Financial performance

> "2015 continued the positive trend with a double-digit EBIT margin and free cash flow above EUR 1bn – a strong piece of evidence that we are executing well on our strategy of profitable growth."

Marika Fredriksson
Executive Vice President & CFO

Order backlog and activities – wind turbines

Compared to 2014, the order intake in MW for the year increased by 37 percent to 8,943 MW corresponding to EUR 8.2bn. All regions contributed to this increase, but with the US market leading with a significant growth. This was supplemented by a continued steady growth in the European market and a pick-up in order intake in China and the emerging markets, particularly in Latin America and Asia. From a regional view, Europe, Middle East, and Africa (EMEA) accounted for 43 percent, Americas for 46 percent, and Asia Pacific for 11 percent of the order intake in 2015. 76 percent of total orders in 2015 were announced publicly.

At the end of 2015, the wind turbine order backlog amounted to 8,732 MW corresponding to EUR 7.9bn against 7,513 MW and EUR 6.7bn at the end of 2014. The size of the MW backlog was positively impacted by the strong order intake. The average pricing as measured in EUR/MW in the year-end backlog was stable compared to 2014. In terms of MW in the backlog, the EMEA region accounted for 44 percent, Americas for 45 percent, and Asia Pacific for 11 percent, making the Americas region on a par with the EMEA region when considering backlog volume.

Level of activity

In 2015, Vestas produced and shipped 3,330 wind turbines with an aggregate capacity of 7,948 MW, which (as measured in MW) was a 30 percent increase compared to 2014, when Vestas produced and shipped 2,527 wind turbines totalling 6,125 MW. In 2015, final capacity delivered to the customers amounted to 7,486 MW – an increase of 20 percent compared to 2014. The growth was in particular driven by increased deliveries to the US market where deliveries almost doubled from 1,517 MW in 2014 to 2,999 MW in 2015. Deliveries in the Americas and EMEA regions increased by 45 and 8 percent in 2015, respectively, while the Asia Pacific region decreased by 16 percent.

At the end of the year, wind turbine projects with a total output of 1,939 MW were under completion – an increase of 462 MW, or 31 percent, compared to the end of 2014. MW under completion is reflected in the level of inventories, as a large share of these MW has not yet been recognised as revenue. However, inventory is to a large extent funded by down and milestone payments from customers reflected in prepayments in the balance sheet. The revenue recognition of these MW will take place when the projects are finally delivered to the customers.

Overview per region
MW

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Under completion, 1 January 2015	945	446	86	1,477
Delivered to customers during 2015	(3,672)	(3,357)	(457)	(7,486)
Produced and shipped during 2015	3,643	3,795	510	7,948
Under completion, 31 December 2015	**916**	**884**	**139**	**1,939**

Revenue from sale of wind turbines increased by 23 percent to EUR 7,285m compared to EUR 5,946m in 2014 which was driven by the abovementioned growth in deliveries to customers as well as positive impacts from currency rate developments of approx EUR 450m, mainly attributable to the EUR/USD development.

Vestas achieved an improvement in the EBIT margin before special items of the project segment from 9.5 percent in 2014 to 11.4 percent in 2015, corresponding to EUR 829m before special items compared to EUR 566m in 2014.

Order backlog and activities – service

At the end of 2015, Vestas' service order backlog totalled EUR 8.9bn which is an increase from 2014 of EUR 1.9bn equal to 27 percent. This increase was mainly driven by a strong service order intake. At the end of December 2015, the average duration in the service order backlog was approx six years.

Service revenue increased to EUR 1,138m from EUR 964m in 2014 – an increase of EUR 174m. The increase was mainly driven by organic growth supported by positive impact from currency rate development of approx EUR 50m. The increased revenue was reflected in the 2015 service EBIT before special items of EUR 201m compared to EUR 169m in 2014, maintaining the EBIT margin before special items for the service business at 18 percent, in line with 2014 despite the occurrence of impairment and write-offs on service inventories of EUR 25m impacting the service segment EBIT.

In December 2015, Vestas acquired US independent service provider UpWind Solutions, Inc. and along with the agreement to acquire Germany-based independent service provider Availon Holding GmbH announced 20 January 2016, Vestas accelerates its profitable growth strategy to capture the full potential of the service business through strengthening the ability to service a broad range of wind turbine technologies.

Income statement

Revenue

Revenue increased by 22 percent to EUR 8.4bn in 2015 – within the revised guidance range announced in November 2015 of EUR 8.0bn-8.5bn. The revenue increase was for the majority driven by an increase in volumes. Revenue was also supported by positive currency developments with an effect of approx EUR 500m primarily driven by the EUR/USD development. EMEA accounted for 52 percent of annual revenue, while Americas and Asia Pacific accounted for 41 and 7 percent, respectively.

Distribution of revenue
mEUR

	2015	2014
Europe, Middle East, and Africa	4,357	4,167
Americas	3,476	2,131
Asia Pacific	590	612
Total	**8,423**	**6,910**
– of which service revenue	1,138	964

Gross profit and EBITDA

Vestas' gross profit increased by 28 percent from EUR 1,178m in 2014 to EUR 1,505m in 2015, equal to a gross margin of 17.9 percent – a 0.9 percentage point increase relative to 2014. The gross profit increase was mainly driven by the increased volumes, better average project margins, and growth in the service business.

Further, gross profit was negatively impacted by a EUR 50m write-down of inventory incurred in the fourth quarter of 2015 related to development and construction activities in prior years.

EBITDA before special items increased by 30 percent to EUR 1,212m, which translates into an EBITDA margin before special items of 14.4 percent – an increase of 1.0 percentage points compared to 2014.

Depreciation and amortisation decreased by EUR 17m to EUR 349m due to the reduced investment level in recent years.

Research and development costs
Research and development costs recognised in the income statement amounted to EUR 211m which is in line with EUR 213m in 2014. The total R&D expenditure prior to capitalisation and amortisation decreased to EUR 156m in 2015, against EUR 159m in 2014.

Distribution costs
Distribution costs amounted to EUR 186m, which was EUR 28m higher than in 2014. The increase was driven by the growth in deliveries.

Administration costs
2015 administration costs were maintained at EUR 248m, equivalent to the level in 2014, despite a growth in revenue of 14 percent excluding the impact from currency developments. Administration costs constituted 2.9 percent of revenue in 2015 compared to 3.6 percent in 2014.

Operating profit (EBIT) before special items
Vestas secured an operating profit (EBIT) before special items of EUR 860m in 2015 – an improvement of EUR 301m compared to 2014. The EBIT margin before special items was 10.2 percent in 2015 against 8.1 percent in 2014. This was slightly higher than the expected range of 9-10 percent announced in November 2015.

10.2%

EBIT margin before special items amounted to 10.2 percent – an increase of 2.1 percentage points compared to 2014.

The increased operating profit was positively impacted by the increased gross profit combined with the leverage effect from R&D, distribution and administration costs increasing less than the overall activity level.

Special items
Vestas has recognised special items of positive EUR 46m in 2015, mainly linked to a gain of EUR 47m from reversal of a previous impairment loss related to US factories. The reversal is a result of an improved outlook for the US market driven by the 2015 extension of the Production Tax Credit (PTC) scheme in the USA adopted in 2015.

Income from investments accounted for using the equity method
Income from investments accounted for using the equity method amounted to an income of EUR 34m, of which a net loss of EUR 1m relates to Vestas' share of loss in the offshore joint venture on a stand-alone basis. The residual amount of positive EUR 35m relates to timing differences linked to delivery and revenue recognition in the offshore joint venture.

It should be noted that the net effect of the timing differences accounting-wise will be zero over time and that underlying profitability of the joint venture is the amount reported as Vestas' share of profits on a stand-alone basis.

Financial items
In 2015, financial items represented a net cost of EUR 15m compared to a net cost of EUR 53m in 2014. The improvement was caused by lower interests and fees cost compared to 2014, amongst others attributable to reduced interest cost for the renewed eurobond which has a coupon of 2.75 percent and principal of EUR 500m – compared to a coupon of 4.625 percent and principal of EUR 600m for the bond that was replaced early in 2015.

Profit before and after tax
Profit before tax amounted to EUR 925m in 2015 compared to EUR 523m in 2014. In 2015, the income tax expense was EUR 240m, equalling an effective tax rate of 26 percent against 25 percent in 2014. The resulting profit after tax increased by 75 percent to EUR 685m in 2015 compared to EUR 392m in 2014, driven by the growth in revenue and EBIT.

EUR 860m

Vestas reached an operating profit (EBIT) before special items for the year of EUR 860m – compared to EUR 559m in 2014.

Balance sheet

Vestas' total assets increased by EUR 1,590m to EUR 8,587m in 2015, driven by increased activity in the value chain to prepare for a busy 2016. Furthermore, Vestas' cash balance increased by EUR 0.7bn which also impacted total assets.

Non-current assets
Non-current assets amounted to EUR 2,508m at the end of 2015 – an increase of EUR 310m compared to 2014. The increase was driven by investments during the year, reversal of a previously recognised impairment loss related to US factories and a valuation adjustment of Vestas' share of the equity in the offshore joint venture with Mitsubishi Heavy Industries Ltd., MHI Vestas Offshore Wind. The acquisition of US independent service provider UpWind Solutions, Inc. increased non-current assets by EUR 61m of which EUR 37m related to goodwill.

Current assets
At the end of 2015, current assets amounted to EUR 5,976m – an increase of EUR 1,280m compared to the end of 2014. This increase was mainly related to a higher cash balance as well as an increase in activity-driven items such as inventories and trade receivables.

Net working capital
At 31 December 2015, Vestas' net working capital amounted to a net liability of EUR 1,383m, which is an improvement of EUR 426m compared to a net liability of EUR 957 in 2014. The net working capital improvement during 2015 is an outcome of Vestas' working capital management strategy which among other things target financially sustainable inventory build-up through management of trade payables, reduction of lead times in production and construction processes to lower work-in-progress and adequate timing of prepayments from customers.

Inventories
Inventories amounted to EUR 1,899m at the end of 2015, an increase of EUR 390m relative to the end of 2014. The increase can mainly be attributed to higher activity in the fourth quarter of 2015 in anticipation of the continued increased activity levels expected in 2016.

VESTAS **FACTS**

Net debt and cash equivalents

The average interest-bearing position (net) was positive EUR 1,721m in 2015, against positive EUR 494m in 2014. At the end of 2015, Vestas had a net cash position of EUR 2,270m, which was an improvement of EUR 859m compared to the end of 2014. Positive free cash flow driven by higher profit from the underlying operations combined with active working capital management were the main drivers for the growth in net cash position. Cash and cash equivalents stood at EUR 2,765m and financial debt at EUR 495m representing the green corporate eurobond. In March 2015, Vestas replaced its existing corporate eurobond of EUR 600m with a new green corporate Eurobond for a principal amount of EUR 500m with maturity in March 2022.

The net debt/EBITDA ratio improved to (1.9) by the end of 2015, compared to (1.5) in 2014.

Warranty provisions

In 2015, Vestas made total warranty provisions of EUR 160m, equalling 1.9 percent of revenue. Vestas continues its efforts to improve the reliability of its wind turbines through increased investments in development, testing, monitoring, and servicing of the wind power plants and in 2015, Vestas consumed warranty provisions totalling EUR 95m, corresponding to 1.1 percent of revenue. In 2014, warranty provisions represented 1.8 percent of revenue and warranty consumption amounted to 1.6 percent of revenue.

Changes in equity

Vestas' equity amounted to EUR 2,899m at the end of 2015 compared to EUR 2,379m at 31 December 2014. Equity was positively impacted by net profit in 2015, however, offset by the impact of dividend pay-out and the share buy-back programme.

In April 2015, Vestas paid a dividend for 2014 to its shareholders amounting to EUR 116m, or EUR 0.52 per share, equivalent to a dividend percentage of 29.9 percent measured against the net profit for 2014. Furthermore, to adjust Vestas' capital structure and to meet the obligations arising from employee share option programmes and/or other allocations of shares to employees of Vestas, the Board of Directors initiated a share buy-back programme of EUR 150m, which was successfully completed on 18 December 2015.

At the end of December 2015, the solvency ratio was 34 percent – at the same level as 31 December 2014.

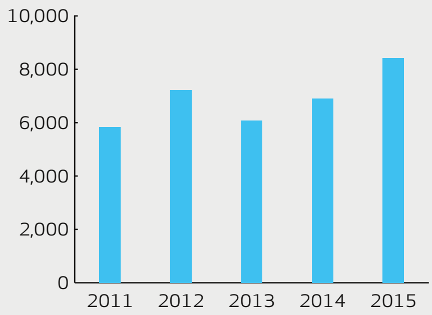
Cash flow and investments

In 2015, cash flow from operating activities before changes to net working capital amounted to EUR 1,075m – an increase of EUR 209m compared to 2014 as a result of higher profit from the underlying operations. Additionally, the cash flow benefitted from changes to net working capital of EUR 397m compared to EUR 260m in 2014. The resulting cash flow from operating activities was EUR 1,472m in 2015 – an increase of EUR 346m compared to 2014.

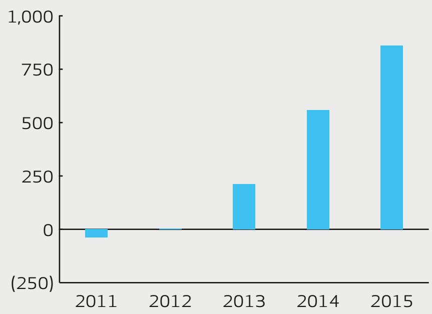
Cash flow from investing activities amounted to an outflow of EUR 425m which is in line with the guidance of approx EUR 400m and EUR 140m higher than in 2014. The increase was mainly driven by investments in property, plant and equipment and by the EUR 55m acquisition of US independent service provider UpWind Solutions, Inc.

Consequently, free cash flow increased by EUR 206m to EUR 1,047m, which slightly exceeded Vestas' updated guidance of approx EUR 750m-950m from December 2015.

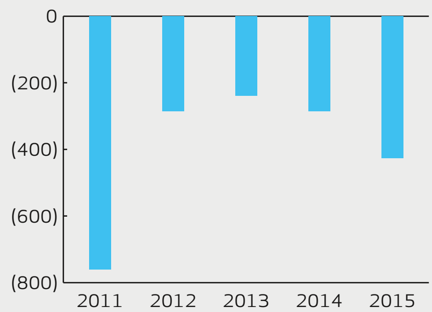
Revenue
mEUR



EBIT before special items
mEUR



Total investments
mEUR



* Including the acquisition of UpWind Solutions, Inc. of EUR 55m.

Free cash flow
mEUR