Company announcement No. 09, 2019

Vestas Wind Systems A/S

Interim financial report First quarter 2019

Vestas Wind Systems A/S
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Company Reg. No. 10403782

Wind. It means the world to us.™

Contents

How to read this interim financial report – definitions:

Vestas
"Vestas" is the entity covering the two business areas Power solutions and Service. The entity includes all subsidiaries over which Vestas has control.

The Group
"The Group" refers to activities in all three business areas, including the offshore business area in the joint venture MHI Vestas Offshore Wind A/S.

The three business areas are:

Power solutions   Service   Offshore

The offshore business area is accounted for using the equity method and the net result for the year for the joint venture is recognised in the income statements as "Income from investments in joint ventures and associates".

Information meeting (audiocast)
On Wednesday 8 May 2019 at 10 a.m. CEST (9 a.m. BST), Vestas will host an information meeting via an audiocast. The audiocast will be accessible via vestas.com/investor.

The meeting will be held in English and questions may be asked through a conference call. The telephone numbers for the conference call are:

Europe:	+44 333 300 9267
USA:	+1 646 722 4956
Denmark:	+45 7815 0109

Presentation material for the information meeting will be available at vestas.com/investor approx. one hour before the meeting.

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Summary

Revenue on par with last year's first quarter while earnings and free cash flow decreased. Solid order intake and combined order backlog at all-time high level. Guidance for 2019 maintained.

In the first quarter of 2019, Vestas generated revenue of EUR 1,730m – an increase of 2 percent compared to the year-earlier period. EBIT before special items decreased by EUR 83m to EUR 43m. The EBIT margin was 2.5 percent compared to 7.4 percent in the first quarter of 2018 and free cash flow* amounted to EUR (876)m compared to EUR (587)m in the first quarter of 2018.

The intake of firm and unconditional wind turbine orders amounted to 3,004 MW in the first quarter of 2019.

The value of the wind turbine order backlog amounted to EUR 13.3bn as at 31 March 2019. In addition to the wind turbine order backlog, Vestas had service agreements with expected contractual future revenue of EUR 15.0bn at the end of March 2019. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 28.3bn – an increase of EUR 6.7bn compared to the year-earlier period.

Vestas maintains its 2019 guidance on revenue of EUR 10.75bn-12.25bn, EBIT margin before special items of 8-10 percent, and total investments* of approx. EUR 700m.

Group President & CEO Anders Runevad said: *"The strong global demand for wind energy continued in the first quarter of 2019 with Vestas growing its order intake with 84 percent to 3 GW and reaching an all-time high order backlog of EUR 28 bn. While underlying prices remain fairly stable and our Service business continues to grow in both revenue and profit, our results were as expected negatively impacted by orders received during the price decline in 2017. Furthermore, external factors such as tariffs and raw material prices increased cost as projected in the quarter. With activity levels planned to be significantly higher in the second half of 2019, we leverage our market-leading position to ramp up for executing an extraordinarily busy 2019, while introducing new solutions that accelerate the energy transition."*

Key highlights

Record Q1 order intake and all-time high order backlog
3 GW of order intake in Q1 leads to combined order backlog of more than EUR 28bn; up 31 percent YoY

Total revenue of EUR 1,730m
2 percent increase compared to Q1 2018

EBIT of EUR 43m
EBIT margin at 2.5 percent impacted by competitive markets, tariffs, and back-end loaded activity level

Strong service performance
Revenue growth of 16 percent and EBIT margin of 26.4 percent

Positive contribution from MHI Vestas continues
Contribution to net profit of EUR 5m; an underlying improvement of EUR 14m YoY

*) Excl. the acquisition of SOWITEC Group GmbH, any investments in marketable securities, and short-term financial investments.

Financial and non-financial highlights

mEUR	Q1 2019	Q1 2018[4]	FY 2018[4]
Financial highlights			
Income statement			
Revenue	1,730	1,694	10,134
Gross profit	235	281	1,631
Operating profit before amortisation, depreciation and impairment losses (EBITDA) before special items	169	225	1,394
Operating profit (EBIT) before special items	43	126	959
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	169	225	1,379
Operating profit (EBIT)	43	126	921
Operating profit (EBIT) before special items adjusted for tax	32	95	719
Net financial items	(15)	(7)	(51)
Profit before tax	34	137	910
Profit for the period	25	102	683
Balance sheet			
Balance sheet total	12,383	11,117	11,899
Equity	3,084	3,071	3,104
Investments in property, plant and equipment	105	58	312
Net working capital	(1,248)	(1,526)	(2,040)
Capital employed	3,813	3,568	3,602
Interest-bearing position (net), end of the period	1,971	2,607	3,046
Cash flow statement			
Cash flow from operating activities	(700)	(468)	1,021
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(176)	(119)	(603)
Free cash flow before acquisitions of subsidiaries and financial investments	(876)	(587)	418
Free cash flow	(895)	(652)	(69)
Financial ratios[1]			
Financial ratios			
Gross margin (%)	13.6	16.6	16.1
EBITDA margin (%) before special items	9.8	13.3	13.8
EBIT margin (%) before special items	2.5	7.4	9.5
EBITDA margin (%)	9.8	13.3	13.6
EBIT margin (%)	2.5	7.4	9.1
Return on capital employed[2] (ROCE) (%)	18.4	23.5	20.4
Net interest-bearing debt / EBITDA[2]	(1.5)	(1.7)	(2.2)
Solvency ratio (%)	24.9	27.6	26.1
Return on equity[2] (%)	20.1	26.5	22.6
Share ratios			
Earnings per share[3] (EUR)	3.0	4.3	3.4
Dividend per share (EUR)	-	-	1.00
Payout ratio (%)	-	-	30.0
Share price at the end of the period (EUR)	75.1	57.7	65.9
Number of shares at the end of the period (million)	206	215	206
Operational key figures			
Order intake (bnEUR)	2.4	1.2	10.6
Order intake (MW)	3,004	1,629	14,214
Order backlog – wind turbines (bnEUR)	13.3	9.3	11.9
Order backlog – wind turbines (MW)	17,175	11,899	15,646
Order backlog – service (bnEUR)	15.0	12.3	14.3
Produced and shipped wind turbines (MW)	2,745	2,438	10,676
Produced and shipped wind turbines (number)	891	890	3,729
Deliveries (MW)	1,601	1,192	10,847

1) The ratios have been calculated in accordance with the guidelines from The Danish Finance Society (Recommendations & Financial ratios 2019).
2) Calculated over a 12-month period. The impact from the implementation of IFRS 16 and IFRIC 23 is included as at 1 January 2019.
3) Earnings per share has been calculated over a 12-month period and in accordance with IAS 33 on earnings per share. The impact from the implementation of IFRS 16 is included as at 1 January 2019.
4) Vestas has initially applied IFRS 16 and IFRIC 23 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

	Q1 2019[1)]	Q1 2018[1)]	FY 2018
Social and environmental key figures[2)]			
Occupational health & safety			
Total recordable injuries (number)	50	57	210
- of which lost time injuries (number)	20	21	80
- of which fatal injuries (number)	1	0	0
Consumption of resources			
Consumption of energy (GWh)	185	184	614
- of which renewable energy (GWh)	75	72	294
- of which renewable electricity (GWh)	64	59	262
Consumption of fresh water (1,000 m^3)	103	109	470
Waste disposal			
Volume of waste (1,000 tonnes)	21	19	81
- of which collected for recycling (1,000 tonnes)	11	9	42
Emissions			
Emission of direct CO_2 (1,000 tonnes)	23	23	69
Emission of indirect CO_2 (1,000 tonnes)	9	9	32
Local community			
Environmental accidents (number)	0	0	0
Breaches of internal inspection conditions (number)	0	0	0
Employees[4)]			
Average number of employees	24,476	23,724	24,221
Number of employees at the end of the period	24,578	23,910	24,648
Social and environmental indicators[2)]			
Occupational health and safety			
Incidence of total recordable injuries per one million working hours	3.8	4.6	4.0
Incidence of lost time injuries per one million working hours	1.5	1.7	1.5
Absence due to illness among hourly-paid employees (%)	2.2	2.3	2.1
Absence due to illness among salaried employees (%)	1.1	1.2	1.1
Products			
CO_2 savings over the lifetime on the MW produced and shipped (million tonnes of CO_2)	71	66	275
Utilisation of resources			
Renewable energy (%)	41	39	48
Renewable electricity for own activities (%)	100	100	100
Employees			
Women in Board of Directors[3)] and Executive Management (%)	23	21	15
Women at management level[4)] (%)	19	19	19

1) Neither audited nor reviewed.
2) Accounting policies for social and environmental key figures for Vestas Wind Systems A/S, see page 32 of the Annual report 2018.
3) Only Board members elected by the general meeting are included.
4) Employees at management level comprise Leadership Track positions, i.e. managers, specialists, project managers, and above.

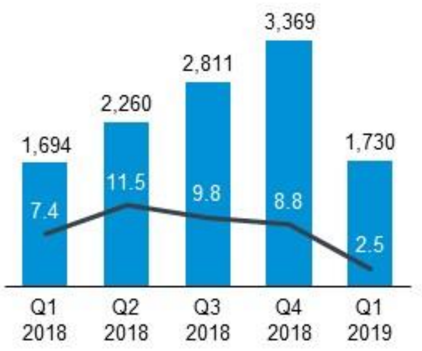
Vestas financial performance

Income statement

Revenue

Revenue amounted to EUR 1,730m in the first quarter of 2019, which was on par with first quarter of 2018. Comparing the quarter to the same period last year, this quarter reflects a positive impact of approx. EUR 46m from foreign exchange development primarily from USD.

Revenue and EBIT margin before special items
mEUR and percentage



Gross profit

Gross profit amounted to EUR 235m, corresponding to a gross margin of 13.6 percent, which is a 3.0 percentage point decrease from first quarter of 2018. The gross profit decrease was driven by lower average project margins in the Power solutions business impacted by orders received during the price decline in 2017. Furthermore, external factors such as tariffs and raw material prices increased cost.

This is partly offset by improved profitability within the Service business benefitting from continuous cost-out and reliable performance of the turbines under service contracts.

Research and development costs, Distribution costs, and Administration costs

R&D, Distribution and Administration costs recognised in the income statement amounted to EUR 192m in the first quarter of 2019, corresponding to an increase of EUR 37m from first quarter of 2018.

R&D costs increased by EUR 18m mainly as a result of bringing new product offerings to the market, including the modular EnVentus platform.

Distribution costs increased by EUR 8m compared to first quarter of 2018 in to order to cater for higher activity in the market.

Administration costs increased by EUR 11m primarily driven by high activity levels requiring more resources to central support functions.

Depreciation and amortisation amounted to EUR 126m in the first quarter of 2019, compared to EUR 99m in the first quarter of 2018. The increase was driven by higher depreciations and amortisations related to new product variants.

Operating profit (EBIT)

EBIT amounted to EUR 43m in the first quarter of 2019, equivalent to an EBIT margin of 2.5 percent, a decrease of 4.9 percentage points compared to the first quarter of 2018, which was driven by the decrease in gross margin and higher capacity costs.

Income from investments in joint ventures and associates

Income from investments in joint ventures and associates amounted to a profit of EUR 6m in the first quarter of 2019, compared to a profit of EUR 18m in the first quarter of 2018. The profit in 2019 mainly stems from Vestas' share of profit in MHI Vestas Offshore Wind on a standalone basis whereas the result for first quarter of 2018 was mainly driven by release of Vestas' profit from the delivery of one offshore project utilising Vestas' V112-3.45 MW wind turbines.

Financial items

In the first quarter of 2019, net financial items amounted to a net cost of EUR 15m against EUR 7m in the first quarter of 2018. The development was mainly driven by various currency effects.

Income tax

Income tax amounted to a cost of EUR 9m in the first quarter of 2019, equivalent to an effective tax rate of 25 percent which is unchanged compared to the first quarter of 2018.

Profit for the period

Profit for the period amounted to EUR 25m in the quarter compared to a profit of EUR 102m in the first quarter of 2018 driven by the lower operating profit.

Financial ratios

Earnings per share amounted to EUR 0.13 in first quarter of 2019, a decrease of EUR 0.37 compared to EUR 0.50 in the same quarter of 2018 driven by lower net profit.

Return on capital employed (ROCE) was 18.4 percent for rolling 12 months, compared to 23.5 percent for the same period a year ago. Return on equity was 20.1 percent in current period, compared to 26.5 percent in same period a year ago, which was a decrease of 6.4 percentage points. For both ratios, this decline was mainly a result of the lower operating and net profit.

Working capital and free cash flow

Net working capital

Net working capital amounted to a net liability of EUR 1,248m as at 31 March 2019, compared to a net liability of EUR 1,526m as at 31 March 2018. The net working capital development was negatively impacted by inventory build-up for deliveries later in the year, however, partly funded by down- and milestone payments from customers.

Cash flow from operating activities

Cash flow from operating activities was negative EUR 700m in the first quarter of 2019, compared to negative EUR 468m in first quarter of 2018. 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, only partly offset by higher down- and milestone payments.

Cash flow from investing activities

Cash flow from investing activities before acquisitions of subsidiaries and short-term financial investments amounted to negative EUR 176m in the first quarter of 2019, compared to EUR 119m in the first quarter of 2018. The development in cash flow from investing activities was mainly a result of investments in blade moulds, transport equipment, and tools to cater for new turbine variants as well as a high activity level. Furthermore, in the first quarter of 2019, cash of EUR 19m 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 876m compared to negative EUR 587m in the first quarter of 2018. This development was mainly driven by cash flow from operating activities.

Capital structure and financing items

Equity and solvency ratio

As at 31 March 2019, total equity amounted to EUR 3,084m which is on par with the level 31 March 2018.

As at 31 March 2019, the solvency ratio was 24.9 percent, which is a decline of 2.7 percentage points from 31 March 2018, mainly as a result of higher total assets driven by build-up of inventory and other net working capital items for deliveries later in the year. To a lesser degree, the solvency ratio is impacted by implementation of changes to accounting policies as per 1 January 2019. This includes capitalisation of operating lease contracts as per implementation of IFRS 16 and implementation of IFRIC 23 clarifying the accounting treatment for uncertain tax positions. Combined, these changes have an impact of decreasing equity by EUR 43m and increasing total assets by EUR 251m corresponding to a negative impact of 0.9 percentage points to the solvency ratio as per 31 December 2018.

Net interest-bearing position and cash position

At the end of the first quarter of 2019, the net interest-bearing position was positive of EUR 1,971m, a decrease of EUR 636m compared to the end of the first quarter of 2018 with a positive net interest-bearing position of EUR 2,607m.

Cash and cash equivalents as at 31 March 2019, including bank overdraft, amounted to EUR 2,054m which is a decrease of EUR 847m compared to 31 March 2018.

Cash flow from financing activities

Cash flow from financing activities amounted to positive EUR 19m in the first quarter of 2019 compared to negative EUR 95m impact from share buy-back programme executed in the first quarter of 2018.

Power solutions

Result for the period

In the first quarter of 2019, revenue from the Power solutions business amounted to EUR 1,306m, which is on par with the first quarter of 2018. Comparing the first quarter of 2019 to the same period last year, this reflects a positive impact of approx. EUR 42m from foreign exchange development primarily from USD.

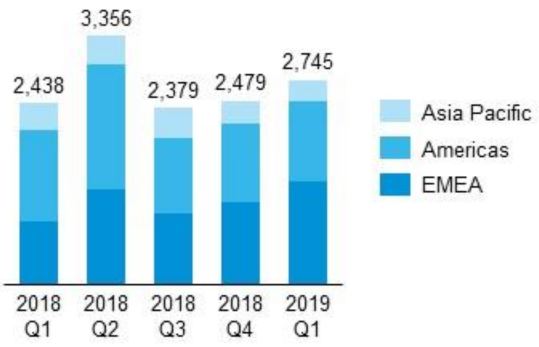
EBIT before special items amounted to negative EUR 12m in the first quarter of 2019, equal to an EBIT margin before special items of negative 0.9 percent. Compared to the first quarter of 2018, this is a decline of 6.8 percentage points, impacted by orders received during the price decline in 2017. Furthermore, external factors such as tariffs and raw material prices increased cost.

Power solutions revenue and EBIT margin before special items
mEUR and percentage

Level of activity

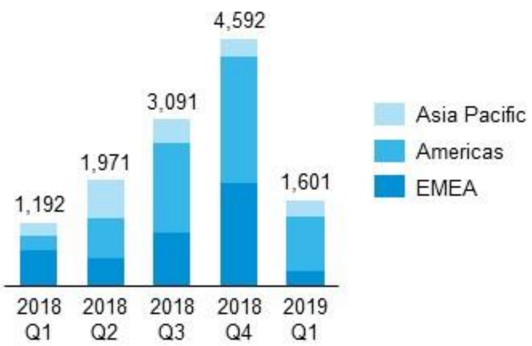
In the first quarter of 2019, Vestas produced and shipped wind turbines with an aggregated output of 2,745 MW against 2,438 MW in the first quarter of 2018, which corresponds to an increase of 13 percent.

Produced and shipped
MW



Deliveries to customers amounted to 1,601 MW in first quarter of 2019, compared to 1,192 MW in the first quarter of 2018. The increase was mainly driven by deliveries in the Americas region which reflects a large share of deliveries in USA for supply only projects and hence a negative impact to the average revenue per delivered MW.

Deliveries
MW



By the end of March 2019, Vestas had installed a total of 103 GW onshore capacity in 80 countries.

Wind turbine order intake

In the first quarter of 2019, wind turbine order intake amounted to 3,004 MW, corresponding to EUR 2.4bn, which reflects an increase of 84 percent compared to an order intake of 1,629 MW in the first quarter of 2018.

Order backlog

At the end of the first quarter of 2019, the wind turbine order backlog amounted to 17,175 MW, which equals EUR 13.3bn. This is an increase of 43 percent compared to EUR 9.3bn at the end of first quarter of 2018.

Service

Result for the period

The Service business generated revenue of EUR 424m in the first quarter of 2019, which is a 16 percent increase compared to the first quarter of 2018, including a positive impact of foreign exchange effects of approx. EUR 4m.

Service revenue and EBIT margin before special items
mEUR and percentage

The increase in revenue in the first quarter of 2019 was primarily driven by the service contract business. All regions contributed to the increase in revenue.

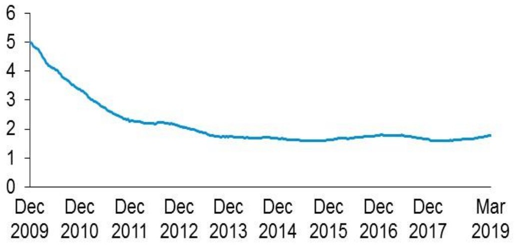
EBIT amounted to EUR 112m in the first quarter of 2019, corresponding to an EBIT margin of 26.4 percent. A reliable performance of the wind turbines under service contracts in combination with an efficient cost management contributed to the margin performance for the service operation.

Level of activity

By the end of March 2019, Vestas had approx. 43,000 wind turbines under service, equivalent to approx. 88 GW.

At the end of March 2019, the overall average Lost Production Factor was below 2 percent for the wind power plants where Vestas guarantees the performance.

Lost Production Factor*
Percent



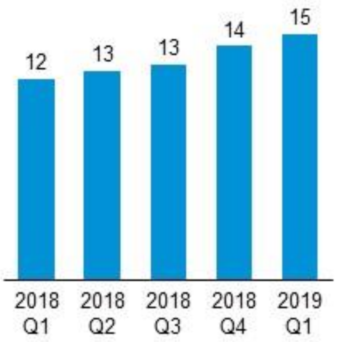
*) Data calculated across approx. 40,700 Vestas wind turbines under full-scope service.

Order backlog

At the end of March 2019, Vestas had service contracts in the order backlog with expected contractual future revenue of EUR 15.0bn, an increase of EUR 2.7bn compared to end of March 2018.

At the end of the quarter, the average duration in the service order backlog was approx. eight years; an improvement compared to average seven years end of March 2018.

Service backlog
bnEUR



Offshore

MHI Vestas Offshore Wind A/S (MHI Vestas Offshore Wind) is a 50:50 joint venture between Mitsubishi Heavy Industries, Ltd. and Vestas Wind Systems A/S.

Order intake

MHI Vestas Offshore Wind confirmed a firm order with Cobra Group to provide five V164-9.5 MW™ turbines for the Kincardine floating offshore wind project. Kincardine, located 15 km southeast of Aberdeen Bay, will be the world's largest floating wind farm and the first to feature turbines greater than 9 MW.

Result for the period in MHI Vestas Offshore Wind

Revenue for MHI Vestas Offshore Wind amounted to EUR 412m for Q1 2019, an increase of 83 percent compared to same period last year. The revenue in Q1 2019 reflected deliveries to two offshore wind parks; Horns Reef 3 wind park in Denmark (V164-8.3 MW™ turbine) and Norther in Belgium (V164-8.4 MW™).

MHI Vestas Offshore Wind revenue and net result
mEUR

Net profit in the joint venture amounted to EUR 10m in the quarter on a stand-alone basis, compared to a net loss of EUR 18m in the first quarter of 2018. The positive net profit result was due to higher activity level with successful installations of V164 turbines.

Vestas' accounting for MHI Vestas Offshore Wind

The joint venture is accounted for using the equity method, and Vestas' share of MHI Vestas Offshore Wind's overall net result of EUR 5m for the first quarter of 2019 is recognised in the income statement as "Income from investments in joint ventures and associates".

Market development

Deliveries and wind turbine backlog per region

Vestas order backlog amounted to 17,175 MW as at 31 March 2019, an increase compared with the order backlog level of 11,899 MW as at 31 March 2018.

Order intake and wind turbine order backlog per region
MW

	EMEA	Americas	Asia Pacific	Total
Order intake Q1 2019	720	1,663	621	**3,004**
Backlog as per 31 March 2019	7,455	6,735	2,985	**17,175**

Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 309 MW compared to 674 MW in the previous year. Deliveries were distributed throughout a number of countries in the region, with France being the country where most capacity was delivered.

The order intake for the region amounted to 720 MW, up from 654 MW in the first quarter of 2018. The order intake in the quarter was coming mainly from France, Germany, and Russia. The order backlog comprised 7,455 MW as at 31 March 2019.

Americas

Deliveries in the Americas region amounted to 991 MW, compared to 274 MW in the first quarter of 2018. The higher level of activity was attributable to an increase in deliveries in the USA, Argentina, and Canada.

In the quarter, order intake amounted to 1,663 MW for the Americas region, of which 1,027 MW came from the USA. The order backlog for the region amounted to 6,735 MW as at 31 March 2019, of which the majority relates to orders in the USA.

Asia Pacific

Deliveries to the markets in Asia Pacific totalled 301 MW compared to 244 MW in the previous year. The improvement in activity was distributed throughout a number of countries in the region, with India, Australia, and Thailand being the countries with highest deliveries.

The order intake for the region amounted to 621 MW, up from 161 MW in the first quarter of 2018. Orders were mainly coming from Australia and New Zealand. The order backlog amounted to 2,985 MW as at 31 March 2019.

Deliveries
MW

	Q1 2019	Q1 2018	FY 2018
France	60	77	636
Ukraine	58	-	32
Germany	45	298	638
Serbia	30	-	-
Italy	21	94	278
Norway	18	14	471
United Kingdom	17	11	431
Senegal	16	-	8
Netherlands	11	-	61
Jordan	9	-	94
Sweden	7	-	482
Austria	7	26	178
Greece	7	20	158
Kenya	3	-	310
Denmark	-	123	123
Spain	-	-	70
Russian Fed.	-	-	50
Belgium	-	-	45
Turkey	-	-	25
Ireland	-	-	14
Czech Republic	-	-	11
Finland	-	7	7
Belarus	-	2	4
Bahrain	-	2	2
EMEA	**309**	**674**	**4,128**
USA	704	261	2,827
Argentina	115	-	688
Canada	93	-	192
Mexico	78	-	1,027
Bolivia	1	-	-
Brazil	-	-	170
Dominican Rep.	-	-	48
Martinique	-	-	14
Honduras	-	13	13
Uruguay	-	-	2
Chile	-	-	15
Americas	**991**	**274**	**4,996**
India	103	123	543
Australia	87	57	547
Thailand	47	-	180
Vietnam	33	-	-
China	31	38	373
Mongolia	-	26	55
South Korea	-	-	25
Asia Pacific	**301**	**244**	**1,723**
Total	**1,601**	**1,192**	**10,847**

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the Annual report 2018.)

Today, the world is faced with two primary energy challenges: meeting the growing global energy needs sustainably and addressing climate change by making the existing energy system sustainable. As a consequence, the world has taken steps to fight climate change that make a 4°C warming of the planet much less likely than it was a decade ago[1], while renewables have become the cheapest source of electricity, making wind and solar the preferred source of new energy capacity. In fact, today's renewable energy solutions are at a scale and cost that can meet both the world's energy demand and bring the world to the 1.5°C warming scenario that will limit impact from climate change.[2]

Vestas – creates the energy system for future generations

Vestas has been and continues to be a cornerstone in making the world's energy mix sustainable and with growing global energy needs and the 1.5ºC warming scenario far away, renewable energy's growth potential is enormous.

In this environment, Vestas wants to drive the necessary change of the existing energy system and create a sustainable energy system for future generations. By doing so, Vestas aspires to be the global leader in sustainable energy solutions and will develop and offer the sustainable energy solutions that can replace fossil energy and meet the growing electricity demand across the globe.

The planet's sustainable development is therefore both an integral part of Vestas' business and a tremendous growth opportunity for the renewables industry as energy demand increases. Compared to 2017, this demand is set to increase by more than 40 percent in 2035 due to population growth and electrification of transport, industrial processes as well as heating and cooling.[3]

At the same time, more than 30 percent of all current electricity generation capacity is expected to be retired by 2040, which equals around 1,500 GW of coal, oil, gas, and nuclear plants alone.[4] Moreover, renewables will grow from around 10 percent today to more than 30 percent of the world's electricity demand by 2035. [3]

Due to renewables' progress, developing countries added more renewables than fossil fuels in 2017, highlighting renewables' competitiveness, and societal benefits.[5] In total, Bloomberg New Energy Finance projects around USD 4.5tr to be invested in onshore and offshore wind energy up to 2050.[6]

As such, Vestas' vision, Global Leader in Sustainable Energy Solutions, sets a clear purpose and direction for Vestas' employees and fuels its ambitions for the global energy transition: Vestas wants to lead the industry on volume, revenue, and margins, and together with its key stakeholders wants to make the positive impact on the planet Vestas has the potential to create.

Strategic framework to ensure Vestas stays in the lead

While Vestas' strategy has delivered industry-leading profitable growth and shareholder value since 2013, it is important that Vestas both understands and adapts to the mid-to-long term changes in the markets for renewable energy.

Technologies, policies and markets are maturing, which entails the success parameters and business models along the renewable energy value chain are expected to adapt. The key underlying trends include increasingly market-based remuneration for renewable projects, an expanding set of low-cost renewable technologies and hybrids, a focus on delivering high system-value, and shifting patterns in types and sources of funding for new renewable installations. To reflect this reality, Vestas' 2019-2021 strategy update includes a new set of mid-term strategic objectives and priorities.

Vestas' mid-term objective, Global leader in wind power plant solutions and Global leader in wind service solutions, entail:

- Leading in innovating products, services, and digital solutions that deliver the lowest cost of energy, increase the penetration of renewables, and help customers fully optimise value from renewable power plants.
- Being the preferred solutions provider and partner to the customers.
- Leading by market share in established markets and competing for leadership in emerging markets.
- Leading in profitability to enable us to reinvest into Vestas futures innovation and competitiveness.

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[1] Source: UN Environment; Emissions Gap Report 2018. November 2018.
[2] Source: The Boston Consulting Group; The Economic Case for Combating Climate Change. September 2018.
[3] Source: Bloomberg New Energy Finance: New Energy Outlook 2018. June 2018.
[4] Source: International Energy Agency (IEA): World Energy Outlook 2018. November 2018.
[5] Source: Bloomberg New Energy Finance: Emerging Markets Outlook 2018 – Climatescope. November 2018.
[6] Source: Bloomberg New Energy Finance: Data Viewer. June 2018.

Mid-term priorities, the route to continuing leadership in sustainable energy solutions by:

Transform commercial capabilities

- Combining all of Vestas' strengths to help customers win in auctions and achieve the optimal business case.
- Develop more advanced solutions, with hybrids and digital solutions.

Expand industry-leading wind turbine portfolio

- Continuously develop technology to be competitive in all priority wind markets globally.
- Take full advantage of Vestas' global scale and operational excellence to deliver lowest cost of energy.

Expand service value and cost leadership

- Expand customer value and continue to deliver service at the lowest cost utilising its scale, processes, and new tools.
- Further develop digital solutions that improve internal efficiency and output from installed wind turbines creating customer value.

Pioneer solutions to increase wind penetration

- Constantly addressing the challenges created by the intermittency of wind.
- Ease the integration of wind energy into electrical grids by using solutions like hybrids and storage facilities that can store and release renewable energy it into the grid when it is needed.

Actively build project pipeline to grow margin

- Accelerate the replacement of older wind turbines with new, more productive ones.
- Selectively engage in co-/development of projects to grow the pipeline of future projects.

In order to achieve the mid-term priorities, Vestas will need an organisation that is talented, agile, and cost-effective. Vestas' organisation is inspired by its values of Accountability, Collaboration, and Simplicity. These reflect guiding principles in terms of how Vestas' employees work and engage with each other internally and with the full range of stakeholders externally.

Financial and capital structure targets and priorities

Vestas' financial and capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company. Financial stability and structural strength of the balance sheet remain key priorities for the company.

Long-term financial ambitions

Vestas envisions market conditions which in the long term will reflect wind power having achieved merchant levels in the vast majority of markets. The wind industry is undergoing a transition towards a more mature, unsubsidised renewable energy industry. This transition leads to a highly competitive market and will likely drive a further consolidation in the industry. Beyond the transition, a matured market for wind energy creates opportunities for Vestas to leverage and strengthen its leadership position.

Within this context, Vestas aims to grow faster than the market and be the market leader in revenue, to achieve an EBIT margin of at least 10 percent and to generate a return on capital employed (ROCE) of minimum 20 percent over the cycle. Vestas expects to be able to finance its own growth and hence the free cash flow is expected to be positive each financial year.

In the coming years, revenue in the Service segment is expected to grow faster than the market with an EBIT margin of approx. 24 percent.

Capital structure targets

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. In line with the prudent balance sheet approach, the target for the net debt/EBITDA ratio remains unchanged at below 1 at any point in the cycle. In addition, the target is a solvency ratio of minimum 25 percent by the end of each financial year.

Dividend policy and priorities for excess cash allocation

Any decision to distribute cash to shareholders will be taken in appropriate consideration of capital structure targets and availability of excess cash. Determining excess cash will be based on the company's growth plans and liquidity requirements, thus securing adequate flexibility to invest in Vestas' strategy.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year after tax.

In addition, Vestas may from time to time supplement with share buyback programmes in order to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major investments, the total distribution to shareholders through dividends and share buy-backs may constitute the majority of the free cash flow.

Social and environmental performance

Sustainability in Vestas

Vestas produces renewable energy solutions across the globe. From manufacturing, installing, and servicing wind turbines, the heart of the business is anchored in producing affordable and clean energy for the benefit of the world's population.

Vestas understands that reaching its vision to be the global leader in sustainable energy solutions also requires delivering on its social and environmental performance. Continuous improvements in these areas form the baseline for how Vestas works, and partnerships are an important element contributing to this work.

One approach, globally

Vestas is a signatory to the international initiatives in the United Nations Global Compact and the World Economic Forum's Partnering Against Corruption Initiative. These public commitments form the foundation of Vestas' global business approach and are expressed in the company's Code of Conduct for employees and business partners.

Furthermore, Vestas is committed to supporting the UN Sustainable Development Goals (SDGs). Six SDGs have been identified, which support the approach on how sustainability is powering development for Vestas and for its stakeholders and the many communities where the company plays a role. With SDG No. 7, Affordable and clean energy as the overarching goal, the other five selected SDGs are: Quality education (4); Decent work and economic growth (8); Responsible consumption & production (12); Climate action (13); and Partnerships for the goals (17).

Employees

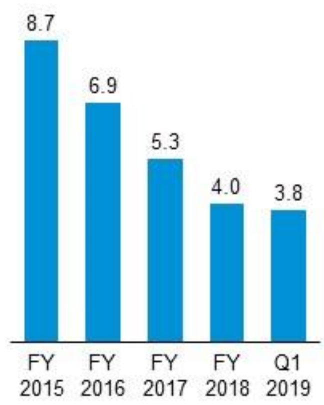
During the first quarter of 2019, the number of employees decreased by 70 to 24,578. Vestas will continue to scale the organisation according to, among other things, the expected activity level.

Safety

In the first quarter of 2019, the number of total recordable injuries decreased to 50 compared to 57 in the year-earlier quarter. The incidence of total recordable injuries decreased from 4.6 in the first quarter of 2018 to 3.8 in the first quarter of 2019. The target for 2019 is 3.6.

While the overall injuries incident rate has once again declined to a satisfactory low level, a tragic incident occurred in February when a Vestas employee suffered fatal injuries. Investigations by the local authorities are still ongoing. However, the incident is a stark reminder of the dangers of working with heavy loads and the importance of following Vestas' safety procedures and the Life Saving Rules at all times.

Incidence of total recordable injuries
Per one million working hours



Environmental performance

The increase that can be seen in the total environmental impact quarter on quarter – the waste generation and energy consumption from Vestas' manufacturing and service activities - stems from increased activity levels in first quarter of 2019.

Climate change

Vestas has formally signed on to the Science Based Targets Initiative (SBTi) led by the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute, and the World Wide Fund for Nature.

Climate change is the biggest challenge of our times and the reason why Vestas exists as a global business. Our work at Vestas is to reduce greenhouse gas emissions by driving the transition to replace carbon-based energy generation with renewable energy. For Vestas, a Global Leader in Sustainable Energy Solutions means going beyond delivering sustainable solutions. It means taking full responsibility for our company's footprint on this planet. That is why Vestas is committed to improve its sustainability performance by developing a measurable and science-based emission reduction target aligned with climate science.

Within a period of twenty-four months or less, Vestas will develop a carbon emission reduction target for review by SBTi experts. Once reviewed and approved by the SBTi, that target will be publicly announced.

Vestas has achieved 100 percent sustainable renewable electricity consumption, partly by purchasing renewable electricity when available, and partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants. In 2017, Vestas joined the organization RE100, whose members commit to 100 percent renewable electricity.

Outlook 2019

Vestas revenue is expected to range between EUR 10.75bn and 12.25bn, including service revenue, which is expected to grow by approx. 10 percent. Vestas expects to achieve an EBIT margin before special items of 8-10 percent with a service EBIT margin of approx. 24 percent.

Total investments* are expected to amount to approx. EUR 700m in 2019.

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect Vestas' financial results for 2019. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2019.

Outlook 2019

Revenue (bnEUR)	10.75-12.25
EBIT margin (%) before special items	8-10
Total investments* (mEUR)	approx. 700

*) Excl. the acquisition of SOWITEC Group GmbH, any investments in marketable securities, and short-term financial investments

Consolidated financial statements 1 January - 31 March

Condensed income statement 1 January - 31 March

mEUR	Note	Q1 2019	Q1 2018
Revenue	1.1, 1.2	**1,730**	**1,694**
Production costs		(1,495)	(1,413)
Gross profit		**235**	**281**
Research and development costs		(66)	(48)
Distribution costs		(57)	(49)
Administration costs		(69)	(58)
Operating profit (EBIT)	1.1	**43**	**126**
Income from investments in joint ventures and associates		6	18
Net financial items		(15)	(7)
Profit before tax		**34**	**137**
Income tax		(9)	(35)
Profit for the period		**25**	**102**
Profit is attributable to:			
Owners of Vestas		25	102
Non-controlling interests		(0)	-
Earnings per share (EPS)			
Earnings per share for the period (EUR), basic		0.13	0.50
Earnings per share for the period (EUR), diluted		0.13	0.50

Condensed statement of comprehensive income 1 January - 31 March

mEUR	Q1 2019	Q1 2018
Profit for the period	**25**	**102**
Items that may be reclassified subsequently to the income statement:		
Exchange rate adjustments relating to foreign entities	49	(23)
Fair value adjustments of derivative financial instruments for the period	(12)	56
Gain/(loss) on derivative financial instruments transferred to the income statement	(4)	(1)
Exchange rate adjustments relating to joint ventures	1	0
Share of fair value adjustments of derivatives financial instruments of joint ventures	(51)	1
Share of fair value adjustments of derivatives financial instruments transferred to the income statement of joint ventures	0	0
Tax on items that may be reclassified to the income statement subsequently	5	(12)
Other comprehensive income after tax for the period	(12)	21
Total comprehensive income for the period	**13**	**123**

The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed balance sheet – Assets

mEUR	Note	31 March 2019	31 March 2018	31 December 2018
Goodwill		381	372	379
Completed development projects		274	296	270
Software		115	107	118
Other intangible assets		48	58	52
Development projects in progress		300	165	277
Total intangible assets		**1,118**	**998**	**1,096**
Land and buildings		668	683	662
Plant and machinery		260	239	258
Other fixtures, fittings, tools and equipment		260	224	268
Right-of-use assets	5.3	194	-	-
Property, plant and equipment in progress		183	88	130
Total property, plant and equipment	2.1	**1,565**	**1,234**	**1,318**
Investments in joint ventures and associates	2.2	219	168	233
Other investments		36	34	35
Tax receivables		140	68	98
Deferred tax		309	238	281
Other receivables	3.4	78	142	79
Financial investments	3.4, 3.5	205	201	204
Total other non-current assets		**987**	**851**	**930**
Total non-current assets		**3,670**	**3,083**	**3,344**
Inventories		3,899	3,179*	2,987
Trade receivables		791	767*	967
Contract assets		420	131*	330
Contract costs		383	378*	328
Tax receivables		104	76	88
Other receivables	3.4	621	600	515
Financial investments	3.4, 3.5	441	2	422
Cash and cash equivalents	3.2	2,054	2,901	2,918
Total current assets		**8,713**	**8,034**	**8,555**
Total assets		**12,383**	**11,117**	**11,899**

*) Comparative numbers updated to reflect classifications and presentations made under IFRS 15 in the Annual report 2018.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed balance sheet – Equity and liabilities

mEUR	Note	31 March 2019	31 March 2018	31 December 2018
Share capital	3.1	28	29	28
Other reserves		16	58	22
Retained earnings		3,028	2,984	3,042
Attributable to owners of Vestas		3,072	3,071	3,092
Non-controlling interests		12	-	12
Total equity		**3,084**	**3,071**	**3,104**
Provisions	2.3	409	412	491
Deferred tax		135	81	120
Financial debts	3.4, 5.3	658	497	498
Tax payables		297	166	212
Other liabilities	3.4	78	65	69
Total non-current liabilities		**1,577**	**1,221**	**1,390**
Contract liabilities		4,429	3,820*	4,202
Trade payables		2,481	2,198	2,417
Provisions	2.3	199	194	126
Financial debts	3.4, 5.3	71	-	-
Tax payables		90	50	112
Other liabilities	3.4	452	563	548
Total current liabilities		**7,722**	**6,825**	**7,405**
Total liabilities		**9,299**	**8,046**	**8,795**
Total equity and liabilities		**12,383**	**11,117**	**11,899**

*) Comparative numbers updated to reflect classifications and presentations made under IFRS 15 in the Annual report 2018.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed statement of changes in equity – 3 months 2019

mEUR	Share capital	Reserves: Transla-tion reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interests	Total
Equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**3,042**	**12**	**3,104**
Impact from change in accounting estimates (IFRIC 23)	-	-	-	-	-	(43)	-	(43)
Adjusted equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**2,999**	**12**	**3,061**
Profit for the period	-	-	-	-	-	25	(0)	25
Other comprehensive income for the period	-	49	(11)	(50)	(12)	-	-	(12)
Total comprehensive income for the period	-	49	(11)	(50)	(12)	25	(0)	13
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	6	-	6	-	-	6
Transaction with owners:								
Share-based payments	-	-	-	-	-	4	-	4
Tax on equity transactions	-	-	-	-	-	(0)	-	(0)
Total transactions with owners	-	-	-	-	-	4	-	4
Equity as at 31 March 2019	**28**	**27**	**42**	**(53)**	**16**	**3,028**	**12**	**3,084**

Condensed statement of changes in equity – 3 months 2018

mEUR	Share capital	Reserves: Transla-tion reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Total
Equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**3,046**	**3,112**
Impact on change in accounting policy (IFRS 15)	-	-	-	-	-	(54)	(54)
Adjusted equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**2,992**	**3,058**
Profit for the period	-	-	-	-	-	102	102
Other comprehensive income for the period	-	(23)	43	1	21	-	21
Total comprehensive income for the period	-	(23)	43	1	21	102	123
Transaction with owners:							
Acquisition of treasury shares	-	-	-	-	-	(112)	(112)
Share-based payments	-	-	-	-	-	2	2
Total transactions with owners	-	-	-	-	-	(110)	(110)
Equity as at 31 March 2018	**29**	**(44)**	**103**	**(1)**	**58**	**2,984**	**3,071**

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed cash flow statement 1 January - 31 March

mEUR	Note	Q1 2019	Q1 2018
Profit for the period		25	102
Adjustment for non-cash transactions		200	43
Interest paid, net		(9)	(13)
Income tax paid		(60)	(115)
Cash flow from operating activities before change in net working capital		156	17
Change in net working capital		(856)	(485)
Cash flow from operating activities		**(700)**	**(468)**
Purchase of intangible assets		(69)	(60)
Purchase of property, plant and equipment		(105)	(58)
Disposal of property, plant and equipment		4	-
Net purchase of other non-current assets		(1)	-
Acquisition of joint ventures and associates		(5)	(1)
Cash flow from investing activities before acquisitions of subsidiaries and financial investments		**(176)**	**(119)**
Free cash flow before acquisitions of subsidiaries and financial investments		**(876)**	**(587)**
Acquisition of subsidiaries, net of cash		-	(65)
Purchase of financial investments	3.5	(19)	-
Free cash flow		**(895)**	**(652)**
Payment of lease liabilities		(14)	-
Proceeds from borrowings		33	-
Purchase of treasury shares		-	(95)
Cash flow from financing activities		**19**	**(95)**
Net decrease in cash and cash equivalents		**(876)**	**(747)**
Cash and cash equivalents at the beginning of period		2,918	3,653
Exchange rate adjustments of cash and cash equivalents		12	(5)
Cash and cash equivalents at the end of the period	3.2	**2,054**	**2,901**

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

Notes

1 Result for the period

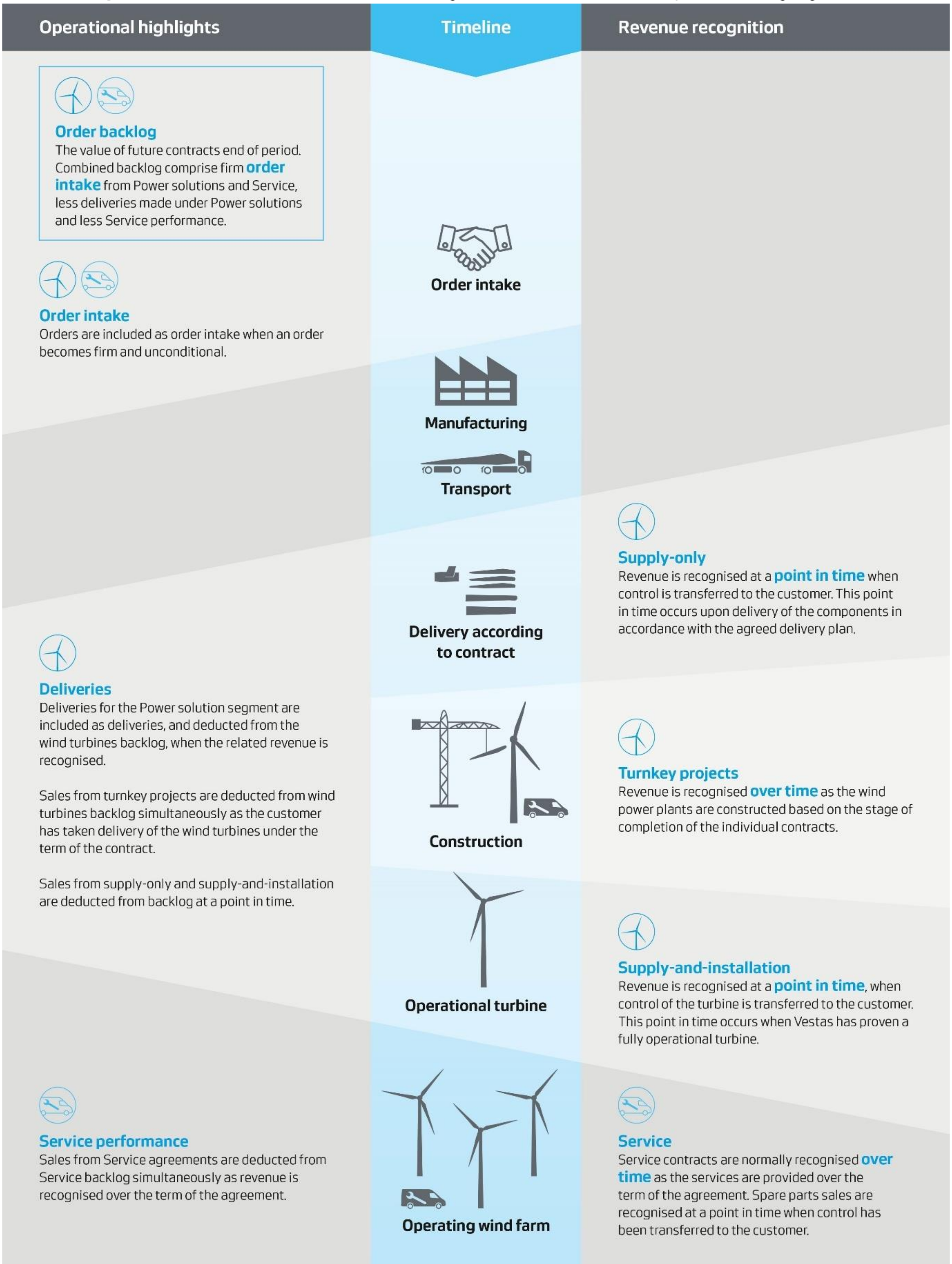
1.1 Segment information

mEUR	Power solutions	Service	Not allocated	Total
Q1 2019				
Revenue	1,306	424	-	1,730
Total revenue	**1,306**	**424**	**-**	**1,730**
Total costs	**(1,318)**	**(312)**	**(57)**	**(1,687)**
Operating profit (EBIT)	**(12)**	**112**	**(57)**	**43**
Income from investments in joint ventures and associates				6
Net financial items				(15)
Profit before tax				**34**
Amortisation and depreciation included in total costs	(94)	(15)	(17)	(126)

mEUR	Power solutions	Service	Not allocated	Total
Q1 2018				
Revenue	1,328	366	-	1,694
Total revenue	**1,328**	**366**	**-**	**1,694**
Total costs	**(1,250)**	**(268)**	**(50)**	**(1,568)**
Operating profit (EBIT)	**78**	**98**	**(50)**	**126**
Income from investments in joint ventures and associates				18
Net financial items				(7)
Profit before tax				**137**
Amortisation and depreciation included in total costs	(82)	(7)	(10)	(99)

1.2 Revenue

The following illustration shows Vestas' revenue recognition and the link to the operational highlights.



Disaggregation of revenue

In the following section, revenue is disaggregated by sale of projects and sale of service, by primary geographical market, major contract types and timing of revenue recognition.

mEUR	Power solutions		Service		Total	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Timing of revenue recognition						
Products and services transferred at a point in time	967	985	57	46	1,024	1,031
Products and services transferred over time	339	343	367	320	706	663
	1,306	1,328	424	366	1,730	1,694
Revenue from contract types						
Supply-only	682	327	-	-	682	327
Supply-and-installation	446	743	-	-	446	743
Turnkey (EPC)	178	258	-	-	178	258
Service	-	-	424	366	424	366
	1,306	1,328	424	366	1,730	1,694
Primary geographical markets						
EMEA	345	733	238	224	583	957
Americas	758	369	143	108	901	477
Asia Pacific	203	226	43	34	246	260
	1,306	1,328	424	366	1,730	1,694

2 Other operating assets and liabilities

2.1 Property, plant and equipment

During the first three months of 2019, Vestas acquired assets with a cost of EUR 105m mainly related to investments within the manufacturing area, compared to EUR 58m in the first three months of 2018.

Right-of-use assets recognised due to the implementation of IFRS 16 Leases are disclosed in note 5.3.

2.2 Investments in joint ventures and associates

During the first three months of 2019, Vestas has entered into a couple of joint ventures for wind energy projects where Vestas will deliver wind turbines, wind power plants and service agreements. The total investment in joint ventures amounts to EUR 27m.

2.3 Warranty provisions (included in provisions)

mEUR	31 March 2019	31 March 2018	31 December 2018
Warranty provisions, 1 January	546	552	552
Provisions for the period	36	27	161
Warranty provisions consumed during the period	(41)	(40)	(167)
Warranty provisions	**541**	**539**	**546**
The provisions are expected to be payable as follows:			
< 1 year	189	183	115
> 1 year	352	356	431

In the first quarter of 2019, warranty provisions charged to the income statement amounted to EUR 36m, equivalent to 2.1 percent of revenue. Warranty consumption amounted to EUR 41m – compared to EUR 40m in the first quarter of 2018. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.7 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.

2.4 Contingent assets and liabilities

On 31 July 2017, General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its U.S. Patents No. 7,629,705 and No. 6,921,985 (the "'705 Patent" and the "'985 Patent"). The Patent '705 patent addresses Zero Voltage Ride Through technology. The '985 Patent addresses techniques to maintain functioning of the blade pitch system during low voltage events. Vestas answered and counterclaimed on December 15, 2017. Additionally, both parties have filed petitions with the United States Patent Office requesting inter partes reviews of the patents asserted in the lawsuit for the purpose of challenging the validity of those patents. As set forth in its counterclaims, it is Vestas assessment that GE's patents are invalid and unenforceable, and that Vestas does not infringe. Several of these petitions are actively ongoing. Consequently, Vestas has made no provision to cover the complaint. However, in the event that Vestas is not successful in its defence in this case, and GE prevails, this case could potentially have significant financial impact on Vestas. As GE has not claimed any specific amount from Vestas, it is not possible for Vestas to estimate such financial impact any further at this point in time.

No significant changes have occurred to contingent assets and liabilities or types and scale of assets and liabilities compared to what is disclosed in the consolidated financial statements in the Annual report 2018, note 3.6, page 072.

3 Capital structure and financing items

3.1 Share capital

Pursuant to authorisation granted to the Board of Directors at the Annual General Meeting 3 April 2019, the Board of Directors was authorised to acquire treasury shares on behalf of Vestas at a nominal value not exceeding 10 per cent of the share capital at the time of authorisation. Vestas has not yet initiated a share buy-back programme.

The purpose of the share buyback programme is to adjust Vestas' share capital and to meet obligations arising from the share based incentive programmes to employees of Vestas.

A reduction of Vestas' share capital of nominally DKK 6,794,040 shares through cancellation was approved at the Annual General Meeting 3 April 2019. The share capital will be reduced from nominally DKK 205,696,003 to nominally DKK 198,901,963 shares during the second quarter of 2019.

Treasury shares

Number of shares / Nominal value (DKK)	**31 March 2019**	**31 March 2018**	**31 December 2018**
Treasury shares as at 1 January	8,418,860	11,843,929	11,843,929
Purchases for the period	-	1,921,793	6,962,324
Cancellation for the period	-	-	(9,800,944)
Vested treasury shares for the period	(211,464)	(333,788)	(586,449)
Treasury shares	**8,207,396**	**13,431,934**	**8,418,860**

3.2 Cash and cash equivalents

mEUR	31 March 2019	31 March 2018	31 December 2018
Cash and cash equivalents without disposal restrictions	2,022	2,498	2,886
Cash and cash equivalents with disposal restrictions	32	403	32
Cash and cash equivalents	**2,054**	**2,901**	**2,918**

3.3 Financial risks

Financial risks, including liquidity, credit, and market risks were addressed in the notes to the Consolidated financial statements in the Annual report 2018, note 4.7, pages 078-082. The risks remain similar in nature compared to 2018.

3.4 Financial instruments

As at 31 March 2019, the fair value of financial investments was EUR 646m, equal to book value. Derivative financial instruments were positive with a market value of net EUR 52m, equal to book value, and included in other receivables and other liabilities with EUR 204m and EUR 152m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the Annual report 2018, note 4.8, page 083. There have been no significant new items compared to 2018, and there have been no significant transfers between levels.

Financial instrument assets categorised within level 3 comprise other equity investments and renewable energy certificates, where financial instrument liabilities comprise contingent consideration to the acquisition of Utopus Insights, Inc. in 2018. Valuation methods remain unchanged to the description in the Annual Report 2018 and with no significant changes in fair values.

The book value of the Green Corporate Eurobond was EUR 498m with a corresponding fair value of EUR 531m as at 31 March 2019.

3.5 Financial investments

Financial investments consist of interest-bearing investments which do not meet the definition for cash and cash equivalents. On initial recognition, financial investments are recognised in the balance sheet at fair value and subsequently re-measured at fair value through profit and loss. Any change in the fair values of the financial investments are recognised in the income statement as financial items.

mEUR	31 March 2019	31 March 2018	31 December 2018
Marketable securities	205	203	204
Deposits	441	-	422
Financial investments	**646**	**203**	**626**
Financial investments specified as follows:			
0-1 year	441	2	422
> 1 year	205	201	204
Financial investments	**646**	**203**	**626**

4 Other disclosures

4.1 Related party transactions

Vestas has had the following material transactions with joint ventures and associates:

mEUR	Q1 2019	Q1 2018
Joint ventures		
Revenue for the period	37	37
Capital increase	1	-
Receivable as at 31 March	48	28
Prepayments balance as at 31 March	108	84
Associates		
Payable capital contribution as at 31 March	37	-

No other significant changes have occurred to related parties or types and scale of transactions with these parties other than what is disclosed in the consolidated financial statements in the Annual report 2018, note 6.4, page 092.

4.2 Business combinations

Acquisition of SOWITEC

On 11 April 2019, Vestas acquired 25.1 percent of the share capital of SOWITEC Group GmbH (”Sowitec”), with the option of acquiring 100 percent of the share capital. The acquisition supports Vestas' position as global leader in wind power plant solutions, and increases its ability to offer full-scope wind power plant solutions including development services.

The acquisition price for the 25.1 percent interest in Sowitec is EUR 20m. The excess fair value of the acquired identifiable net asset is expected to be attributable to sustainable energy development projects.

The transaction is subject to closing conditions, including third-party approvals, which is why Vestas does not yet have full insight into assets acquired and liabilities assumed. As a result, it is not possible to include the disclosures required under IFRS 3. Closing of the transaction, including assessment of assets acquired and liabilities assumed, is expected to take place during the second quarter of 2019. Vestas expects to obtain the ability to exercise control of Sowitec at closing, and Sowitec will be consolidated in Vestas' financials from the time of closing.

The revenue, costs, and EBIT from Sowitec will be allocated to the Power solutions segment.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas comprises a summary of the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries.

The interim financial report has been prepared in accordance with IAS 34, Interim Financial Reporting as adopted by the EU and additional Danish disclosure requirements for interim financial reporting of listed companies.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made during the interim reporting period.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected annual profit or loss.

5.2 Key accounting estimates and judgements

When preparing the interim financial reporting of Vestas, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of Vestas' assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances. Reference is made to note 5.3 related to IFRIC 23, and the consolidated financial statements in the Annual report for the year ended 31 December 2018, note 7.2, page 097.

5.3 Changes in accounting policies and disclosures

Except for the changes below, the accounting policies remain unchanged compared to the annual report for the year ended 31 December 2018, to which reference is made.

Impact of new accounting standards for the financial year beginning 1 January 2019
Vestas has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2019 financial year, including:

- Annual improvements to IFRSs 2015-2017 (effective date 1 January 2019)
- IFRS 16, Leases (effective date 1 January 2019)
- IFRIC 23, Uncertainty over Income Tax Treatment (effective date 1 January 2019)

None of these new or amended accounting standards and clarifications resulted in any significant changes to the accounting policies for Vestas or had significant impact on recognition or measurement in the consolidated financial statements in the first quarter of 2019. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

IFRS 16, Leases
IFRS 16 has been implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2019. Vestas has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Consequently, 2018 comparative figures are reported according to IAS 17 (Leases) and IFRIC 4 (Determining whether an arrangement contains a lease) and are not restated to reflect the numbers according to IFRS 16. There has not been any cumulative effect of initial application.

IFRS 16 replaces IAS 17 and changes the accounting treatment of lease contracts that were previously treated as operating lease contracts. The change in lease accounting requires capitalisation of operating lease contracts as right-of-use assets under property, plant and equipment with a related lease liability in liabilities.

Vestas accounting policies - Vestas as Lessee
Vestas assesses whether a contract is or contains a lease at inception of the contract. Vestas recognises a right-of-use assets and corresponding lease liabilities at the lease commencement date, except for short term leases and leases of low value. For these leases Vestas normally recognises the lease payments as an operating expense on a straight-line basis over the term of term of the lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are from the commencement date depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities, e.g. revised discount rate, change in the lease term or change in future lease payments resulting from a change in an index.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vestas' incremental borrowing rate. Generally, Vestas uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liabilities comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if Vestas is reasonably certain to exercise the options; and
- amounts expected to be payable lease under residual value guarantees.

The lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if Vestas changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

IFRS 16 impact to financial statements

On transition to IFRS 16, Vestas recognised EUR 208m of right-of-use assets and lease liabilities. Vestas used the practical expedients not to recognise right-of-use assets and liabilities for leases less than 12 months of lease term, when applying IFRS 16 to leases previously classified as operating leases under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using Vestas's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to these lease liabilities was 3.10 percent on 1 January 2019. Right-of-use assets are calculated at transition date and equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Vestas has elected not to capitalise low-value assets and short-term lease contracts with a lease term of 12 month or less.

Vestas leases properties, vehicles and equipment. Lease contracts are typically made for fixed periods but may have extension options included in the lease term. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, maintenance, deposits and guarantees etc. Some property leases contain variable payments terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas entire lease payments.

mEUR	**1 January 2019**
Operating lease commitment as disclosed in annual report as at 31 December 2018	227
Discounted using the incremental borrowing rate at 1 January 2019	209
Recognition exemption for short-term leases and leases of low-value assets	(20)
Extension and termination options reasonably certain to be exercised	12
Variable lease payments based on an index	7
Lease liabilities recognised at 1 January 2019	**208**

Right-of-use assets amounts to EUR 194m as at 31 March 2019. Lease liabilities are included in Financial debts. The lease liabilities included in financial debts as at 31 March 2019 can be specified as following:

mEUR	**31 March 2019**
Lease liabilities - non-current	156
Lease liabilities - current	38

Interest related to the lease liabilities and depreciation related to the right-of-use assets are recognised in income statement and amounts to:

mEUR	Q1 2019
Depreciation for right-of-use assets recognised in income statement	14
Interest on lease liabilities recognised in income statement	1

IFRIC 23, Uncertainty over Income Tax Treatment
As of 1 January 2019, Vestas adopted the interpretation IFRIC 23 which clarifies the accounting treatment for uncertainties in income taxes as a part of the application of IAS 12.

The interpretation specifically addresses whether an entity considers each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed, and uncertain tax positions are measured at the most likely outcome.

With the application of IFRIC 23 a change in estimates for uncertain tax positions have been recognised related to prior years, with a net impact in the opening equity of EUR 43m. Non-current tax receivables and tax payables have been impacted with an increase of EUR 47m and EUR 90m accordingly.

Management's statement

The Executive Management and the Board of Directors have today discussed and approved the interim financial report of Vestas Wind Systems A/S for the period 1 January to 31 March 2019.

The interim financial report has been prepared in accordance with IAS 34 on interim financial reporting as adopted by the EU, accounting policies set out in the Annual Report 2018 of Vestas and additional Danish disclosure requirements for interim financial reports of listed companies. The interim financial report has neither been audited nor reviewed.

In our opinion the accounting policies used are appropriate and the interim financial report gives a true and fair view of Vestas' assets, liabilities, and financial position as at 31 March 2019 and of the results of Vestas' operations and cash flow for the period 1 January to 31 March 2019.

Further, in our opinion the management report gives a true and fair review of the development in Vestas' operations and financial matters, the results of Vestas' operations for the period and Vestas' financial position as a whole and describes the significant risks and uncertainties pertaining to Vestas.

Besides what has been disclosed in the interim financial report, no changes in Vestas' most significant risks and uncertainties have occurred relative to what was disclosed in the Annual report 2018.

Aarhus, Denmark, 8 May 2019

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eva Merete Søfelde Berneke

Henrik Andersen

Bruce Harvey Grant

Helle Thorning-Schmidt

Jens Hesselberg Lund

Kim Hvid Thomsen*

Michael Abildgaard Lisbjerg*

Sussie Dvinge Agerbo*

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Disclaimer and cautionary statement

This document contains forward-looking statements concerning Vestas' financial condition, results of operations and business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections, and assumptions. A number of factors that affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, include (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Additional factors that may affect future results are contained in Vestas' annual report for the year ended 31 December 2018 (available at vestas.com/investor) and these factors also should be considered. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events other than as required by Danish law. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this document.