




Vestas[®]

Company announcement No. 22, 2017

Interim financial report **First quarter 2017**

Vestas Wind Systems A/S
Hedeager 42,8200 Aarhus N, Denmark
Company Reg. No.: 10403782



Wind. It means the world to us.™

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Information meeting (audiocast)

On Friday 5 May 2017 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: +44 203 008 9814
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Presentation material for the information meeting will be available at vestas.com/investor approximately one hour before the meeting.

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Summary

Revenue, earnings, and free cash flow increased compared to the first quarter of 2016. Solid order intake and combined order backlog at high level. Guidance for 2017 maintained.

In the first quarter of 2017, Vestas generated revenue of EUR 1,885m – an increase of 29 percent compared to the year-earlier period. EBIT increased by EUR 126m to EUR 211m. The EBIT margin was 11.2 percent compared to 5.8 percent in the first quarter of 2016 and free cash flow* amounted to EUR 8m compared to EUR (296)m in the first quarter of 2016.

The intake of firm and unconditional wind turbine orders amounted to 2,049 MW in the first quarter of 2017. The value of the wind turbine order backlog amounted to EUR 9.0bn at 31 March 2017. In addition to the wind turbine order backlog, Vestas had service agreements

with contractual future revenue of EUR 11.0bn at the end of March 2017. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 20.0bn – an increase of EUR 2.0bn compared to the year-earlier period.

Vestas maintains its 2017 guidance on revenue of EUR 9.25bn-10.25bn, EBIT margin before special items of 12-14 percent, total investments* of approximately EUR 350m, and free cash flow* of minimum EUR 700m.

Group President & CEO Anders Runevad said: “Vestas delivered solid first quarter results and is as expected off to a good start in 2017 with satisfactory order intake and improved combined order backlog. I am very pleased with the underlying improvements in revenue, EBIT and cash flow, although these include positive spillover effects from PTC component deliveries. We have a lot of hard work ahead of us and maintain our guidance for 2017.”

Key highlights

Strong Q1 revenue

Revenue at EUR 1,885m.

Improved earnings

EBIT margin at 11.2 percent.

Solid Q1 order intake

Order intake in the quarter reached 2,049 MW.

Backlog increasing

Wind turbine and service order backlog of EUR 20bn.

*) Before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities.

Highlights for the Group

mEUR	Q1 2017 ¹⁾	Q1 2016 ¹⁾	FY 2016
Financial highlights			
Income statement			
Revenue	1,885	1,464	10,237
Gross profit	377	247	2,126
Operating profit before financial income and costs, depreciation and amortisation (EBITDA)	301	175	1,826
Operating profit (EBIT)	211	85	1,421
Net financial items	14	(20)	(33)
Profit before tax	214	46	1,287
Profit for the period	160	35	965
Balance sheet			
Balance sheet total	10,267	8,894	9,931
Equity	3,308	2,728	3,190
Investments in property, plant and equipment	40	63	304
Net invested capital	(66)	657	(361)
Net working capital	(1,710)	(1,068)	(1,941)
Cash flow statement			
Cash flow from operating activities	(4)	(114)	2,181
Cash flow from investing activities	12	(182)	(817)
Free cash flow	8	(296)	1,364
Financial ratios²⁾			
Financial ratios			
Gross margin (%)	20.0	16.9	20.8
EBITDA margin (%)	16.0	12.0	17.8
EBIT margin (%)	11.2	5.8	13.9
Interest-bearing position (net), end of the period	3,192	1,957	3,255
Return on invested capital ³⁾ (ROIC) (%)	353.3	119.1	265.2
Solvency ratio (%)	32.2	30.7	32.1
Return on equity ³⁾ (%)	35.8	24.8	32.6
Share ratios			
Earnings per share ⁴⁾ (EUR)	5.0	3.0	4.4
Cash flow from operating activities per share (EUR)	(0.0)	(0.5)	9.8
Dividend per share (EUR)	-	-	1.31 ⁵⁾
Payout ratio (%)	-	-	30.0 ⁵⁾
Share price at the end of the period (EUR)	76.2	62.0	61.7
Number of shares at the end of the period (million)	222	224	222
Operational key figures			
Order intake (bnEUR)	1.8	2.0	9.5
Order intake (MW)	2,049	2,403	10,494
Order backlog – wind turbines (bnEUR)	9.0	8.6	8.5
Order backlog – wind turbines (MW)	9,962	9,929	9,530
Order backlog – service (bnEUR)	11.0	9.4	10.7
Produced and shipped wind turbines (MW)	2,371	1,814	9,957
Produced and shipped wind turbines (number)	883	735	4,264
Deliveries (MW)	1,553	1,214	9,654

1) Neither audited nor reviewed.

2) The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios 2015).

3) Calculated over a 12-month period.

4) Earnings per share has been calculated over a 12-month period and in accordance with IAS 33 on earnings per share.

5) Based on proposed dividend.

	Q1 2017 ¹⁾	Q1 2016 ¹⁾	FY 2016
Social and environmental key figures²⁾			
Occupational health & safety			
Total recordable injuries (number)	67	70	303
- of which lost time injuries (number)	28	19	82
- of which fatal injuries (number)	0	0	0
Consumption of resources			
Consumption of energy (GWh)	153	161	567
- of which renewable energy (GWh)	70	74	296
- of which renewable electricity (GWh)	58	63	268
Consumption of fresh water (1,000 m ³)	85	92	428
Waste disposal			
Volume of waste (1,000 tonnes)	17	19	75
- of which collected for recycling (1,000 tonnes)	9	9	37
Emissions			
Direct emission of CO ₂ (1,000 tonnes)	17	17	58
Indirect emission of CO ₂ (1,000 tonnes)	8	8	26
Local community			
Environmental accidents (number)	0	0	0
Breaches of internal inspection conditions (number)	0	1	1
Employees⁴⁾			
Average number of employees	21,904	21,036	21,625
Number of employees at the end of the period	22,083	21,449	21,824
- of which outside Europe and Africa	10,222	9,858	9,975
Social and environmental indicators²⁾			
Occupational health and safety			
Incidence of total recordable injuries per one million working hours	6.0	6.7	6.9
Incidence of lost time injuries per one million working hours	2.5	1.8	1.9
Absence due to illness among hourly-paid employees (%)	2.5	2.3	2.2
Absence due to illness among salaried employees (%)	1.3	1.2	1.2
Products			
CO ₂ savings over the lifetime on the MW produced and shipped (million tonnes of CO ₂)	67	51	281
Utilisation of resources			
Renewable energy (%)	46	46	52
Renewable electricity for own activities (%)	100	100	100
Employees			
Women in Board of Directors ³⁾ and Executive Management (%)	23	23	23
Women at management level ⁴⁾ (%)	19	18	19
Non-Danes at management level ⁴⁾ (%)	61	57	60

1) Neither audited nor reviewed.

2) Accounting policies for social and environmental key figures for the Group, see page 52 of the annual report 2016.

3) Only Board members elected by the general meeting are included.

4) Employees at management level comprise employees at level IPE54+ according to Mercer's International Position Evaluation System.

Financial performance

Power solutions performance

(Power solutions refers to the segment that was previously called Projects, read more in note 1.1 on Segment information.)

Order intake

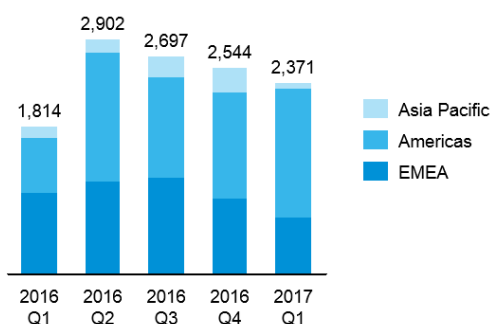
The quarterly order intake was 2,049 MW, of which 66 percent was announced. The order intake decreased by 354 MW, equal to 15 percent, compared to the first quarter of 2016. It should be noted, though, that the first quarter of 2016 included a 1 GW order in Norway. Thirteen countries contributed to the order intake, but with USA as the main contributor followed by Germany and China.

Level of activity

Vestas had a first quarter of 2017 with a high activity level compared to first quarter of 2016.

Produced and shipped

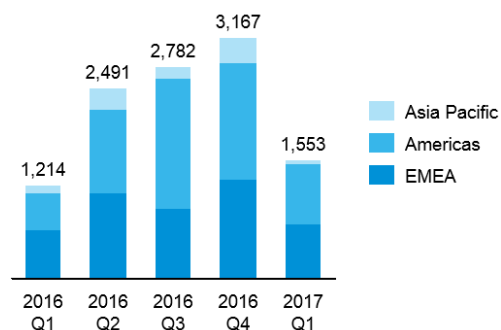
MW



In the first quarter of 2017, Vestas produced and shipped wind turbines with an aggregate output of 2,371 MW (883 wind turbines) against 1,814 MW (735 wind turbines) in the first quarter of 2016.

Deliveries (Transfer of risk)

MW



Deliveries to customers amounted to 1,553 MW – an increase of 339 MW (equal to 28 percent) compared to

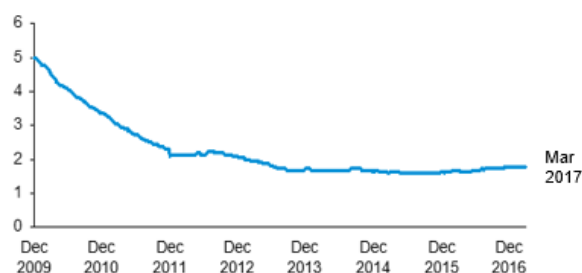
the first quarter of 2016. The improvement was mainly driven by increased deliveries of pipeline enabling components to the USA as a result of the strong order intake during December 2016.

Fleet performance

By the end of March 2017, Vestas had installed more than 83 GW in 76 countries.

Lost Production Factor*

Percent



* Data calculated across approx. 22,500 Vestas wind turbines under full-scope service.

At the end of March 2017, the overall average Lost Production Factor for the wind power plants where Vestas guaranteed the performance was below 2 percent.

Order backlog

The order backlog amounted to 9,962 MW at the end of March 2017, in line with an order backlog level of 9,929 MW at 31 March 2016. Despite the increase in delivery of wind turbines, the order backlog has developed positively due to the order intake achieved in the quarter. Europe, Middle East, and Africa (EMEA) accounted for 51 percent of the backlog, and Americas and Asia Pacific accounted for 36 and 13 percent, respectively. The value of the order backlog was EUR 9.0bn at 31 March 2017 compared to EUR 8.6bn at 31 March 2016 – an increase of 5 percent.

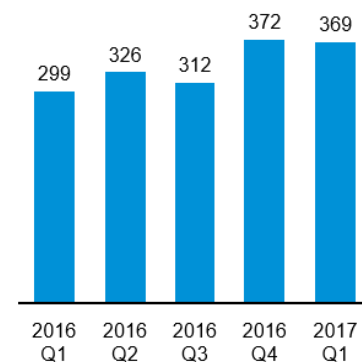
Service performance

Level of activity

The service activity was at a higher level in the first quarter of 2017 compared to the first quarter of 2016.

Service revenue

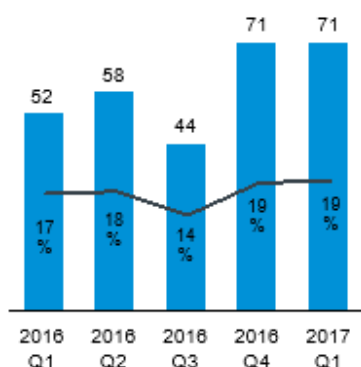
mEUR



Service revenue amounted to EUR 369m in the first quarter of 2017 – an increase of 23 percent compared to the first quarter of 2016. The increase in service revenue continues to be driven by the increased service order backlog.

Service EBIT margin amounted to 19.2 percent – an increase of 1.8 percentage points compared to the first quarter of 2016. The improvement was mainly driven by a higher activity level in general and improved performance. 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
mEUR and percentage



Order backlog

At the end of March 2017, Vestas had service agreements with expected contractual future revenue of EUR 11.0bn compared to EUR 9.4bn at 31 March 2016 – an increase of 17 percent. At the end of March 2017, the average duration in the service order backlog was approximately six years, which was stable compared to end of March 2016.

By the end of March 2017, Vestas had more than 38,000 wind turbines under service equivalent to approximately 73 GW.

Result for the period

Revenue

In the first quarter of 2017, revenue amounted to EUR 1,885m – an increase of 29 percent compared to the first quarter of 2016, primarily driven by increased revenue in the Power solutions segment.

Gross profit

Gross profit increased by 53 percent to EUR 377m compared to the first quarter of 2016, corresponding to a gross margin of 20.0 percent – a 3.1 percentage point increase relative to the gross margin of 16.9 percent in the first quarter of 2016. The increase in gross profit was mainly driven by the increased revenue and better average margins in the Power solutions segment as well as within the Service segment.

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.

EBIT

EBIT increased by 148 percent to EUR 211m in the first quarter of 2017 relative to the first quarter of 2016. The increase in EBIT was driven by the higher gross profit. Consequently, the EBIT margin increased by 5.4 percentage points to 11.2 percent compared to the first quarter of 2016.

Income from investments in joint ventures

Income from investments in joint ventures amounted to a loss of EUR 11m compared to a loss of EUR 19m in the first quarter of 2016. This was mainly driven by Vestas' share of loss from MHI Vestas Offshore Wind on a standalone basis.

Financial items

In the first quarter of 2017, net financial items amounted to a net income of EUR 14m against a net cost of EUR 20m in the first quarter of 2016. The development was mainly driven by various currency effects.

Profit before and after tax

Profit before tax amounted to EUR 214m in the first quarter of 2017 compared to EUR 46m in the first quarter of 2016. In the first quarter of 2017, the income tax expense was EUR 54m, compared to EUR 11m in the first quarter of 2016. The profit after tax amounted to EUR 160m compared to EUR 35m in the first quarter of 2016.

Working capital

Net working capital by the end of March was a result of continued focus on working capital management. Net working capital amounted to a net liability of EUR 1.7bn at the end of March 2017, which is an improvement compared to the level at the end of March 2016 (EUR (1.1)bn). The development in net working capital was primarily driven by prepayments from customers and trade payables – all largely driven by the high activity levels.

Other operating assets and liabilities

Return on invested capital (ROIC)

Return on invested capital was 353.3 percent in first quarter of 2017, up 234.2 percentage points from 119.1 percent in first quarter of 2016, primarily driven by working capital elements as well as the improved operating result after tax.

Capital structure and financing items

Equity

Vestas' equity amounted to EUR 3,308m at 31 March 2017 – an increase of 21 percent compared to 31 March 2016. The positive development was mainly driven by the profit for the period.

Solvency ratio

The solvency ratio increased by 1.5 percentage points to 32.2 percent compared to 31 March 2016. The development in solvency ratio was impacted by the profit over the past 12 months and positive net working capital effects. The solvency ratio was within the target for the year of 30-35 percent.

Cash flow**Net investments**

Total net investments (before investments in marketable securities and short-term financial investments, and incl. sale of office building facilities) amounted to an inflow of EUR 12m in the first quarter of 2017, mainly driven by proceeds of EUR 99m from sale of office building facilities in Aarhus, Denmark. Investments in intangible assets and property, plant and equipment was on the same level as last year amounting to EUR 84m.

Free cash flow

The free cash flow (before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities) amounted to EUR 8m for the quarter, primarily driven by increased earnings and proceeds from the sale of office building facilities.

Market development

Deliveries and wind turbine backlog per region

The order backlog amounted to 9,962 MW at the end of March 2017, in line with the order backlog level of 9,929 MW at 31 March 2016.

Order intake and wind turbine backlog per region

MW	EMEA	Americas	Asia Pacific	Total
Order intake Q1 2017	802	921	326	2,049
Backlog as per 31 Mar 2017	5,066	3,543	1,353	9,962

Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 706 MW compared to 641 MW in the previous year. Deliveries were distributed in several different countries of the region, with the United Kingdom being the country in the region where most capacity was delivered, which was impacted by offshore deliveries of 3 MW platform turbines to MHI Vestas Offshore Wind.

The order intake for the region amounted to 802 MW, down from 1,885 MW in the first quarter of 2016. The decrease was mainly linked to the 1 GW order received in 2016, whereas such did not occur in the first quarter of 2017. The order intake in the quarter was coming mainly from Germany and France. The order backlog comprised 5,066 MW as of 31 March 2017.

Americas

Deliveries in the Americas region amounted to 790 MW compared to 484 MW in the first quarter of 2017. A large part of the increase was attributable to the USA, but Latin America also contributed to the performance.

In the quarter, order intake amounted to 921 MW for the Americas region, of which 796 MW came from the USA. The order backlog for the region amounted to 3,543 MW as of 31 March 2017, of which the majority relates to orders in the USA.

Asia Pacific

Deliveries to the markets in Asia Pacific totalled 57 MW compared to 89 MW in the previous year. Deliveries in the quarter were in India and China.

Order intake in the markets in Asia Pacific was 326 MW, almost six times as high as in the first quarter of 2016. Orders were mainly coming from China, but orders received in India supported the development as well. The order backlog amounted to 1,353 MW as of 31 March 2017.

Deliveries (Transfer of risk)

MW	Q1 2017	Q1 2016	FY 2016
United Kingdom	241	56	310
Germany	219	244	1,119
Turkey	57	-	221
France	45	51	534
Finland	35	40	340
Denmark	32	-	171
Belgium	25	-	224
Greece	15	27	174
Italy	15	-	110
Sweden	10	58	343
Austria	10	36	43
Spain	2	-	35
Georgia	-	-	21
Netherlands	-	9	26
Poland	-	-	77
Portugal	-	12	20
Romania	-	15	15
Serbia	-	-	7
South Africa	-	93	181
Switzerland	-	-	13
Ukraine	-	-	7
EMEA	706	641	3,991
USA	672	466	3,940
Uruguay	54	18	160
Mexico	50	-	198
Brazil	14	-	182
Canada	-	-	12
Chile	-	-	297
Jamaica	-	-	36
Americas	790	484	4,825
India	30	-	66
China	27	-	490
Australia	-	20	40
South Korea	-	-	122
Thailand	-	45	90
Vietnam	-	24	30
Asia Pacific	57	89	838
Total	1,553	1,214	9,654

Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the annual report 2016.)

Raising the bar towards 2020

After completing a successful turnaround, Vestas launched the Profitable Growth Strategy in 2014, with the objective to deliver profitable growth. Vestas is executing on the strategic objectives and meeting the targets with the result that Vestas is now stronger than ever across the business.

In the coming years, the strategic ambition is to further develop and expand Vestas' market position. Profitable growth will continue to set the direction. Vestas will continue to work diligently on strengthening its position further by also taking advantage of the opportunities ahead. Vestas wants to grow in a profitable way, as generating profit will allow Vestas to further expand its business and achieve its ambitions.

And at the same time, Vestas needs to prepare for the future to beat the increasing competition on all parameters. To do so, Vestas will build further on its capabilities to integrate new technologies in its product portfolio and at the same time ensure the lowest possible levelised cost of energy. Improving its competitiveness also requires Vestas to adapt its organisation to succeed in rapidly evolving market conditions.

To achieve this, Vestas must balance and utilise its three key differentiators:

- Expand global reach (i.e. by increasing market presence and further localising manufacturing).
- Increase technology and service leadership (i.e. by reducing levelised cost of energy across the product portfolio and by strengthening product and service offerings).
- Leveraging global scale (i.e. by utilising installed base and sourcing opportunities).

To this end, Vestas has defined four strategic objectives which provide the operational basis for the implementation of the strategy.

1. Global leader in the wind power plant solutions market

Vestas will continue to focus on profitable growth in all markets, partnering more closely with its customers, expanding its key account programme, involving customers in product development, and working closely with them to deliver tailored solutions.

With its strong global footprint, Vestas has a competitive edge, allowing it to grow profitably in both mature and emerging markets. Vestas will continue to scale production up and down in accordance with demand in different regions. Building on its long-standing global presence, Vestas will continue to

pursue opportunities in markets where wind energy is set to expand.

As part of Vestas' ambitions to grow profitably, Vestas is participating in project development to a limited extent as some markets require this. By entering into co-development activities under a more structured approach, Vestas expects to be able to engage earlier with certain customers and thereby potentially lock deals earlier than it would in some cases otherwise be possible, whilst simultaneously offering significant value to the customer. The short to medium-term financial effects from such initiatives are expected to be limited in the context of Vestas' overall financials.

The repowering potential is increasing rapidly and Vestas is well-positioned to capture value in this market segment. The main repowering opportunity towards 2020 is in Germany with additional potential in Denmark, the USA, and India. Beyond 2020, the repowering potential will become global.

Vestas' mid-term ambition to grow faster than the market remains unchanged for 2017-2020. Vestas' ambition is to uphold its No. 1 global position in installed wind power capacity.

2. Global leader in the service solutions market

Vestas has installed more than 83 GW on six continents and services 73 GW across the globe at the end of March 2017. Together with Vestas' industry-leading quality and a Lost Production Factor under 2 percent, Vestas has an unparalleled track record within operation and service of wind turbines.

As the majority of Vestas' wind turbine contracts are sold with service agreements, typically running for five to 10 years, the stable revenue stream from the service business is set to continue its growth as the installed base of wind turbines increases.

As part of Vestas' goal to become the leader in the service solutions market, Vestas will grow its multi-brand service solutions. Multi-brand service solutions offer a large opportunity as Vestas turbines cover approximately 16 percent of the total installed fleet worldwide. With the acquisitions of UpWind Solutions Inc. and Availon Holding GmbH, Vestas accelerated its competences within multi-brand service solutions.

Vestas large installed base and unmatched data processing and analytics capabilities within the wind power industry serve as an important enabler for developing and expanding the service business further. Vestas already use data to optimise operation and maintenance, but Vestas data expertise should enable the company to bring new value creating solutions to the market.

As a result of higher than anticipated growth in the service business, Vestas has decided to increase its strategic ambition for the area. The new target is to grow its service business by more than 50 percent

organically towards 2020 versus 2016 revenue, while at the same time deliver best-in-class margins.

3. Lowest cost of energy solutions

For more than 35 years, Vestas has been driving down the cost of energy in the wind power industry and been at the heart of the technological progress. Vestas has a clear ambition to sustain this downward trend and lower the cost of energy faster than anyone in the wind power industry by bringing commercially valuable products and services to the market. Vestas' technology strategy derives its strength from market-driven product development and extensive testing at the wind power industry's largest test facility, located in Denmark.

Coupled with utilising Vestas' smart data capabilities across the entire value chain, Vestas' approach to technology enables it to continuously integrate new and effectively innovate proven technologies to create high-performing products and services in pursuit of its over-riding objective: lowering the levelised cost of energy (LCOE).

During 2016, Vestas introduced new variants and solutions to support its ambition to reduce LCOE faster than market average. By reducing LCOE faster than market average, Vestas aims to provide its customers with the highest returns in the industry. Vestas' investments in new technology are the highest in the wind power industry.

4. Best-in-class global operations

Vestas will continue to build its strength within its core business in 2017 and beyond. The overall strategic ambition is to ensure profitable growth for Vestas and expand its global leadership. Vestas has come a long way and will continue its journey to create an even more flexible and robust company.

Vestas' size provides a competitive foundation for lowering costs at every stage of the value chain. Vestas will optimise its production footprint to further improve its flexibility, labour cost efficiency, and CAPEX efficiency. Vestas will also continue to increase efficiency by leveraging on the scale of its operations.

Finally, working capital management remains an area of high priority for Vestas. Consequently, the focus remains on improving the cash conversion cycle and lowering the working capital tied up while transporting and installing the wind turbine projects.

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. Both the Board of Directors as well as Executive Management believe that strong financial performance and stability are prerequisites for delivering excellent commercial results, and therefore adopt a conservative approach to the structure of the company's balance sheet, whilst at the same time

ensuring that management focuses on delivering strong financial results.

Mid-term financial targets

By increasing earnings and keeping investment and net working capital requirements low, Vestas aims to generate a double-digit return on invested capital (ROIC) each year 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.

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 in the range of 30-35 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, Profitable Growth for Vestas.

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 extraordinary 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

Standards, goals and priorities

Sustainable products and sustainable operations are integral for Vestas. The standards and goals build on global certificates for the three standards ISO 9001 for quality, ISO 14001 for environment and OHSAS 18001 for health and safety as well as recognised conventions established by international organisations such as the UN, ILO, and OECD.

The standards and goals are reflected in Vestas' social and environmental priorities:

- The lowest possible incidence of recordable injuries.
- CO₂ impact from wind power must excel against other energy forms.
- The lowest possible percentage of waste from the wind turbines.
- Avoid or minimise negative impacts on communities where Vestas operates, whilst enhancing Vestas' positive impacts.

Ethical compliance

Via a risk assessment, Vestas has identified three focus areas and related activities to support the ethical behavior of employees and business partners: a revision of the business partner due diligence process, building awareness around bribery risks, and updating related compliance policies.

During the quarter, Vestas started rolling out a web-based compliance portal to help manage business partner relationships through a risk-based approach. Further, a new business ethics e-learning programme was developed and made ready for launch.

Employees

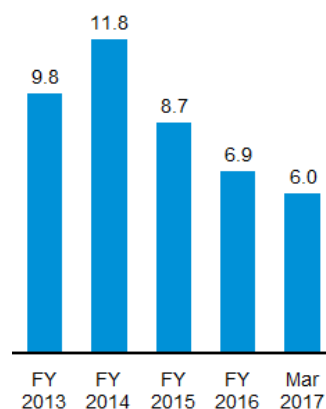
During the first quarter of 2017, the number of employees increased by 259 to 22,083. Vestas will continue to scale the organisation according to the expected activity level.

Safety

In the first quarter of 2017, the number of total recordable injuries decreased to 67 compared to the year-earlier quarter. The incidence of total recordable injuries per one million working hours decreased from 6.7 in the first quarter of 2016 to 6.0 in the first quarter of 2017, reaching the target of maximum 6.0 for 2017.

Incidence of total recordable injuries

Per one million working hours



Environmental performance

The total environmental impact – the waste generation and energy and water consumption from Vestas' manufacturing and service activities – decreased since same quarter last year. The decrease stems mainly from a reduction in the blade production in first quarter of 2017, due to a refurbishment of the blade factories. Furthermore, outsourcing within blades production has increased.

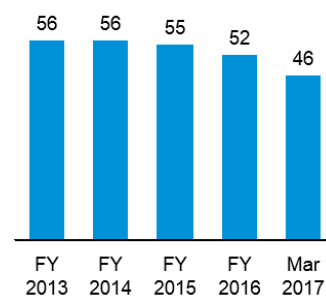
Renewable energy

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 the first quarter of 2017, 46 percent of all energy consumption came from renewable energy sources, which was the same percentage as in the year-earlier period. The decrease in the share of renewable energy for the quarter compared to full year is attributable to seasonality.

Renewable energy

Percentage of total energy consumption



To limit the usage of fossil fuel in the growing service business, CO₂ limits have been introduced for all new service vehicles. In addition, action plans are under development regionally to minimise carbon emissions in general from vehicles in connection with service.

Chemical management

Vestas has increased the focus on phasing out any environmentally harmful materials and substances used by its suppliers. For this purpose, a separate list has been created covering restricted materials that the suppliers are asked to phase out. If a product contains chemicals or materials that appear on the restricted list, the supplier will need to provide an action plan for phasing out the substances in question and to find alternatives.

Outlook 2017

Outlook for 2017 is unchanged.

Revenue is expected to range between EUR 9.25bn and 10.25bn including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin before special items of 12-14 percent with the service EBIT margin remaining stable.

Total investments¹ are expected to amount to approximately EUR 350m, and the free cash flow¹ is expected to be minimum EUR 700m in 2017.

It should be emphasised that Vestas' accounting policies only allow the recognition of supply-only and supply-and-installation activities as income when the risk has finally passed to the customer, irrespective of whether Vestas has already produced, shipped, and installed the wind turbines. Disruptions in production and challenges in relation to wind turbine installation, for example bad weather, lack of grid connections, and similar matters may thus cause delays that could affect Vestas' financial results for 2017. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2017.

Outlook 2017²⁾

Revenue (bnEUR)	9.25-10.25
EBIT margin (%) ³⁾	12-14
Total investments (mEUR) ¹⁾	approx. 350
Free cash flow (mEUR) ¹⁾	min. 700

1) Before investments in marketable securities and short-term financial investments, and incl. proceeds of EUR 99m from sale of office building facilities.

2) Based on current foreign exchange rates.

3) Before special items.

Consolidated financial statements 1 January - 31 March

Condensed income statement 1 January - 31 March

mEUR	Note	Q1 2017	Q1 2016
Revenue	1.1	1,885	1,464
Production costs		(1,508)	(1,217)
Gross profit		377	247
Research and development costs		(42)	(54)
Distribution costs		(62)	(46)
Administration costs		(62)	(62)
Operating profit (EBIT)	1.1	211	85
Income from investments in associates and joint ventures		(11)	(19)
Net financial items		14	(20)
Profit before tax		214	46
Income tax		(54)	(11)
Profit for the period		160	35
Earnings per share (EPS)			
Earnings per share for the period (EUR), basic		0.75	0.16
Earnings per share for the period (EUR), diluted		0.75	0.16

The above condensed income statement for the period should be read in conjunction with the accompanying notes.

Condensed statement of comprehensive income 1 January - 31 March

mEUR	Q1 2017	Q1 2016
Profit for the period	160	35
Items that may be subsequently reclassified to the income statement:		
Exchange rate adjustments relating to foreign entities	(5)	(41)
Fair value adjustments of derivative financial instruments for the period	21	23
Fair value adjustments of derivative financial instruments transferred to the income statement (Production costs)	(8)	4
Share of other comprehensive income of joint venture	(7)	8
Tax on items that may be subsequently reclassified to the income statement	(3)	(6)
Other comprehensive income after tax for the period	(2)	(12)
Total comprehensive income for the period	158	23

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

Condensed balance sheet – Assets

mEUR	Note	31 March 2017	31 March 2016	31 December 2016
Goodwill		308	305	309
Completed development projects		317	235	300
Software		80	30	80
Other intangible assets		51	54	54
Development projects in progress		83	146	85
Total intangible assets		839	770	828
Land and buildings		777	736	767
Plant and machinery		232	252	233
Other fixtures, fittings, tools and equipment		212	180	221
Property, plant and equipment in progress		80	98	108
Total property, plant and equipment		1,301	1,266	1,329
Investments in associates and joint ventures		182	212	201
Other investments		25	20	26
Tax receivables		49	109	49
Deferred tax		232	161	208
Other receivables	3.3	52	30	55
Marketable securities	3.3	199	-	190
Total other non-current assets		739	532	729
Total non-current assets		2,879	2,568	2,886
Inventories		2,693	2,462	1,985
Trade receivables		840	785	1,038
Construction contracts in progress		11	24	19
Tax receivables		42	67	25
Other receivables	3.3	313	428	322
Marketable securities	3.3	2	-	11
Cash and cash equivalents		3,487	2,457	3,550
Total current assets		7,388	6,223	6,950
Non-current assets held for sale	4.2	-	103	95
Total assets		10,267	8,894	9,931

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

Condensed balance sheet – Equity and liabilities

mEUR	Note	31 March 2017	31 March 2016	31 December 2016
Share capital	3.1	30	30	30
Other reserves		59	126	61
Retained earnings		3,219	2,572	3,099
Total equity		3,308	2,728	3,190
Provisions	2.1	461	327	457
Deferred tax		55	28	34
Financial debts	3.3	496	500	496
Tax payables		37	44	37
Other liabilities		80	10	90
Total non-current liabilities		1,129	909	1,114
Prepayments from customers		2,687	2,541	3,002
Construction contracts in progress		134	18	73
Trade payables		2,246	1,867	1,666
Provisions	2.1	129	119	131
Tax payables		134	170	191
Other liabilities		500	542	564
Total current liabilities		5,830	5,257	5,627
Total liabilities		6,959	6,166	6,741
Total equity and liabilities		10,267	8,894	9,931

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

Condensed statement of changes in equity – 3 months 2017

mEUR	Reserves					Retained earnings	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves		
Equity at 1 January 2017	30	107	(61)	15	61	3,099	3,190
Profit for the year	-	-	-	-	-	160	160
Other comprehensive income for the period	-	(5)	10	(7)	(2)	-	(2)
Total comprehensive income for the period	-	(5)	10	(7)	(2)	160	158
Transaction with owners:							
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	(52)	(52)
Share-based payments	-	-	-	-	-	3	3
Tax on equity transactions	-	-	-	-	-	9	9
Total transactions with owners	-	-	-	-	-	(40)	(40)
Equity at 31 March 2017	30	102	(51)	8	59	3,219	3,308

Condensed statement of changes in equity – 3 months 2016

mEUR	Reserves					Retained earnings	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves		
Equity at 1 January 2016	30	99	37	2	138	2,731	2,899
Profit for the year	-	-	-	-	-	35	35
Other comprehensive income for the period	-	(41)	21	8	(12)	-	(12)
Total comprehensive income for the period	-	(41)	21	8	(12)	35	23
Transaction with owners:							
Dividend approved	-	-	-	-	-	(205)	(205)
Dividend, treasury shares	-	-	-	-	-	4	4
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	5	5
Share-based payments	-	-	-	-	-	2	2
Total transactions with owners	-	-	-	-	-	(194)	(194)
Equity at 31 March 2016	30	58	58	10	126	2,572	2,728

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

Condensed cash flow statement

mEUR	Q1 2017	Q1 2016
Profit for the period	160	35
Adjustments for non-cash transactions	233	158
Income tax paid	(118)	(15)
Financial cost paid, net	(17)	(14)
Cash flow from operating activities before change in net working capital	258	164
Change in net working capital	(262)	(278)
Cash flow from operating activities	(4)	(114)
Purchase of intangible assets	(44)	(36)
Purchase of property, plant and equipment	(40)	(63)
Disposal of non-current assets held for sale	99	-
Purchase of other non-current financial assets	(3)	-
Acquisition of subsidiaries, net of cash	-	(83)
Cash flow from investing activities	12	(182)
Free cash flow	8	(296)
Purchase of treasury shares	(55)	-
Disposal of treasury shares	0	5
Cash flow from financing activities	(55)	5
Net decrease in cash and cash equivalents	(47)	(291)
Cash and cash equivalents at the beginning of period	3,550	2,765
Exchange rate adjustments of cash and cash equivalents	(16)	(17)
Cash and cash equivalents at the end of the period	3,487	2,457
The amount can be specified as follows:		
Cash and cash equivalents without disposal restrictions	3,101	2,207
Cash and cash equivalents with disposal restrictions	386	250
Total cash and cash equivalents	3,487	2,457

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

In 2017, the operating and reportable segment Project was renamed Power solutions. The change did not have any impact on the corporate structure nor internal reporting. Consequently, no change to the segment information has occurred.

mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2017				
Revenue	1,516	369	-	1,885
Total revenue	1,516	369	-	1,885
Total costs	(1,325)	(298)	(51)	(1,674)
Operating profit (EBIT)	191	71	(51)	211
Income from investments in associates and joint ventures			(11)	(11)
Net financial items			14	14
Profit before tax				214
Amortisation and depreciation included in total costs	(75)	(9)	(6)	(90)

In first quarter of 2017, write-offs on service inventory of EUR 14m has been recognised and consequently negatively impacted the service EBIT.

mEUR	Power solutions	Service	Not allocated	Total Group
Q1 2016				
Revenue	1,165	299	-	1,464
Total revenue	1,165	299	-	1,464
Total costs	(1,089)	(247)	(43)	(1,379)
Operating profit (EBIT)	76	52	(43)	85
Income from investments in associates and joint ventures			(19)	(19)
Net financial items			(20)	(20)
Profit before tax				46
Amortisation and depreciation included in total costs	(79)	(6)	(5)	(90)

2 Other operating assets and liabilities

2.1 Warranty provisions (included in provisions)

mEUR	31 March 2017	31 March 2016	31 December 2016
Warranty provisions, 1 January	524	386	386
Provisions for the period	35	28	228
Warranty provisions consumed during the period	(23)	(19)	(90)
Warranty provisions	536	395	524
The provisions are expected to be payable as follows:			
< 1 year	107	99	110
> 1 year	429	296	414

In the first quarter of 2017, warranty provisions charged to the income statement amounted to EUR 35m, equivalent to 1.9 percent of revenue. Warranty consumption amounted to EUR 23m – compared to EUR 19m in the first quarter of 2016. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 0.9 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.

3 Capital structure and financing items

3.1 Share capital

On 6 April 2017, it was approved at the company's Annual General Meeting to reduce the share capital from nominally DKK 221,544,727 to nominally DKK 215,496,947 through cancellation of treasury shares of nominally DKK 6,047,780, corresponding to 6,047,780 shares of nominally DKK 1.

3.2 Financial risks

Financial risks, including liquidity, credit, and market risks were addressed in the notes to the consolidated financial statements in the annual report 2016, note 4.5, page 87-92. The risks remain similar in nature compared to 2016.

3.3 Financial instruments

At 31 March 2017, the fair value of marketable securities was EUR 201m, equal to book value. Derivative financial instruments was negative with a market value of net EUR 66m, equal to book value, and included in other receivables and other liabilities with EUR 37m and EUR 103m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the annual report 2016, note 4.7, page 96. There has been no significant new items compared to 2016 and there have been no significant transfers between levels.

The book value of the Green Corporate Eurobond was EUR 496m with a corresponding fair value of EUR 532m at 31 March 2017.

4 Other disclosures

4.1 Related party transactions

The Group has had the following material transactions with joint ventures:

mEUR	Q1 2017	Q1 2016
MHI Vestas Offshore Wind A/S		
Revenue for the period	126	41
Receivable at 31 March	86	29
Roaring Fork Wind, LLC		
Prepayment at 31 March	79	-

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 2016, note 6.4, page 103.

4.2 Non-current assets held for sale

Vestas has sold the office building facilities classified as held for sale as a sale and leaseback agreement. Vestas has received EUR 99m in cash for the office building facilities, and less cost to sell is equivalent to the carrying amount of EUR 95m. As such, the sale impacts the income statement by EUR 0m. At the same time, Vestas has entered into an irrevocable operating lease agreement, which runs for 10 years after the interim financial reporting period. The minimum lease obligations, relating to the operating lease, amounts to EUR 35m.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas Wind Systems A/S 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 2016 and any public announcements made Vestas Wind Systems A/S 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 the Group, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of the Group's 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 the consolidated financial statements in the annual report for the year ended 31 December 2016, note 7.2, page 112.

5.3 Changes in accounting policies and disclosures

The accounting policies remain unchanged compared to the annual report for the year ended 31 December 2016, to which reference is made. The Group has implemented all new, amended, or revised accounting standards and interpretations (IFRSs) endorsed by the EU effective for the accounting period beginning on 1 January 2017. These IFRSs have not had any impact on the Group's interim financial report.

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 2017.

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 2016 of the Group 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 the Group's assets, liabilities, and

financial position at 31 March 2017 and of the results of the Group's operations and cash flow for the period 1 January to 31 March 2017.

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

Besides what has been disclosed in the interim financial report, no changes in the Group's most significant risks and uncertainties have occurred relative to what was disclosed in the Annual Report 2016.

Aarhus, Denmark, 5 May 2017

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Anders Vedel
Executive Vice President & CTO

Jean-Marc Lechêne
Executive Vice President & COO

Juan Araluca
Executive Vice President & CSO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eija Pitkänen

Henrik Andersen

Henry Sténson

Torben Ballegaard Sørensen

Lykke Friis

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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 2016 (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.