

Financial performance

Order backlog and activities

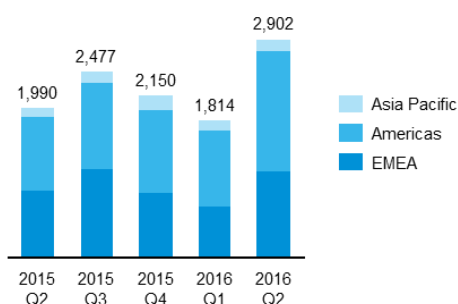
Projects

The quarterly order intake was 1,790 MW, of which 63 percent was announced. The quarterly order intake decreased by 1,228 MW equal to 41 percent compared to the second quarter of 2015, however it should be noted that the second quarter order intake was unusually high in 2015. The order intake came from a total of 17 countries.

The order backlog amounted to 9,361 MW at the end of June 2016 – on par with the backlog level at 30 June 2015. Europe, Middle East, and Africa (EMEA) accounted for 52 percent of the backlog, and Americas and Asia Pacific accounted for 40 and 8 percent, respectively. The value of the order backlog was EUR 8.2bn at 30 June 2016 compared to EUR 8.8bn at 30 June 2015; a decrease of 7 percent.

Produced and shipped

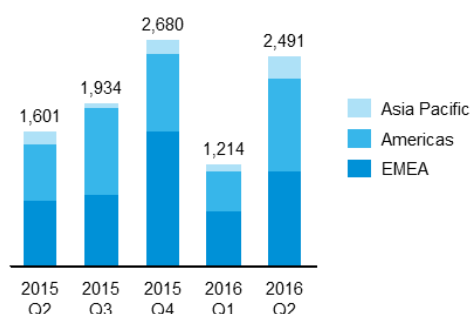
MW



In the second quarter of 2016, Vestas produced and shipped wind turbines with an aggregate output of 2,902 MW (1,226 wind turbines) against 1,990 MW (856 wind turbines) in the second quarter of 2015, reflecting the high activity level in the supply chain in the quarter.

Deliveries (Transfer of Risk)

MW



Final capacity delivered (transfer of risk) to customers amounted to 2,491 MW; an increase of 890 MW equal to 56 percent compared to the second quarter of 2015. All regions contributed to the delivery increase.

Overview per region as per Q2 2016

MW

	EMEA	Americas	Asia Pacific	Total
Under completion, 31 March 2016	1,284	1,072	183	2,539
Delivered (TOR) to customers during the period	(1,126)	(1,090)	(275)	(2,491)
Produced and shipped during the period	1,136	1,596	170	2,902
Under completion, 30 June 2016	1,294	1,578	78	2,950

At the end of June 2016, wind turbine projects with a total output of 2,950 MW were under completion compared to 1,926 MW at the end of June 2015. The amount of MW under completion is reflected in the level of inventories as a large share of these MW has not yet been recognised as revenue. The revenue recognition of these MW will take place when the projects are finally delivered to the customers.

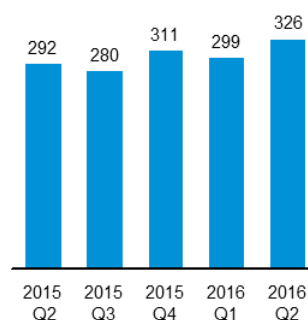
Revenue in the project segment increased by 53 percent to EUR 2,231m compared to EUR 1,457m in second quarter of 2015, primarily driven by the increase in MW deliveries. Vestas improved the EBIT margin of the project segment from 9.7 percent in second quarter 2015 to 18.4 percent in the second quarter 2016, an increase of 90 percent.

Service

At the end of June 2016, Vestas had service agreements with expected contractual future revenue of EUR 9.9bn compared to EUR 8.1bn at 30 June 2015; an increase of 22 percent.

Service revenue

mEUR

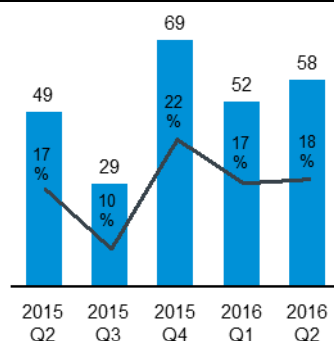


Service revenue amounted to EUR 326m in the second quarter of 2016 – an increase of 12 percent compared to the second quarter of 2015. The increase was primarily driven by the acquisitions of US independent service provider UpWind Solutions, Inc. in December 2015 and German independent service provider Availon Holding GmbH in March 2016 as well as organic growth.

Service EBIT margin amounted to 17.8 percent – 1.0 percentage point above the second quarter of 2015. Even though revenue and earnings from the service business are more stable than from the wind turbine business, the activities that generate revenue and earnings in the various types of service contracts may vary from quarter to quarter.

Service EBIT before special items

mEUR and percentage



By the end of June 2016, Vestas has delivered more than 78 GW in 75 countries. A high level of installed capacity and carefully planned service visits are key prerequisites for generating profit from the service business. Consequently, close monitoring of more than 34,000 wind turbines equivalent to approx 65 GW is one of the foundations of Vestas' service business' growth strategy.

At the end of June 2016, the average duration in the service order backlog was approx six years, unchanged compared to 31 December 2015.

Income statement

Result for the period

In the second quarter of 2016, revenue amounted to EUR 2,557m – an increase of 46 percent compared to the second quarter of 2015, primarily driven by higher MW deliveries for the project segment.

The gross profit in the second quarter of 2016 amounted to EUR 621m and with an increase of 97 percent it almost doubled compared to the second quarter of 2015. The increase in gross profit was driven by a combination of higher MW deliveries and improved average project margins due to favourable mix, amongst others. In the quarter, the Danish Supreme Court ruled in favour of Vestas in a legal case which also contributed to the increase in gross profit with approx 1 percentage point. Growth in the service segment also added to the gross profit increase. Gross margin increased by 6.3 percentage points to 24.3 percent (18.0 percent in the year-earlier period).

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

Operating profit (EBIT) before and after special items amounted to EUR 399m – an increase of 175 percent compared to the second quarter of 2015. The EBIT margin increased by 7.3 percentage points to 15.6 percent compared to the second quarter of 2015. The increase in EBIT was driven by the higher gross profit. The increased activity level has generally resulted in increases in R&D, distribution, and administration costs. Other than the cost increase being activity driven, the increase in R&D costs was also impacted by increased innovation activities, depreciation, and impairment. The increase in the administration costs was also impacted by one-off effects, primarily related to a catch up on depreciations and impairment of assets previously classified as assets held for sale, now declassified to property, plant and equipment, together with provisions for legal and VAT cases.

Income from investments accounted for using equity method

Income from investments accounted for using the equity method amounted to a loss of EUR 17m compared to an income of EUR 27m in the second quarter of 2015, with the decrease mainly linked to increased amortisation of the V164 platform. The loss mainly corresponds to Vestas' share of loss in the offshore joint venture.

Financial items

In the second quarter of 2016, net financial items amounted to a net loss of EUR 10m against a net loss of EUR 4m in the second quarter of 2015. The development in net financials was mainly driven by currency effects and financing fees.

Profit before and after tax

Profit before tax amounted to EUR 372m in the second quarter of 2016 compared to EUR 168m in the second quarter of 2015. In the second quarter of 2016, the income tax expense was EUR 94m, compared to EUR 43m in the second quarter of 2015 and the resulting profit after tax more than doubled from EUR 125m to EUR 278m.

Balance sheet

Vestas had total assets of EUR 9,579m as of 30 June 2016 – 19.7 percent higher than 30 June 2015. The increased balance sheet was mainly driven by working capital movements attributable to the increased activity level and the increased cash position.

Net working capital

At the end of June 2016, Vestas' net working capital amounted to EUR (1,016)m, largely in line with the level at the end of June 2015 (EUR (1,025)m). The development in net working capital was primarily driven by higher inventories and receivables, but offset by an increase in payables and other liabilities – all largely driven by higher activity levels.

Other operating assets and liabilities

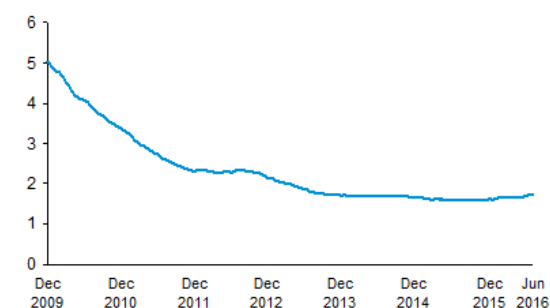
Warranty provisions

In the second quarter of 2016, warranty provisions charged to the income statement amounted to EUR 48m, equivalent to 1.9 percent of revenue. Warranty consumption amounted to EUR 18m – compared to EUR 19m in the second quarter of 2015. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.0 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.

Lost Production Factor*

Percentage



* Data calculated across 30,980 Vestas wind turbines under full-scope service.

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

Capital structure

Total equity

Vestas' equity amounted to EUR 2,925m at 30 June 2016 – an increase of 14 percent compared to 30 June 2015 primarily driven by profit for the period.

The solvency ratio decreased by 1.7 percentage points to 30.5 percent compared to 30 June 2015. The development in solvency ratio was primarily impacted by net working capital effects.

The dividend of EUR 205m approved at the Annual General Meeting 30 March 2016 was paid to Vestas' shareholders on 4 April 2016 and corresponds to a pay-out ratio of 29.9 percent measured against net profit for 2015. For the financial year of 2014, a dividend of EUR 116m was paid out on 7 April 2015.

At Vestas' Annual General Meeting in March 2016 it was furthermore approved to reduce Vestas' share

capital from nominally DKK 224,074,513 to nominally DKK 221,544,727 through cancellation of treasury shares. This was carried out during the second quarter of 2016.

Acquisitions

Since 30 June 2015 two independent service providers, UpWind Solutions, Inc. and Availon Holding GmbH, have been acquired and are reflected in the balance sheet as per 30 June 2016. Reference is made to the interim financial report for the first quarter 2016 for further information.

Cash flow

In the second quarter of 2016, cash flow from operating activities increased by EUR 164m to EUR 426m compared to the second quarter of 2015. The development was mainly driven by the profit for the period.

Cash flow used for investments amounted to EUR (96)m in the second quarter of 2016, which is an increase of EUR 17m compared to the same period last year. The development was primarily driven by higher R&D activity and IT.

In the second quarter of 2016, the free cash flow increased by EUR 147m to EUR 330m compared to the same period last year.

At the end of June 2016, Vestas had a net cash position of EUR 2,083m, representing an improvement of EUR 374m compared to the end of June 2015, mainly driven by improved underlying earnings.

Share buy-back programme for 2016

The Board of Directors of Vestas Wind Systems A/S has decided to initiate a share buy-back programme of up to DKK 2,984m (approx EUR 400m) to be executed during the period 18 August 2016 to 30 December 2016. The 2016 share buy-back programme will be structured according to the safe harbour regulation.

The main purpose of the share buy-back programme is to adjust the capital structure of Vestas.

Share buy-backs are intended to be used from time to time to adjust the capital structure and/or if excess cash arises. Any such decision will be taken in appropriate consideration of capital structure targets, while still maintaining adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.

The stated dividend policy of Vestas will be unaffected by the share buy-back programme, and hence remains at 25-30 percent of the net result of the year.