

Financial performance*

Income statement

Revenue

Revenue amounted to EUR 2,811m in the third quarter of 2018, which was on par with third quarter of 2017. The third quarter of 2018 includes a negative impact of approx. EUR 50m, compared to third quarter of 2017, from foreign exchange effects.

Gross profit

Gross profit amounted to EUR 435m, corresponding to a gross margin of 15.5 percent, which is a 3.7 percentage point decrease from third quarter of 2017. The gross profit decrease was driven by lower average project margins in Power solutions, but partly offset by improved Service profitability. The Service gross profit benefited from reliable performance of the wind turbines under service contracts in combination with an efficient cost management.

Operating profit (EBIT)

EBIT before special items amounted to EUR 276m in the third quarter of 2018, equivalent to an EBIT margin before special items of 9.8 percent. The decrease in the EBIT margin before special items of 3.1 percentage points compared to the third quarter of 2017 was driven by the decreased gross profit.

In the third quarter of 2018, EBIT before special items was impacted by EUR 12m in provision for lay-offs.

R&D, Distribution and Administration costs recognised in the income statement amounted to EUR 159m in the third quarter of 2018, corresponding to a decrease of EUR 12m from third quarter of 2017.

Special items of EUR 40m in the third quarter of 2018 relate to the closure of Vestas' assembly factory in León, Spain, with EUR 26m relating to impairment of the production facility and EUR 14m relating to provisions for severance and closure costs.

Including special items, EBIT totalled EUR 236m in the third quarter of 2018, equivalent to an EBIT margin of 8.4 percent.

Depreciation, amortisation and impairment amounted to EUR 110m in the third quarter of 2018, compared to EUR 98m in the third quarter of 2017. The increase was driven by 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 profit of EUR 23m in the third quarter of 2018, compared to a loss of EUR 18m in the third quarter of 2017, stemming from Vestas' share of profit in MHI Vestas Offshore Wind on a standalone basis. The profit is a result of MHI Vestas Offshore Wind's deliveries during the quarter.

Financial items

In the third quarter of 2018, net financial items amounted to a net cost of EUR 21m against EUR 0m in the third quarter of 2017. The development was mainly driven by various currency effects.

Income tax

Income tax amounted to a cost of EUR 60m in the third quarter of 2018, equivalent to an effective tax rate of 25 percent which is unchanged compared to the third quarter of 2017.

Profit for the period

Profit for the period amounted to EUR 178m in the third quarter of 2018 compared to a profit of EUR 253m in the third quarter of 2017.

Balance sheet

Working capital

Net working capital amounted to a net liability of EUR 765m as at 30 September 2018, compared to a net liability of EUR 1,053m as at 30 September 2017. The net working capital development was negatively impacted by higher receivables, lower payables, and inventory build-up for deliveries later in the year and as well for next year; however, to a large extent offset by increased prepayments from customers.

Other operating assets and liabilities

Return on invested capital (ROIC)

Return on invested capital was 210.9 percent as at 30 September 2018 compared to 452.5 percent as at 30 September 2017. This was primarily driven by an increase in net invested capital.

Capital structure and financing items

Equity

As at 30 September 2018, total equity amounted to EUR 2,926m, a 7 percent reduction from EUR 3,163m as at 30 September 2017. The decrease in equity was mainly a result of paid dividend, share buy-backs and transition impact from change in accounting policy (IFRS 15 – ref. note 5.3).

Share buy-back programme

Vestas' Board of Directors initiated a share buy-back programme on 12 February 2018 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.

A second share buy-back programme of up to DKK 1,500m (approx. EUR 200m) was initiated 15 August 2018, to be executed during the period 15 August 2018 to 28 December 2018. In the third quarter of 2018, transactions of a total value of EUR 91m were made under the programme.

Net interest-bearing position and cash position

At the end of the third quarter of 2018, the net interest-bearing position was positive of EUR 1,754m, a decrease of EUR 855m compared to the end of the third quarter of 2017 with a positive net interest-bearing position of EUR 2,609m. Cash and cash equivalents as at 30 September 2018, including bank overdraft, amounted to EUR 1,628m which is a decrease of EUR 1,274m compared to 30 September 2017.

The development in the net interest-bearing position as well as cash and cash equivalents can be attributed to the negative free cash flow in the first nine months of 2018, combined with distribution to Vestas' shareholders through share buy-backs of EUR 292m and paid dividends of EUR 250m.

Solvency ratio

As at 30 September 2018, the solvency ratio was 25.9 percent, which is a decline of 4.0 percentage points from 30 September 2017, driven by the combination of higher total assets and lower equity.

Cash flow

Operating activities

Cash flow from operating activities was negative EUR 65m in the third quarter of 2018, compared to positive EUR 320m in third quarter of 2017. The development in cash flow from operating activities was driven by the change in net working capital, which in the quarter was negatively impacted by increased inventory, partly offset by higher prepayments.

Investing activities

Cash flow from investing activities before acquisitions of subsidiaries and short-term financial investments amounted to negative EUR 158m in the third quarter of 2018, compared to EUR 127m in the third quarter of 2017. The development in cash flow from investing activities was mainly due to investments related to technology and IT projects. In the third quarter of 2018, cash of EUR 157m was placed in short-term financial investments.

Free cash flow

Free cash flow, excluding acquisitions of subsidiaries and investments in short-term financial investments, amounted to negative EUR 223m compared to positive EUR 193m in the third quarter of 2017. This development was mainly driven by cash flow from operating activities.

*) 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.