# Financial performance


## Project performance

**Order intake**

In 2016, the order intake was strong and amounted to 10,494 MW corresponding to EUR 9.5bn. Compared to 2015, the order intake in MW for the year increased by 17 percent equivalent to EUR 1.3bn.

All regions contributed to the increase in order intake. The US market displayed a strong demand especially during December 2016, while the steady growth continued across the markets in Europe, Middle East, and Africa (EMEA) and Asia Pacific and amongst others Vestas received its largest order to date during 2016. The order, which is to be delivered in Norway, contributed with 1 GW to the order intake.

EMEA accounted for 49 percent (2015: 43 percent), Americas for 41 percent (2015: 46 percent), and Asia Pacific for 10 percent (2015: 11 percent) of the order intake in 2016 in MW. In 2016, 72 percent of total orders were announced publicly.

**Level of activity**

Vestas had a busy year with a high activity-level. Final projects delivered to the customers totalled 9,654 MW, which was a 29 percent increase compared to 2015. The growth was in particular driven by increased deliveries to the US market. Americas accounted for 50 percent (2015: 45 percent), EMEA for 41 (2015: 49 percent) percent, and Asia Pacific for 9 percent (2015: 6 percent) of the deliveries in MW. By the end of the year Vestas had installed 82 GW in 76 countries.

**Order backlog**

At the end of the year, the order backlog amounted to 9,530 MW equalling EUR 8.5bn. Compared to last year, the order backlog in MW increased by 9 percent equivalent to EUR 0.6bn. Despite the increase in delivery of wind turbines, the order backlog has developed positively due to the strong order intake. EMEA accounted for 52 percent (2015: 44 percent) of the backlog, Americas for 36 percent (2015: 45 percent), and Asia Pacific for 12 percent (2015: 11 percent) in MW.

The average pricing as measured in EUR/MW in the year-end backlog was stable at 0.9m EUR/MW compared to 0.9m EUR/MW in 2015.

**Overview per region**

MW

| | Europe, Middle East, and Africa | Americas | Asia Pacific | Total |
|---|---|---|---|---|
| Under completion, 1 January 2016 | 916 | 884 | 139 | 1,939 |
| Delivered to customers during 2016 | (3,991) | (4,825) | (838) | (9,654) |
| Produced and shipped during 2016 | 4,282 | 4,826 | 849 | 9,957 |
| **Under completion, 31 December 2016** | **1,207** | **885** | **150** | **2,242** |

## Service performance

**Level of activity**

The service activity was at a higher level compared to last year, due to a combination of organic growth and acquisitions. By the end of 2016 Vestas has more than 37,000 wind turbines under service equivalent to approx 71 GW.

During the year, the Germany-based independent service provider Availon Holding GmbH was acquired to strengthen the ability to service a broad range of wind turbine technologies amongst others, and hence, support the growth strategy in the service business.

**Order backlog**

At the end of 2016, Vestas had service agreements with expected contractual revenue of EUR 10.7bn, up 20 percent from 8.9bn in 2015. At the end of the year, the average duration in the service order backlog was approx six years, which was stable compared to last year.

1) Before investments in market securities and short term financial investments.

## Result for the year

### Revenue

Revenue in 2016 amounted to EUR 10.2bn, which was an increase of 22 percent compared to 2015 and within the updated guidance range of EUR 10.0bn-10.5bn announced 8 November 2016. The revenue growth was derived from all regions. EMEA accounted for 45 percent (2015: 52 percent) of revenue, while Americas and Asia Pacific accounted for 47 percent (2015: 41 percent) and 8 percent (2015: 7 percent), respectively. Revenue from the Project segment increased by 23 percent to EUR 8,928m, which was driven by the increased deliveries to customers. Service revenue increased by 15 percent to EUR 1,309m.

**Distribution of revenue**
mEUR

| | 2016 | 2015 |
|---|---|---|
| Europe, Middle East, and Africa | 4,641 | 4,357 |
| Americas | 4,823 | 3,476 |
| Asia Pacific | 773 | 590 |
| **Total** | **10,237** | **8,423** |
| – of which service revenue | 1,309 | 1,138 |

### Gross profit

Gross profit increased by 41 percent to EUR 2,126m compared to 2015, corresponding to a gross margin of 20.8 percent – a 2.9 percentage point increase relative to 2015. The gross profit increase was mainly driven by the increased volumes, but a favourable product mix and better average project margins also contributed to the increase.

### EBITDA

EBITDA before special items amounted to EUR 1,826m in 2016, up 51 percent from EUR 1,212m in 2015, primarily driven by the strong development in gross profit. The EBITDA margin before special items was 17.8 percent, which was an increase of 3.4 percentage points compared to last year.

### Depreciation and amortisation

Depreciation, amortisation and impairment amounted to EUR 405m in 2016, compared to EUR 352m in 2015. The increase was mainly due to depreciations related to assets held for sale reclassified to property, plant and equipment, higher depreciations due to reassessment of useful life of certain assets as well as impairment losses on assets.

### Research and development costs

Research and development costs recognised in the income statement amounted to EUR 227m, which was slightly higher compared to EUR 211m in 2015. The total R&D expenditure prior to capitalisation and amortisation increased to EUR 198m in 2016, against EUR 156m in 2015.

### Distribution costs

Distribution costs amounted to EUR 190m in 2016, equivalent to the level in 2015, despite a growth in revenue of 22 percent.

### Administration costs

2016 administration costs amounted to EUR 288m, which was EUR 40m higher than in 2015. Administration costs constituted 2.8 percent of revenue in 2016, compared to 2.9 percent in 2015.

### Operating profit (EBIT)

EBIT before special items increased by 65 percent to EUR 1,421m in 2016 relative to 2015. This resulted in an EBIT margin before special items of 13.9 percent, which is within the adjusted guidance range of 13-14 percent announced 8 November 2016. The EBIT margin before special items increased by 3.7 percentage point mainly driven by the strong gross profit.

13.9%

EBIT margin before special items amounted to 13.9 percent – an increase of 3.7 percentage points compared to 2015.

The EBIT margin before special items from the Project segment was 15.9 percent in 2016, up 4.5 percentage points from 11.4 percent in 2015. The EBIT margin before special items from the service segment was 17.2 percent in 2016, which was a slight decrease of 0.5 percentage points from 17.7 percent in 2015, caused by additional operating costs from integration of acquisitions.

### Profit for the year

Profit for the year amounted to EUR 965m in 2016, which was an increase of 41 percent compared to 2015. The profit for the year was a result of the high activity level and the cost management through-out the year.

As the targets for bonus pay-out were achieved in 2016, a global bonus of EUR 120m will be paid out to all employees (cash effect 2017), compared to EUR 101m in 2015 (cash effect 2016).

## Working capital

Net working capital by the end of the year was a result of the well-executed working capital management strategy. Net working capital amounted to a net liability of EUR 1.9bn at the end of 2016, which is an improvement of 40 percent compared to last year. The level was significantly impacted by large prepayments received from customers by the end of the year due to the strong order intake.

## Other operating assets and liabilities

At 31 December 2016, invested capital amounted to negative EUR 361m, which was an improvement of EUR 662m compared to 2015, where invested capital amounted to positive EUR 301m. The improvement was primarily driven by the large prepayments received from customers by the end of 2016.

### Return on invested capital (ROIC)

Return on invested capital was 265.2 percent in 2016, up 148.0 percentage points from 117.2 percent in 2015, primarily driven by the well-managed working capital strategy as well as the improved operating result after tax.

## Capital structure and financing items

### Equity

At 31 December 2016, total equity amounted to EUR 3,190m, up 10 percent from EUR 2,899m end of 2015. Equity was positively impacted by the profit for the year partly offset by the impact of dividend pay-out and the share buy-back programme.

To adjust the capital structure and to meet the obligations arising from employee share option programmes, Vestas bought back 6,047,780 shares under the share buy-back programme active during the period 18 August 2016 to 30 December 2016.

The strength of the balance sheet combined with the strong results achieved in 2016 has led the Board of Directors to recommend a dividend of DKK 9.71 (EUR 1.31) per share equivalent to 30.0 percent of the net result for the year after tax.

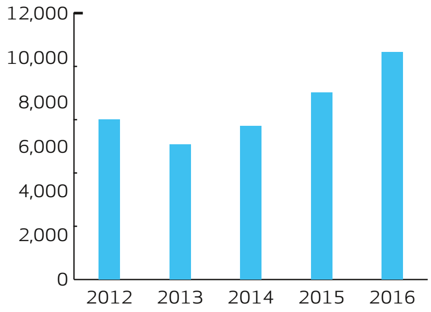
### Earnings per share

Earnings per share increased by 42 percent to EUR 4.4 in 2016, compared to last year, due to higher net profit and cancellation of treasury shares.

### Net interest-bearing debt and cash equivalents

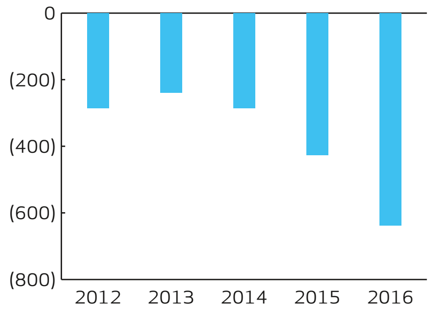
The average net interest-bearing position was positive of EUR 2,111m in 2016 compared to EUR 1,721m in 2015, which was an improvement of 23 percent, driven by strong cash flow during the year.

**Revenue**
mEUR



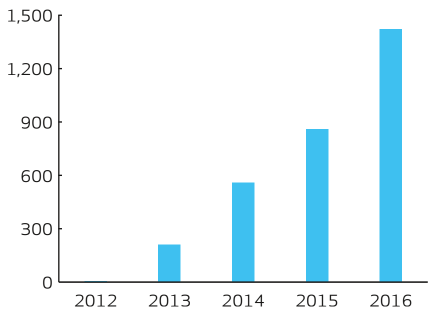

### +68%
In just three years, Vestas has managed to increase the revenue by 68 percent – from EUR 6,084m in 2013 to EUR 10,237m in 2016.

**Total investments***
mEUR



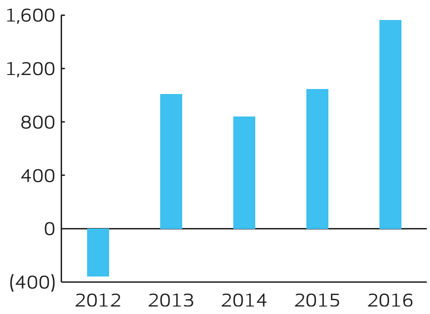

### Investing in the future
In 2016, Vestas acquired the independent service provider Availon Holding GmbH, with total net investments* amounted to EUR 617m.

**EBIT before special items**
mEUR




### +573%
Since the introduction of the profitable growth strategy, Vestas has increased EBIT before special items from EUR 211m in 2013 to EUR 1,421m – an increase of 573 percent.

**Free cash flow***
mEUR




### + EUR 1,923m
Vestas is generating significant more cash flow from the underlying business. In 2016, Vestas reported a free cash flow* of EUR 1,564m – an increase of EUR 1,923m compared to 2012.

* Before investments in marketable securities and short-term financial investments.

At the end of 2016, net interest-bearing position was positive of EUR 3,255, an improvement of EUR 985m, compared to the end of 2015 with a positive net interest-bearing position of EUR 2,270m.

**Net interest-bearing debt/EBITDA**
The ratio net interest-bearing debt/EBITDA before special items of (1.8) by the end of 2016 was comparable to (1.9) in 2015.

**Solvency ratio**
At the end of December 2016, the solvency ratio was 32.1 percent, which was a decline of 1.7 percentage points from 2015. The solvency ratio was within the target of 30-35 percent.

**Return on equity**
Return on equity was 32.6 percent in 2016, which was an increase of 6.4 percentage points compared to 2015. The increase was a result of the higher net profit partly offset by an increase in equity.

## Cash flow

**Operating activities**
Cash flow from operating activities was EUR 2,181m in 2016, which was an increase of 48 percent compared to last year. The increase was a result of the higher net profit for the year.

**Net investments**
Cash flow used for investing activities amounted to EUR 817m in 2016, up 92 percent from EUR 425m in 2015. Total net investments excluding investments in marketable securities and short-term financial investments amounted to EUR 617m in 2016, which was in line with the updated guidance of approx EUR 600m announced 8 November 2016. The increase compared to 2015 was mainly driven by the acquisition of the Germany-based independent service provider Availon Holding GmbH and the investment in the blade facility in India.

**Free cash flow**
The free cash flow excluding investments in marketable securities and short-term financial investments amounted to EUR 1,564m, which was in line with the updated guidance of EUR 1,500m-1,600m announced 6 January 2017.

# EUR 1,564m

Vestas reported a free cash flow before investments in marketable securities and short-term financial investments of EUR 1,564 – an increase of EUR 517m compared to 2015.

**Cash position**
Cash and cash equivalents amounted to EUR 3,550m in 2016, up 28 percent from EUR 2,765m in 2015. The cash position was at a record-high level, and the increase was significantly impacted by operating activities and the large prepayments received from customers by the end of the year.