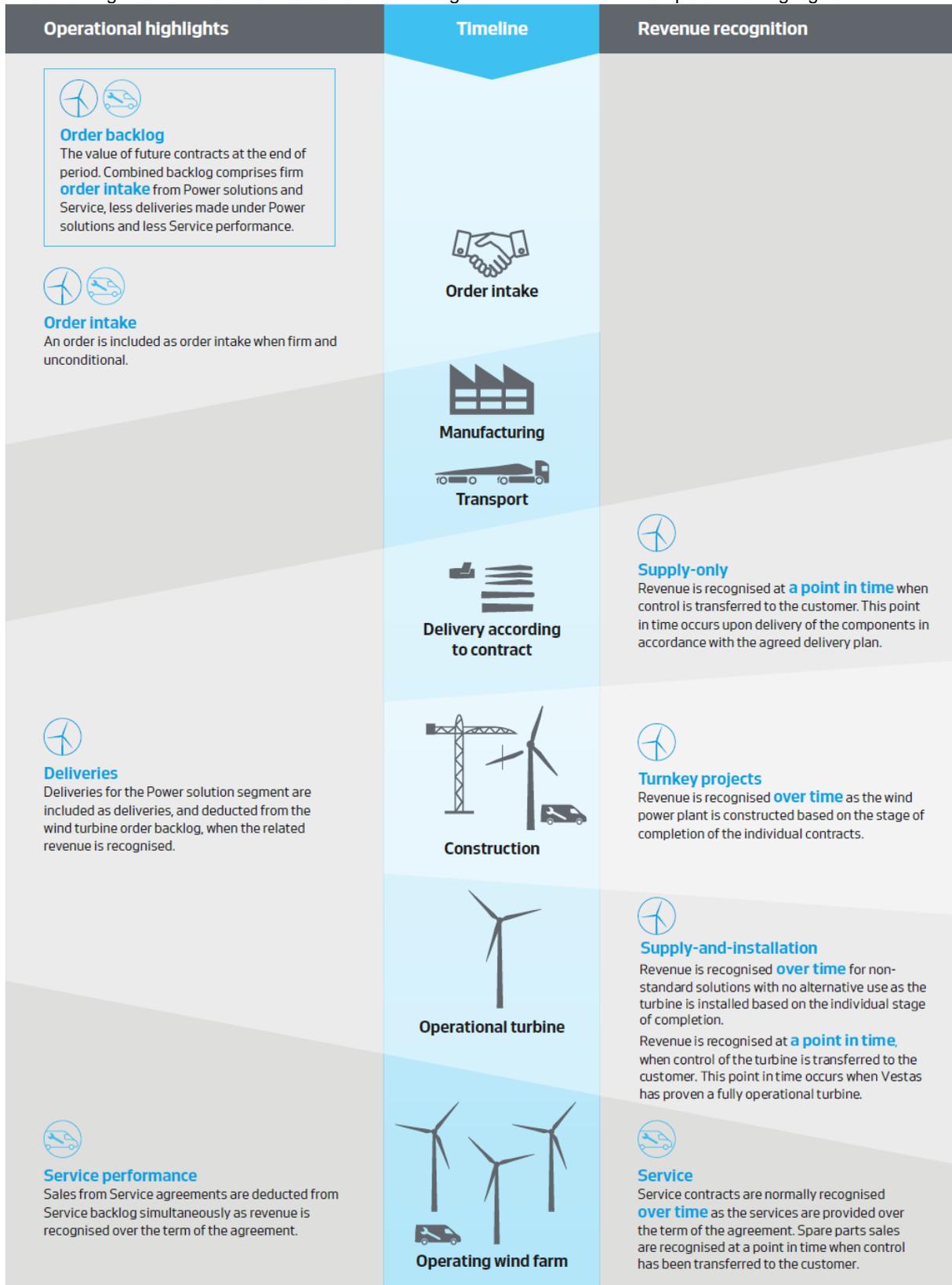
mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2020				
Total revenue	1,761	474	-	2,235
Total costs	(1,878)	(350)	(61)	(2,289)
Operating profit (EBIT) before special items	(117)	124	(61)	(54)
Special items	(58)	-	-	(58)
Operating profit (EBIT)	(175)	124	(61)	(112)
Income from investments in joint ventures and associates				7
Net financial items				(2)
Profit before tax				(107)
Amortisation and depreciation included in total costs	(119)	(17)	(15)	(151)

In the first quarter of 2020, impairment losses of EUR 48m and provision for purchase commitments of EUR 10m related to the discontinuation of development projects have been recognised in special items, impacting the Power solutions segment.

mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2019				
Total revenue	1,306	424	-	1,730
Total costs	(1,318)	(312)	(57)	(1,687)
Operating profit (EBIT)	(12)	112	(57)	43
Income from investments in joint ventures and associates				6
Net financial items				(15)
Profit before tax				34
Amortisation and depreciation included in total costs	(94)	(15)	(17)	(126)

1.2 Revenue

The following illustration shows Vestas' revenue recognition and the link to the operational highlights.



Disaggregation of revenue

In the following section, revenue is disaggregated by sale of projects and sale of service, by primary geographical market, major contract types, and timing of revenue recognition.

As disclosed in the Annual report 2019, the number of Supply-and-installation projects with no alternative use is increasing, including projects with customised towers. With reference to Vestas' key accounting estimates related to revenue recognition described in the Annual report 2019 page 064, revenue from such contracts is recognised over time (percentage-of-completion). During the first quarter of 2020, Supply-and-installation projects with no alternative use constituted 33 percent of the total Supply-and-installation revenue for the quarter, compared to 36 percent in the first quarter of 2019. For the full year 2020, this share is expected to increase compared to 2019. The projects are mainly located in Latin America, primarily in Brazil.

mEUR	Power solutions		Service		Total	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
Timing of revenue recognition						
Products and services transferred at a point in time	1,113	967	71	57	1,184	1,024
Products and services transferred over time	648	339	403	367	1,051	706
	1,761	1,306	474	424	2,235	1,730
Revenue from contract types						
Supply-only	551	682	-	-	551	682
Supply-and-installation (at a point in time)	562	285	-	-	562	285
Supply-and-installation (over time)	276	161	-	-	276	161
Turnkey (EPC)	372	178	-	-	372	178
Service	-	-	474	424	474	424
	1,761	1,306	474	424	2,235	1,730
Primary geographical markets						
EMEA	564	345	259	238	823	583
Americas	815	758	175	143	990	901
Asia Pacific	382	203	40	43	422	246
	1,761	1,306	474	424	2,235	1,730

1.3 Special items

Group accounting policies

Special items comprise significant unusual and/or infrequently occurring items that are not attributable to Vestas' normal operations. Special items comprise income and costs related to significant organisational restructuring and significant adjustments to production capacity and the product programme. The costs include the write-down of intangible and tangible assets as well as provisions for re-organisations and any reversal/adjustments thereof.

Key accounting judgement

Classification

The use of special items entails management judgement in the separation from other items in the income statement. In connection with the use of special items, it is crucial that these are of a significant unusual and/or infrequently occurring nature that are not attributable to Vestas' normal operations, as such classification highlights to users of financial statements the items to which the least attention should be given when understanding current and future performance.

Optimising and simplifying the product portfolio

With reference to the press release dated 20 April 2020, Vestas has decided to optimise and simplify the product portfolio for the coming years to ensure Vestas' long-term success and to ensure that it, despite the COVID-19 situation, exits 2020 in the position of strength with which it was entered. This event qualifies as special items in accordance with Vestas' accounting principles. In total, special items of EUR 58m has been recognised. EUR 48m as impairment of intangible and tangible fixed assets and EUR 10m recognised as provision for purchase commitments.

Basis for impairment test

The decision to optimise and simplify the product portfolio includes the discontinuation of certain development project including the V138-3.0 MW™ turbine. This has led to the recognition of an impairment loss of EUR 48m in first quarter of 2020. The impairment loss is allocated to the Power solution segment and is the result of the impairment loss of development projects in progress and other equipment.

mEUR	31 March 2020	31 March 2019	31 December 2019
Impairment loss on intangible and tangible assets	(48)	-	-
Purchase commitments	(10)	-	-
Special Items	(58)	-	-

2 Other operating assets and liabilities

2.1 Property, plant and equipment

In the first quarter of 2020, Vestas acquired assets with a cost of EUR 90m mainly related to investments within the manufacturing area in blade moulds, transport equipment and tools, compared to EUR 105m in the first quarter of 2019.

Lease contracts recognised as right-of-use assets during the first quarter of 2020 amounted to EUR 18m, compared to EUR 0m in the first quarter of 2019.

2.2 Warranty provisions (included in provisions)

mEUR	31 March 2020	31 March 2019	31 December 2019
Warranty provisions, 1 January	619	546	546
Provisions for the period	70	36	291
Warranty provisions consumed during the period	(73)	(41)	(218)
Warranty provisions	616	541	619
The provisions are expected to be payable as follows:			
< 1 year	215	189	214
> 1 year	401	352	405
	616	541	619

In the first quarter of 2020, warranty provisions charged to the income statement amounted to EUR 70m, equivalent to 3.1 percent of revenue. Warranty consumption amounted to EUR 73m compared to EUR 41m in the first quarter of 2019. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 2.0 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.

3 Capital structure and financing items

3.1 Share capital

Pursuant to authorisation granted to the Board of Directors at the Annual General Meeting 7 April 2020, the Board of Directors was authorised to acquire treasury shares on behalf of Vestas at a nominal value not exceeding 10 percent of the share capital at the time of authorisation. Further, the proposal to reduce Vestas' share capital by nominally DKK 1,977,848 by cancelling 1,977,848 shares from Vestas' holding of treasury shares was approved at the general meeting.

Treasury shares

Number of shares / Nominal value (DKK)	31 March 2020	31 March 2019	31 December 2019
Treasury shares as at 1 January	3,559,449	8,418,860	8,418,860
Purchases for the period	-	-	2,302,859
Cancellation for the period	-	-	(6,794,040)
Awarded treasury shares for the period	(359,893)	(211,464)	(368,230)
Treasury shares	3,199,556	8,207,396	3,559,449

3.2 Cash and cash equivalents

mEUR	31 March 2020	31 March 2019	31 December 2019
Cash and cash equivalents without disposal restrictions	1,940	2,022	2,864
Cash and cash equivalents with disposal restrictions	25	32	24
Cash and cash equivalents	1,965	2,054	2,888

3.3 Financial risks

Financial risks, and how Vestas manages the risk, including liquidity, credit, and market risks, were addressed in the notes to the Consolidated financial statements in the Annual report 2019, note 4.6, pages 087-091. The risks in 2020 remain similar in nature.

On 1 May 2020, Vestas has established new committed loan facilities totalling EUR 1,000m to supplement Vestas' existing EUR 1,150m credit facility, maturing in 2024. The new credit facilities will mature in 2021. Subsequently to the establishment, Vestas has EUR 1,550m credit facilities available for cash drawing.

3.4 Financial instruments

Financial instruments measured at fair value have been categorised into level 1, 2, and 3 as addressed in the Annual report 2019, note 4.7, page 092. During the first quarter of 2020, there have been no significant new items compared to 2019, and there have been no significant transfers between levels.

Financial investments consist of interest-bearing investments which do not meet the definition for cash and cash equivalents. As at 31 March 2020, the fair value of financial investments amounted to EUR 385m, equal to book value. Marketable securities amounted to EUR 100m and deposits amounted to EUR 285m.

Derivative financial instruments were positive with a market value of net EUR 282m, equal to book value, and were included in other receivables and other liabilities with EUR 652m and EUR 370m, respectively. The net market value is impacted by various weakened currencies related to especially emerging countries due to the COVID-19 pandemic.

Financial instrument assets categorised within level 3 comprise other equity investments and renewable energy certificates, where financial instrument liabilities comprise contingent consideration regarding the acquisition of Utopus Insights, Inc. in 2018. Valuation methods remain unchanged from the description in the Annual report 2019 and with no significant changes in fair values.

The book value of the Green Corporate Eurobond issued by Vestas was EUR 498m with a corresponding fair value of EUR 502m as at 31 March 2020. The book value of the SoWiTec corporate bond was EUR 15m with a corresponding fair value of EUR 15m as at 31 March 2020.

4 Other disclosures

4.1 Related party transactions

Vestas has had the following material transactions with joint ventures and associates:

mEUR	Q1 2020	Q1 2019
Joint ventures		
Revenue for the period	56	37
Capital increase	-	1
Receivable as at 31 March	67	48
Received prepayments balance as at 31 March	179	108
Associates		
Payable capital contribution as at 31 March	41	37

No other significant changes have occurred with 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 2019, note 6.3, page 102.

4.2 Subsequent events

In April 2020, Vestas laid off approx. 400 employees primarily located in Denmark to optimise and simplify the product portfolio for the coming years to ensure Vestas' long-term success and to ensure that it, despite the COVID-19 situation, exits 2020 in the position of strength with which it was entered. The optimisation has led to discontinuing certain development projects in progress including the V138-3.0 MW™ turbine. As a consequence of discontinuing these projects, Vestas will recognise additional staff costs of approx. EUR 5m in the second quarter of 2020. For further information on the discontinued development projects in progress, refer to note 1.3 Special items.

Except for the above, no material events have occurred subsequent to the balance sheet date.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas 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, accounting policies set out in the Annual report 2019 of Vestas and additional Danish disclosure requirements for interim financial reporting of listed companies.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual report for the year ended 31 December 2019 and any public announcements made during the interim reporting period.

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 Vestas, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of Vestas' assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances.

As described in the Annual report 2019, Vestas has over recent years experienced an increasing number of Supply-and-Installation projects with no alternative use, among other things arising from an extended number of projects with customised towers. Revenue from such projects is accounted for under the percentage-of-completion method, whereas

revenue from Supply-and-Installation projects with alternative use is recognised at a point in time when control is transferred to the customer. Application of the percentage-of-completion method is described on page 064 of the Annual report 2019.

As of first quarter 2020, revenue from Supply-and-Installation projects with no alternative use is presented as a separate contract type when disaggregating revenue, ref. note 1.2. Comparative figures have been restated accordingly.

Accounting estimates and assumptions made when calculating the carrying amount of certain assets and liabilities have not been impacted significantly in the first quarter of 2020 by the COVID-19 outbreak.

Reference is made to the consolidated financial statements in the Annual report 2019, note 7.2, page 107 for further description of Vestas' key accounting estimates and judgements.

Estimate regarding recognition of contract elements

Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, Supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future. Management has assessed that the project specific margin is a fair estimate of a reasonable margin used to allocate consideration under a contract to the contract elements.

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 2020.

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 2019 of Vestas 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 Vestas' assets, liabilities, and financial position as at 31 March 2020 and of the results of Vestas' operations and cash flows for the period 1 January to 31 March 2020.

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

Besides what has been disclosed in the interim financial report, no changes in Vestas' most significant risks and uncertainties have occurred relative to what was disclosed in the Annual report 2019.

Aarhus, Denmark, 5 May 2020

Executive Management

Henrik Andersen
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eva Merete Søfelde Berneke

Bruce Grant

Helle Thorning-Schmidt

Anders Runevad

Karl-Henrik Sundström

Michael Abildgaard Lisbjerg*

Sussie Dvinge Agerbo*

Pia Kirk Jensen*

Kim Hvid Thomsen*

*) Employee representative

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 2019 (available at [vestas.com/investor](https://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 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.