Financial performance*

Income statement

Revenue

In the second quarter of 2018, revenue amounted to EUR 2,260m, which was on par with second quarter of 2017. The second quarter of 2018 reflected a negative impact of approx. EUR 135m, compared to second quarter of 2017, from foreign exchange effects, which primarily stemmed from the US dollar.

Gross profit

Gross profit amounted to EUR 416m, corresponding to a gross margin of 18.4 percent which is a 3.5 percentage point decrease from the second quarter of 2017. The gross profit decrease was driven by lower average project margins in Power solutions. However, the gross profit decrease was partly offset by improved Service profitability, benefitting from reliable performance of the wind turbines under service contracts in combination with an efficient cost management.

Research and development costs, Distribution costs, and Administration costs

Research and development costs recognised in the income statement amounted to EUR 57m. This was less than the comparable EUR 85m in the second quarter of 2017, which included an impairment loss of EUR 28m related to facilities.

Distribution costs amounted to EUR 37m in the second quarter of 2018 compared to EUR 52m in the second quarter of 2017.

Administration costs corresponded to EUR 63m in the second quarter of 2018, a reduction of 7 percent compared to the second quarter of 2017.

Operating profit (EBIT)

EBIT amounted to EUR 259m in the second quarter of 2018, equivalent to an EBIT margin of 11.5 percent. The EBIT margin decreased by 1.1 percentage points compared to the second quarter of 2017 driven by the decreased gross profit.

Depreciation, amortisation and impairment amounted to EUR 110m in the second quarter of 2018, compared to EUR 119m in the second quarter of 2017. This decrease is explained by the impairment losses of net EUR 20m related to R&D facilities and production facilities reflected in second quarter of 2017, but offset due to higher depreciation and amortisation in the Power solution segment from development and introduction of new product variants.

Income from investments in joint ventures

Income from investments in joint ventures amounted to a loss of EUR 13m in the second quarter of 2018, compared to a loss of EUR 21m in the second quarter of 2017, coming from Vestas' share of loss in MHI Vestas Offshore Wind on a standalone basis.

Financial items

In the second quarter of 2018, net financial items amounted to a net cost of EUR 1m against a net cost of EUR 11m in the second quarter of 2017. The development was mainly driven by various currency effects.

Income tax

Income tax amounted to a cost of EUR 61m in the second quarter of 2018, equivalent to an effective tax rate of 25 percent which is unchanged compared to the second quarter of 2017.

Profit for the period

Profit amounted to EUR 184m in the second quarter of 2018, which is largely on par with net profit in the second quarter of 2017, corresponding to EUR 186m.

Balance sheet

Working capital

Net working capital amounted to a net liability of EUR 1,143m at 30 June 2018, which is a slight worsening compared to the net liability of EUR 1,225m as per 30 June 2017. The development was negatively impacted by inventory build-up for deliveries later in the year, though for the majority funded by increasing prepayments from customers.

Capital structure and financing items

Equity

As at 30 June 2018, total equity amounted to EUR 2,919m, a 7.1 percent reduction from EUR 3,142m as at 30 June 2017. This was mainly a result of share buy-backs and transition impact from change in accounting policy (IFRS 15 – ref. note 5.3).

Share buy-back programme

Earlier in the year, Vestas' Board of Directors initiated a share buy-back programme of up to DKK 1,500m (approx. EUR 200m) to be executed during the period 12 February 2018 to 3 May 2018. The share buy-back programme has been completed and in the second quarter of 2018, transactions of a total value of EUR 89m were made under the programme.

Net interest-bearing position and cash position

At the end of the second quarter of 2018, the net interest-bearing position was positive of EUR 2,070m, a decrease of EUR 566m, compared to the end of the second quarter of 2017 with a positive net interest-bearing position of EUR 2,636m. Cash and cash equivalents amounted to EUR 2,100m, including bank overdraft, as per 30 June 2018 which is a decline of 28.3 percent compared to same time last year. The development in net interest-bearing position as well as cash and cash equivalents can be attributed to negative free cash flow in the first half of 2018 combined with distribution to Vestas' shareholders through share buy-back of EUR 201m and paid dividend of EUR 250m.

Solvency ratio

As at 30 June 2018, the solvency ratio was 25.9 percent, which is a decline of 4.9 percentage points from 30 June 2017, driven by the combination of high total assets and lower equity.

Cash flow

Operating activities

Cash flow from operating activities was negative EUR 52m in the second quarter of 2018, a level on par with second quarter of 2017 reflecting negative EUR 42m of cash flow from operating activities.

Investing activities

Cash flow from investing activities amounted to negative EUR 386m in the second quarter of 2018, however, with EUR 265m attributable to cash placed in short-term financial investments. The remaining EUR 121m is largely on par with net investments of EUR 116m in the second quarter of 2017.

Free cash flow

Free cash flow, excluding investments in short-term financial investments amounted to negative EUR 173m which is largely in line with negative free cash flow of EUR 158m in the second quarter of 2017.

New share buy-back programme

The Board of Directors of Vestas Wind Systems A/S has decided to initiate a new share buy-back programme of up to DKK 1,500m (approx. EUR 200m) to be executed during the period 15 August 2018 to 28 December 2018. The 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.

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.

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.