

**Vestas**<sup>®</sup>

Company announcement No.43 2018

# Interim financial report **Third quarter 2018**

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

**Wind.** It means the world to us.<sup>™</sup>



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### Information meeting (audiocast)

On Wednesday 7 November 2018 at 10 a.m. CET (9 a.m. GMT), Vestas will host an information meeting via an audiocast. The audiocast will be accessible via [vestas.com/investor](http://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 9806  
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Presentation material for the information meeting will be available at [vestas.com/investor](http://vestas.com/investor) approximately one hour before the meeting.

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## Summary

*Revenue on par with last year's third quarter while earnings and free cash flow decreased. Solid order intake and combined order backlog at high level. Guidance for 2018 is unchanged for revenue and EBIT margin before special items while it has been updated for total investments\* and free cash flow\*.*

In the third quarter of 2018, Vestas generated revenue of EUR 2,811m – an increase of 2 percent compared to the year-earlier period. EBIT before special items decreased by EUR 79m to EUR 276m. The EBIT margin before special items was 9.8 percent compared to 12.9 percent in the third quarter of 2017 and free cash flow\* amounted to EUR (223)m compared to EUR 193m in the third quarter of 2017.

The intake of firm and unconditional wind turbine orders amounted to 3,261 MW in the third quarter of 2018. The value of the wind turbine order backlog amounted to EUR 10.5bn as at 30 September 2018. In addition to the wind turbine order backlog, Vestas had service agreements with expected contractual future revenue of EUR 13.2bn at the end of September 2018. Thus, the value of the combined backlog of wind turbine orders and service agreements stood at EUR 23.7bn – an increase of EUR 3.5bn compared to the year-earlier period.

Vestas maintains its 2018 guidance on revenue in the range between EUR 10.0bn and EUR 10.5bn, and on EBIT margin before special items of 9.5-10.5 percent. Guidance on total investments\* and free cash flow\* is adjusted. Total investments\* are expected to amount to approx. EUR 600m (compared to previously approx. EUR 500m), and free cash flow\* is expected to be minimum EUR 100m in 2018 (compared to previously minimum EUR 400m).

Group President & CEO Anders Runevad said: *"With continued strong global demand for wind energy, Vestas delivered industry-leading results and profitability in the third quarter of 2018, including another all-time high order backlog and all regions contributing to a 25 percent increase in order intake year-on-year. Although the industry remains highly competitive, average selling price in the third quarter saw continued underlying stabilisation, which highlights Vestas' ability to create value for customers. Our service business performed well with 14 percent organic growth in the quarter, while our offshore joint venture contributed to our net profit with EUR 23m, underlining the strength of our three-legged business model. To ensure Vestas sustains its leading position and ability to achieve long-term growth in the renewable energy industry, we remain focused on managing our fixed costs, effectively mitigating external factors such as tariffs, and delivering the profitability needed to innovate and deliver our industry-leading renewable energy solutions"*.

## Key highlights

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### **Strong order intake**

*Order intake of 3.3 GW; an increase of 25 percent year-over-year, leading to all-time high order backlog.*

### **Good service performance**

*Organic revenue growth of 14 percent, and EBIT margin of 24 percent.*

### **EBIT before special items of EUR 276m**

*EBIT margin before special items at 9.8 percent.*

### **Progress in MHI Vestas Offshore Wind**

*Contribution to net profit of EUR 23m.*

### **Free cash flow year-to-date negative**

*Negative free cash flow due to lower profit and build-up of net working capital to cope with higher activity.*

### **Outlook 2018**

*Unchanged guidance for revenue and EBIT margin before special items while total investments and free cash flow have been adjusted.*

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\*) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

## Financial and non-financial highlights

mEUR	Q3 2018	Q3 2017 <sup>1)</sup>	9 months 2018	9 months 2017 <sup>1)</sup>	FY 2017 <sup>1)</sup>
<b>Financial highlights</b>					
<b>Income statement</b>					
Revenue	2,811	2,743	6,765	6,834	9,953
Gross profit	435	526	1,132	1,387	1,963
Operating profit before amortisation, depreciation and impairment (EBITDA) before special items	386	453	980	1,152	1,651
Operating profit (EBIT) before special items	276	355	661	845	1,230
Operating profit before amortisation, depreciation and impairment (EBITDA)	372	453	966	1,152	1,651
Operating profit (EBIT)	236	355	621	845	1,230
Net financial items	(21)	0	(29)	3	2
Profit before tax	238	337	620	798	1,192
Profit for the period	178	253	464	599	894
<b>Balance sheet</b>					
Balance sheet total	11,281	10,562	11,281	10,562	10,871
Equity	2,926	3,163	2,926	3,163	3,112
Investments in property, plant and equipment	83	80	206	187	268
Net working capital	(765)	(1,053)	(765)	(1,053)	(1,984)
Net invested capital	967	423	967	423	(397)
Interest-bearing position (net), end of the period	1,754	2,609	1,754	2,609	3,359
<b>Cash flow statement</b>					
Cash flow from operating activities	(65)	320	(585)	274	1,625
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(158)	(127)	(398)	(231)	(407)
Free cash flow before acquisitions of subsidiaries and financial investments	(223)	193	(983)	43	1,218
Free cash flow	(380)	193	(1,470)	43	1,218
<b>Financial ratios<sup>2)</sup></b>					
<b>Financial ratios</b>					
Gross margin (%)	15.5	19.2	16.7	20.3	19.7
EBITDA margin (%) before special items	13.7	16.5	14.5	16.9	16.6
EBIT margin (%) before special items	9.8	12.9	9.8	12.4	12.4
EBITDA margin (%)	13.2	16.5	14.3	16.9	16.6
EBIT margin (%)	8.4	12.9	9.2	12.4	12.4
Return on invested capital (ROIC) <sup>3)</sup> (%) before special items	210.9	452.5	210.9	452.5	(9,044.1)
Net interest-bearing debt / EBITDA <sup>3)</sup>	(1.2)	(1.5)	(1.2)	(1.5)	(2.0)
Solvency ratio (%)	25.9	29.9	25.9	29.9	28.6
Return on equity <sup>3)</sup> (%)	25.0	29.7	25.0	29.7	28.1
<b>Share ratios</b>					
Earnings per share <sup>4)</sup> (EUR)	3.7	5.9	3.7	5.9	4.2
Dividend per share (EUR)	-	-	-	-	1.24
Payout ratio (%)	-	-	-	-	29.9
Share price at the end of the period (EUR)	58.3	75.9	58.3	75.9	57.6
Number of shares at the end of the period (million)	206	215	206	215	215
<b>Operational key figures</b>					
Order intake (bnEUR)	2.5	2.1	6.4	6.1	8.9
Order intake (MW)	3,261	2,615	8,697	7,331	11,176
Order backlog – wind turbines (bnEUR)	10.5	8.8	10.5	8.8	8.8
Order backlog – wind turbines (MW)	13,800	10,762	13,800	10,762	11,492
Order backlog – service (bnEUR)	13.2	11.4	13.2	11.4	12.1
Produced and shipped wind turbines (MW)	2,379	3,031	8,198	8,497	11,237
Produced and shipped wind turbines (number)	863	1,168	2,875	3,243	4,241
Deliveries (MW)	3,091	2,404	6,254	5,791	8,779

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

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.

	Q3 2018	Q3 2017	9 months 2018	9 months 2017	FY 2017
<b>Social and environmental key figures<sup>1)</sup></b>					
<b>Occupational health &amp; safety</b>					
Total recordable injuries (number)	54	77	163	201	243
- of which lost time injuries (number)	17	28	62	75	92
- of which fatal injuries (number)	0	1	0	1	1
<b>Consumption of resources</b>					
Consumption of energy (GWh)	139	141	453	419	569
- of which renewable energy (GWh)	85	82	227	223	325
- of which renewable electricity (GWh)	81	75	204	202	264
Consumption of fresh water (1,000 m <sup>3</sup> )	123	149	352	351	454
<b>Waste disposal</b>					
Volume of waste (1,000 tonnes)	21	18	60	52	71
- of which collected for recycling (1,000 tonnes)	12	9	32	28	39
<b>Emissions</b>					
Direct emissions of CO <sub>2</sub> (1,000 tonnes)	12	14	49	43	60
Indirect emissions of CO <sub>2</sub> (1,000 tonnes)	9	6	25	20	26
<b>Local community</b>					
Environmental accidents (number)	0	0	0	0	0
Breaches of internal inspection conditions (number)	0	0	0	0	0
<b>Employees</b>					
Average number of employees	24,441	22,605	24,122	22,288	22,504
Number of employees at the end of the period	24,486	22,712	24,486	22,712	23,303
<b>Social and environmental indicators<sup>1)</sup></b>					
<b>Occupational health and safety</b>					
Incidence of total recordable injuries per one million working hours	4.3	6.6	4.3	5.9	5.3
Incidence of lost time injuries per one million working hours	1.3	2.4	1.6	2.2	2.0
Absence due to illness among hourly-paid employees (%)	2.3	2.2	2.3	2.3	2.3
Absence due to illness among salaried employees (%)	1.0	1.2	1.0	1.3	1.2
<b>Products</b>					
CO <sub>2</sub> savings over the lifetime on the MW produced and shipped (million tonnes of CO <sub>2</sub> )	63	85	218	239	317
<b>Utilisation of resources</b>					
Renewable energy (%)	61	58	50	53	57
Renewable electricity for own activities (%)	100	100	100	100	100
<b>Employees</b>					
Women in the Board of Directors <sup>2)</sup> and Executive Management (%)	13	23	13	23	23
Women at management level <sup>3)</sup> (%)	19	19	19	19	19
Non-Danes at management level <sup>3)</sup> (%)	64	62	64	62	63

1) Accounting policies for social and environmental key figures for the Group, see page 62 of the Annual report 2017.

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

3) Employees at management level comprise Leadership Track positions, i.e. managers, specialists, project managers, and above.

# Financial performance\*

## Income statement

### Revenue

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

### Gross profit

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

### Operating profit (EBIT)

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

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

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

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

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

Depreciation, amortisation and impairment amounted to EUR 110m in the third quarter of 2018, compared to EUR 98m in the third quarter of 2017. The increase was driven by higher depreciation and amortisation in the Power solution segment from development and introduction of new product variants.

### Income from investments in joint ventures

Income from investments in joint ventures amounted to a profit of EUR 23m in the third quarter of 2018, compared to a loss of EUR 18m in the third quarter of 2017, stemming from Vestas' share of profit in MHI Vestas Offshore Wind on a standalone basis. The profit is a result of MHI Vestas Offshore Wind's deliveries during the quarter.

## Financial items

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

### Income tax

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

### Profit for the period

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

## Balance sheet

### Working capital

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

### Other operating assets and liabilities

#### Return on invested capital (ROIC)

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

### Capital structure and financing items

#### Equity

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

#### Share buy-back programme

Vestas' Board of Directors initiated a share buy-back programme on 12 February 2018 of up to DKK 1,500m (approx. EUR 200m), to be executed during the period 12 February 2018 to 3 May 2018. The share buy-back programme has been completed.

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

### **Net interest-bearing position and cash position**

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

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

### **Solvency ratio**

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

## **Cash flow**

### **Operating activities**

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

### **Investing activities**

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

### **Free cash flow**

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

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

## Power solutions

### Result for the period

In the third quarter of 2018, revenue from the Power solutions segment amounted to EUR 2,402m, which is on par with the year-earlier quarter. The quarter was negatively impacted by foreign exchange effects of approx. EUR 40m.

EBIT before special items amounted to EUR 226m in the third quarter of 2018, equal to an EBIT margin before special items of 9.4 percent. Compared to the third quarter of 2017, this is a decline of 5.0 percentage points, mainly driven by lower average project margins due to competitive markets.

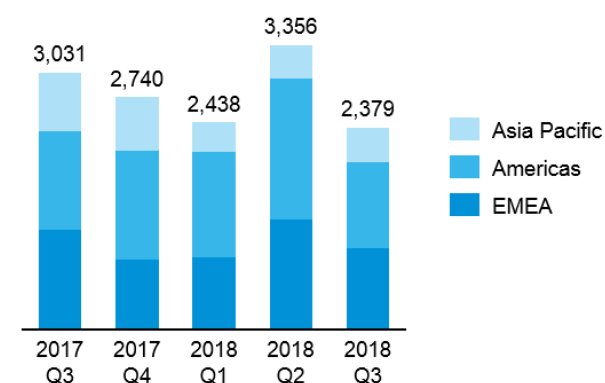
Notwithstanding the competitive markets, it should be emphasised that project margins depend on a variety of factors, i.e. wind turbine type, geography, scope, and uniqueness of the offering.

### Level of activity

In the third quarter of 2018, Vestas produced and shipped wind turbines with an aggregated output of 2,379 MW against 3,031 MW in the third quarter of 2017, which corresponds to a decrease of 22 percent.

### Produced and shipped

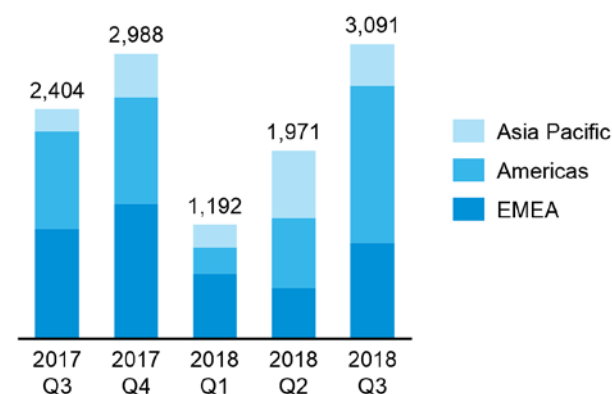
MW



Deliveries to customers amounted to 3,091 MW, which is significantly ahead of last year with a 29 percent increase compared to the third quarter of 2017. The increase was mainly driven by deliveries in the Americas region.

### Deliveries

MW



By the end of September 2018, Vestas had installed a total of 97 GW onshore capacity in 79 countries.

### Wind turbine order intake

In the third quarter of 2018, wind turbine order intake amounted to 3,261 MW, corresponding to EUR 2.5bn, which reflects an increase of 25 percent compared to an order intake of 2,615 MW in the third quarter of 2017. A relatively high level of engineering, procurement and construction (EPC) orders positively influenced the value of the order intake in third quarter of 2018. EPC orders accounted for approx. 15 percent of the total MW order intake in the quarter. Approx. 82 percent of total orders were announced.

### Order backlog

At the end of the third quarter of 2018, the order backlog amounted to 13,800 MW, which equals EUR 10.5bn. This is an increase of 20 percent compared to EUR 8.8bn at the end of third quarter of 2017.

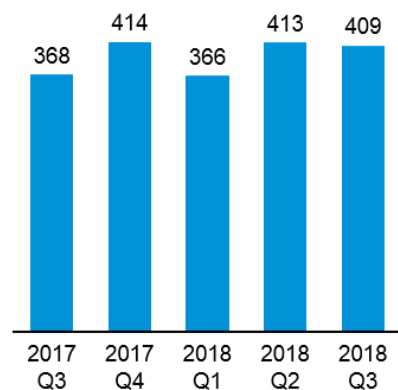


# Service

## Result for the period

The Service business generated revenue of EUR 409m in the third quarter of 2018, which is an 11 percent increase compared to the third quarter of 2017, despite a negative impact of foreign exchange effects of approx. EUR 10m.

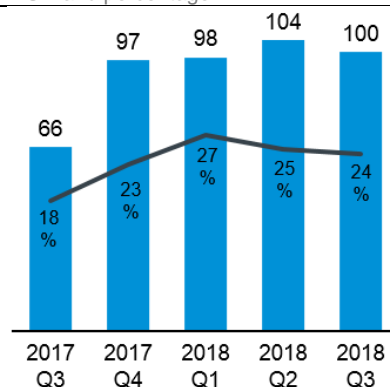
### Service revenue mEUR



The increase in Service revenue in the third quarter of 2018 was primarily driven by service and maintenance agreements. All regional markets contributed to the increased revenue.

EBIT for the Service segment amounted to EUR 100m in the third quarter of 2018, corresponding to an EBIT margin of 24.4 percent, an increase of 6.5 percentage points compared to the third quarter of 2017. The increase was driven by improved profitability, benefitting from reliable performance of the wind turbines under service contracts in combination with an efficient cost management.

### Service EBIT mEUR and percentage



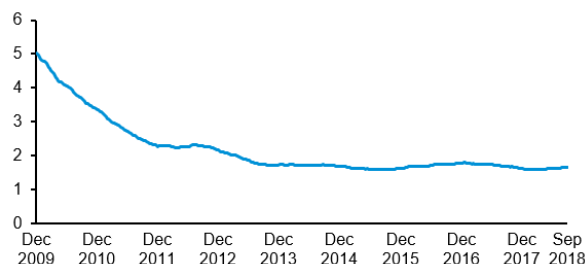
## Level of activity

By the end of September 2018, Vestas had approx. 42,000 wind turbines under service, equivalent to approx. 83 GW.

At the end of September 2018, 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. 25,000 Vestas wind turbines under full-scope service.

## Order backlog

At the end of September 2018, Vestas had service contracts in the order backlog with expected contractual future revenue of EUR 13.2bn, an increase of EUR 1.8bn compared to end of September 2017.

At the end of the quarter, the average duration in the service order backlog was approx. seven years; in line with the average duration a quarter ago end of June 2018, and an improvement compared to an average duration of six years end of September 2017.

## Market development

### Deliveries and wind turbine backlog per region

The order backlog amounted to 13,800 MW as at 30 September 2018, an increase compared to the order backlog level of 10,762 MW end of September 2017.

### Order intake and wind turbine order backlog per region

MW	EMEA	Americas	Asia Pacific	Total
Order intake Q3 2018	823	1,958	480	3,261
Backlog as at 30 September 2018	6,092	6,264	1,444	13,800

### Europe, Middle East, and Africa (EMEA)

Deliveries in EMEA in the quarter totalled 999 MW compared to 1,148 MW in the previous year. Deliveries were distributed throughout a number of countries in the region, with Norway and France being the countries where most capacity was delivered.

The order intake for the region amounted to 823 MW, down from 978 MW in the third quarter of 2017. The order intake in the quarter was coming mainly from Senegal, France, and Germany. The order backlog comprised 6,092 MW as at 30 September 2018.

### Americas

Deliveries in the Americas region amounted to 1,650 MW, compared to 1,025 MW in the third quarter of 2017. The higher level of activity was attributable to a increase in deliveries in the USA, Mexico, and Argentina.

In the quarter, order intake amounted to 1,958 MW for the Americas region, of which 1,173 MW came from the USA. The order backlog for the region amounted to 6,264 MW as at 30 September 2018, of which the majority relates to orders in the USA. As a consequence of the implementation of tariffs in the USA, prices of both domestically sourced material (US steel) and imported components are expected to go up.

### Asia Pacific

Deliveries to the markets in Asia Pacific totalled 442 MW compared to 231 MW in the previous year. The improvement in activity was distributed throughout a number of countries in the region, with Australia, India, and China being the countries where the capacity was delivered.

The 480 MW order intake for the region was on the same level as last year's third quarter order intake of 474 MW. Orders were mainly coming from Australia and India. The order backlog amounted to 1,444 MW as at 30 September 2018.

### Deliveries

MW	Q3 2018	Q3 2017	FY 2017
Norway	331	52	73
France	191	235	568
Sweden	125	82	186
United Kingdom	124	62	499
Greece	85	27	128
Netherlands	51	-	-
Germany	44	407	1,336
Austria	33	33	83
Italy	8	-	35
Turkey	3	28	136
Belgium	2	22	97
Czech Republic	2	-	-
Finland	-	92	303
Ireland	-	57	111
Ukraine	-	21	62
Spain	-	20	22
Denmark	-	7	304
Morocco	-	3	120
<b>EMEA</b>	<b>999</b>	<b>1,148</b>	<b>4,063</b>
USA	1,252	707	2,988
Mexico	180	-	50
Argentina	91	-	26
Canada	68	184	224
Dominican Rep.	41	-	-
Brazil	18	134	448
Uruguay	-	-	57
Honduras	-	-	46
Curacao	-	-	17
<b>Americas</b>	<b>1,650</b>	<b>1,025</b>	<b>3,856</b>
Australia	219	14	70
India	123	10	94
China	100	124	578
Mongolia	-	46	50
South Korea	-	24	46
Japan	-	13	22
<b>Asia Pacific</b>	<b>442</b>	<b>231</b>	<b>860</b>
<b>Total</b>	<b>3,091</b>	<b>2,404</b>	<b>8,779</b>

# Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the Annual report 2017.)

## Vestas' strategy – the route to continuing leadership in sustainable energy

The decarbonisation of the energy sector is underway, and estimates show that renewable energy will dominate future power generation. Wind energy is becoming a mainstream source of energy, and the long-term outlook for renewable energy creates multiple opportunities for the wind energy sector.

Vestas remains committed to its vision to be the global leader in sustainable energy solutions. Wind power will remain the core of Vestas' offerings, but at the same time the company envisions that a broadened focus on sustainable energy solutions will enlarge the wind turbine market, enable new revenue streams, and expand Vestas' presence in the market. In 2017, Vestas showcased what future sustainable energy solutions would look like by combining wind, solar, and battery energy storage in the world's first utility-scale on-grid hybrid project.

To support its overall vision, Vestas remains dedicated to its four strategic objectives of being the global leader in the wind power plant solutions market and global leader in the wind power service market, while delivering the lowest cost of energy solutions and best-in-class global operations.

### Strategic objectives

The strategy towards 2020 continues to revolve around the four strategic objectives that enable realising Vestas' vision:

- Global leader in the wind power plant solutions market
- Global leader in the wind power service solutions market
- Lowest cost of energy solutions
- Best-in-class global operations

For each of the strategic objectives, Vestas has set clear targets and defined a sub-set of strategic enablers to drive its organisation forward. Below, Vestas' high-level ambitions and selected strategic enablers tied to the four strategic objectives are outlined.

### 1. Global leader in the wind power plant solutions market

Vestas' ambition is to grow faster than the market to uphold its global leadership position in wind power, while delivering industry-leading margins. To achieve this, Vestas will continue to focus on profitable growth in mature and emerging markets, partnering more closely with customers on project origination and collaborating to develop fully optimised solutions. Furthermore, Vestas

will continuously focus on transforming its commercial capabilities to support a gradual transition of its offerings and enable customers to win in auctions and other competitive tendering schemes.

### 2. Global leader in the service solutions market

Vestas' ambition is to organically grow its service business by more than 50 percent towards 2020 versus 2016 revenue, while also delivering best-in-class margins. To achieve this, Vestas will continue to fast-track its multibrand business, further develop its digital service offerings, and lower costs through an end-to-end value chain optimisation logic.

### 3. Lowest cost of energy solutions

Vestas' ambition is to reduce levelised cost of energy faster than market average. By doing so, Vestas aims to provide its customers with the highest returns on investment in the industry. Vestas' investments in new technology are the largest in the industry. Going forward, it is Vestas' ambition to sustain leadership in R&D investments in order to support an industry-leading portfolio of sustainable energy solutions. Furthermore, Vestas will increase focus on accelerating cost reductions through an end-to-end value chain focus.

### 4. Best-in-class global operations

Vestas' ambition is to have the most flexible and lowest cost of operations within the industry. Vestas' size and subsequent scale provide a competitive foundation for lowering costs at every stage of the value chain. To fully leverage its scale, Vestas will continuously optimise its production footprint and level of outsourcing to further improve flexibility, labour cost efficiency, and capital expenditure. Finally, working capital management remains a high priority for Vestas. Consequently, the company's focus remains on improving the cash conversion cycle and improving working capital.

As the industry is currently going through a transition, during which new opportunities will emerge, Vestas also needs to continually change and expand its ambitions.

Looking ahead to 2020, three key themes span across Vestas' strategic targets:

- **Raising the bar** – Vestas will set more ambitious targets to push the company to stay ahead of competition
- **Refining initiatives** – Expanding Vestas' strategic enablers to reflect new market realities
- **Accelerating execution** – Accelerating execution of new and existing enablers to deliver on the targets

### 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.

#### **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 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.

During the transition, revenue in the Service business is expected to grow organically by at least 10 percent annually, with stable EBIT margins compared to 2017.

#### **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, 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 buy-back 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

## UN Sustainable Development Goals

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, including the many communities where the company is present. 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).

## How does Vestas work with the SDGs?

Connected with Vestas' ambition to show how the company powers development towards the SDGs, Vestas and its partners have commissioned a preliminary study of the emerging socio-economic impacts from the Lake Turkana Wind Power (LTWP) project in Kenya. The study ("Lake Turkana Impact Study") is now publicly available.

## Lake Turkana socio-economic impact study

Existing evidence of the potential socio-economic impact of wind park developments has, to date, largely focused on high-income countries; there is limited evidence on the potential advantages or disadvantages of wind parks in emerging markets with high-levels of poverty concentrations. The Lake Turkana Impact Study provides insights into the potential socio-economic impact of large-scale wind park infrastructure projects in a developing country context.

Part of the LTWP project was to build a 208 km access road from the main road to the project site. The Lake Turkana Impact Study indicates that the new access road has contributed to:

- Transport time reduced from 1-2 days to four hours;
- Average transport price reduced between 16 to 37 percent, depending on what is transported;
- Increased accessibility for education and health authorities in the area;
- Increased economic activity along the road.

Investments in renewable energy are generally expected to deliver on three dimensions: climate change mitigation, increased access to affordable and clean energy, and economic development and job creation.

The Lake Turkana Impact Study has generated new insights into the potential contribution of the LTWP project in advancing Kenya's socio-economic objectives both at a national and local level. Vestas has preliminary evidence of the shared benefits that can accrue from wind park developments, which is consistent with the

company's objective to deliver tangible value to its host country and the local communities.

This study provides valuable input for the continued discussion on how to minimise impacts from large-scale renewable energy infrastructure projects in emerging markets, and how to enhance potential positive contributions.

## Employees

During the third quarter of 2018, the number of employees increased by 135 to 24,486.

As a response to current market developments and to sustain its competitiveness, Vestas has commenced the layoff of approx. 400 employees, mainly in Northern and Central Europe, as announced in a press release on 28 September 2018.

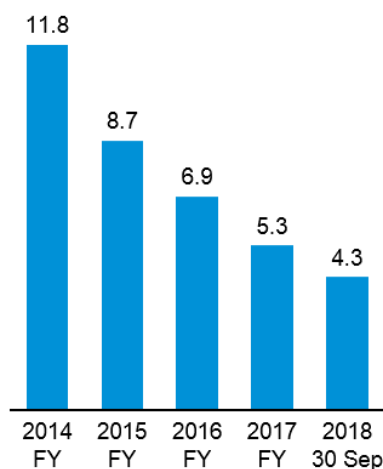
Vestas will continue to scale the organisation according to, among other things, the expected activity level.

## Safety

In the third quarter of 2018, the number of total recordable injuries decreased to 163 compared to the year-earlier quarter. The incidence of total recordable injuries decreased from 6.6 per one million working hours in the third quarter of 2017 to 4.3 in the third quarter of 2018, below the 2018 target of maximum 4.8.

## 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 a continued increase in production and service activities in the third quarter of 2018.

## Renewable energy

Vestas has achieved 100 percent sustainable renewable electricity consumption, partly by purchasing renewable

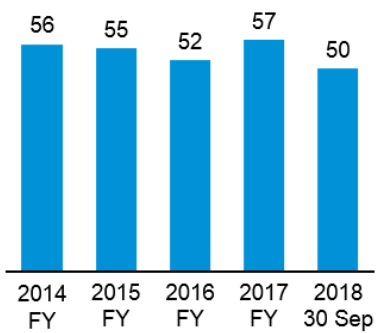
electricity when available, and partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants.

In the third quarter of 2018, 61 percent of all energy consumption came from renewable energy sources, which was higher than the year-earlier period due to increased blade production. The increase in the share of renewable energy for the quarter compared to full year is attributable to seasonality.

**Renewable energy**

Percentage of total energy consumption

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## Outlook 2018

Outlook for 2018 is unchanged for revenue and EBIT margin before special items.

Revenue is expected to range between EUR 10.0bn and 10.5bn, including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin before special items of 9.5-10.5 percent, with the service EBIT margin expected to increase compared to 2017.

Based on improved visibility, Vestas adjusts its 2018 outlook on total investments\* and free cash flow\*.

- Total investments\* are expected to amount to approx. EUR 600m (compared to previously approx. EUR 500m). Vestas adjusts guidance on total investments primarily due to high activity levels.
- Free cash flow\* is expected to be minimum EUR 100m (compared to previously minimum EUR 400m). The adjustment is a consequence of higher total investments and an increased activity level, which consumes more net working capital. With a record-high order backlog, Vestas expects the 2019 activity levels and revenue to increase compared to 2018.

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 2018. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2018.

## Outlook 2018

Revenue (bnEUR)	10.0-10.5
EBIT margin (%) before special items	9.5-10.5
Total investments* (mEUR)	approx. 600
Free cash flow* (mEUR)	min. 100

\*) Excl. the acquisition of Utopus Insights, Inc., any investments in marketable securities, and short-term financial investments.

## Change in communication policy regarding orders

As of 7 November 2018, Vestas will as a general rule disclose company announcements on all wind turbine orders with a total capacity of 500 MW (previously 400 MW) or more. For service orders, the corresponding threshold going forward will be EUR 500m (previously EUR 400m).

It should be noted that this does not rule out that other factors deemed to have a significant impact on the Vestas share price can necessitate company announcements on orders below the mentioned threshold.

For orders received by the joint venture, MHI Vestas Offshore Wind A/S, for turbine types owned by the joint venture, the new threshold will be 1 GW (previously 800 MW) for wind turbine orders and EUR 1bn (previously EUR 800m) for service orders, defined as before by the 50/50 percent split ownership.

## Financial calendar 2019

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07.02.2019	Disclosure of the Annual report 2018 and outlook for 2019
27.02.2019	Convening for Annual General Meeting
03.04.2019	Annual General Meeting in Aarhus, Denmark
08.05.2019	Disclosure of the Interim financial report, Q1 2019
15.08.2019	Disclosure of the Interim financial report, Q2 2019
07.11.2019	Disclosure of the Interim financial report, Q3 2019

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The financial calendar lists the expected dates of publication of financial announcements and the Annual General Meeting in the financial year 2019 for Vestas Wind Systems A/S.



# Consolidated financial statements 1 January – 30 September

## Condensed income statement 1 January – 30 September

mEUR	Note	Q3 2018	Q3 2017*	9 months 2018	9 months 2017*
<b>Revenue</b>	1.1, 1.2	<b>2,811</b>	<b>2,743</b>	<b>6,765</b>	<b>6,834</b>
Production costs		(2,376)	(2,217)	(5,633)	(5,447)
<b>Gross profit</b>		<b>435</b>	<b>526</b>	<b>1,132</b>	<b>1,387</b>
Research and development costs		(53)	(49)	(158)	(176)
Distribution costs		(46)	(59)	(132)	(173)
Administration costs		(60)	(63)	(181)	(193)
<b>Operating profit (EBIT) before special items</b>	1.1	<b>276</b>	<b>355</b>	<b>661</b>	<b>845</b>
Special items	1.3	(40)	-	(40)	-
<b>Operating profit (EBIT)</b>		<b>236</b>	<b>355</b>	<b>621</b>	<b>845</b>
Income from investments in joint ventures and associates		23	(18)	28	(50)
Net financial items		(21)	0	(29)	3
<b>Profit before tax</b>		<b>238</b>	<b>337</b>	<b>620</b>	<b>798</b>
Income tax		(60)	(84)	(156)	(199)
<b>Profit for the period</b>		<b>178</b>	<b>253</b>	<b>464</b>	<b>599</b>
<b>Profit is attributable to:</b>					
Owners of Vestas		179	253	465	599
Non-controlling interests	3.6	(1)	-	(1)	-
<b>Earnings per share (EPS)</b>					
Earnings per share for the period (EUR), basic		0.88	1.19	2.30	2.81
Earnings per share for the period (EUR), diluted		0.88	1.19	2.29	2.80

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

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

## Condensed statement of comprehensive income 1 January - 30 September

mEUR	Q3 2018	Q3 2017*	9 months 2018	9 months 2017*
<b>Profit for the period</b>	<b>178</b>	<b>253</b>	<b>464</b>	<b>599</b>
<i>Items that may be reclassified subsequently to the income statement:</i>				
Exchange rate adjustments relating to foreign entities	(20)	(32)	(13)	(117)
Fair value adjustments of derivative financial instruments for the period	(87)	7	(44)	67
Derivative financial instruments transferred to the initial carrying amount of hedged items	(1)	(11)	(28)	5
Gain/(loss) on derivative financial instruments transferred to the income statement (financial items)	(0)	-	(5)	-
Exchange rate adjustments relating to joint ventures	(0)	0	(0)	(1)
Share of fair value adjustments of derivatives financial instruments of joint ventures for the period	(7)	(5)	(6)	(14)
Tax on items that may be reclassified subsequently to the income statement	19	1	15	(18)
Other comprehensive income after tax for the period	(96)	(40)	(81)	(78)
<b>Total comprehensive income for the period</b>	<b>82</b>	<b>213</b>	<b>383</b>	<b>521</b>

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

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

## Condensed balance sheet – Assets

mEUR	Note	30 September 2018	30 September 2017*	31 December 2017*
Goodwill		378	304	304
Completed development projects		267	306	309
Software		104	85	95
Other intangible assets		54	45	49
Development projects in progress		242	118	144
<b>Total intangible assets</b>		<b>1,045</b>	<b>858</b>	<b>901</b>
Land and buildings	1.3	658	707	704
Plant and machinery	1.3	225	217	248
Other fixtures, fittings, tools and equipment		227	203	222
Property, plant and equipment in progress		133	120	73
<b>Total property, plant and equipment</b>		<b>1,243</b>	<b>1,247</b>	<b>1,247</b>
Investments in joint ventures and associates	2.1	170	131	150
Other investments		35	27	30
Tax receivables		68	49	51
Deferred tax		233	193	218
Other receivables	3.4	65	70	72
Financial investments	3.3, 3.5	202	203	196
<b>Total other non-current assets</b>		<b>773</b>	<b>673</b>	<b>717</b>
<b>Total non-current assets</b>		<b>3,061</b>	<b>2,778</b>	<b>2,865</b>
Inventories		4,025	3,045	2,696
Trade receivables		1,444	1,318	1,144
Contract assets		50	55	82
Tax receivables		79	42	53
Other receivables	3.4	568	421	371
Financial investments	3.3, 3.5	422	-	7
Cash and cash equivalents	3.2	1,632	2,903	3,653
<b>Total current assets</b>		<b>8,220</b>	<b>7,784</b>	<b>8,006</b>
<b>Total assets</b>		<b>11,281</b>	<b>10,562</b>	<b>10,871</b>

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

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

## Condensed balance sheet – Equity and liabilities

mEUR	Note	30 September 2018	30 September 2017*	31 December 2017*
Share capital	3.1	28	29	29
Other reserves		(44)	(17)	37
Retained earnings		2,930	3,151	3,046
Attributable to owners of Vestas		2,914	3,163	3,112
Non-controlling interests	3.6	12	-	-
<b>Total equity</b>		<b>2,926</b>	<b>3,163</b>	<b>3,112</b>
Provisions	2.3	435	491	483
Deferred tax		62	27	61
Financial debt	3.4	498	496	497
Tax payables		147	37	166
Other liabilities	3.4	38	62	19
<b>Total non-current liabilities</b>		<b>1,180</b>	<b>1,113</b>	<b>1,226</b>
Bank overdraft	3.2	4	1	-
Prepayments from customers		4,009	2,653	2,923
Contract liabilities		150	131	159
Trade payables		2,239	2,662	2,660
Provisions	2.3	196	159	148
Tax payables		123	234	108
Other liabilities	3.4	454	446	535
<b>Total current liabilities</b>		<b>7,175</b>	<b>6,286</b>	<b>6,533</b>
<b>Total liabilities</b>		<b>8,355</b>	<b>7,399</b>	<b>7,759</b>
<b>Total equity and liabilities</b>		<b>11,281</b>	<b>10,562</b>	<b>10,871</b>

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

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

## Condensed statement of changes in equity – 9 months 2018

mEUR	Reserves					Retained earnings	Non-controlling interests	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves			
<b>Equity as at 1 January 2018</b>	<b>29</b>	<b>(21)</b>	<b>60</b>	<b>(2)</b>	<b>37</b>	<b>3,046</b>	-	<b>3,112</b>
Impact on change in accounting policy IFRS 15	-	-	-	-	-	(54)	-	(54)
<b>Adjusted equity as at 1 January 2018</b>	<b>29</b>	<b>(21)</b>	<b>60</b>	<b>(2)</b>	<b>37</b>	<b>2,992</b>	-	<b>3,058</b>
Profit for the period	-	-	-	-	-	465	(1)	464
Other comprehensive income for the period	-	(13)	(62)	(6)	(81)	-	-	(81)
Total comprehensive income for the period	-	(13)	(62)	(6)	(81)	465	(1)	383
<i>Transaction with owners:</i>								
Transactions with non-controlling interests	-	-	-	-	-	-	13	13
Reduction of share capital*	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(267)	-	(267)
Dividends distributed related to treasury shares	-	-	-	-	-	17	-	17
(Acquisition) /disposal of treasury shares	-	-	-	-	-	(292)	-	(292)
Share-based payments	-	-	-	-	-	18	-	18
Tax on equity transactions	-	-	-	-	-	(4)	-	(4)
Total transactions with owners	(1)	-	-	-	-	(527)	13	(515)
<b>Equity as at 30 September 2018</b>	<b>28</b>	<b>(34)</b>	<b>(2)</b>	<b>(8)</b>	<b>(44)</b>	<b>2,930</b>	<b>12</b>	<b>2,926</b>

\* The share capital was reduced by 9,800,944 shares of DKK 1.00 in second quarter of 2018, due to cancellation of treasury shares. Furthermore, the share capital was changed in second quarter of 2017, second quarter of 2016 and first quarter of 2014. Except of these changes, the share capital has not changed in the period 2014-2018. Refer to note 3.1.

## Condensed statement of changes in equity – 9 months 2017\*

mEUR	Reserves					Retained earnings	Total	
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total other reserves			
<b>Equity as at 1 January 2017</b>	<b>30</b>	<b>107</b>	<b>(61)</b>	<b>15</b>	<b>61</b>	<b>3,099</b>	<b>3,190</b>	
Profit for the period	-	-	-	-	-	599	599	
Other comprehensive income for the period	-	(117)	54	(15)	(78)	-	(78)	
Total comprehensive income for the period	-	(117)	54	(15)	(78)	599	521	
<i>Transaction with owners:</i>								
Reduction of share capital	(1)	-	-	-	-	1	-	
Dividends distributed	-	-	-	-	-	(289)	(289)	
Dividends distributed related to treasury shares	-	-	-	-	-	11	11	
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	(292)	(292)	
Disposal of treasury shares	-	-	-	-	-	1	1	
Share-based payments	-	-	-	-	-	11	11	
Tax on equity transactions	-	-	-	-	-	10	10	
Total transactions with owners	(1)	-	-	-	-	(547)	(548)	
<b>Equity as at 30 September 2017</b>	<b>29</b>	<b>(10)</b>	<b>(7)</b>	<b>-</b>	<b>(17)</b>	<b>3,151</b>	<b>3,163</b>	

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

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

## Condensed cash flow statement 1 January – 30 September

mEUR	Note	Q3 2018	Q3 2017*	9 months 2018	9 months 2017*
Profit for the period		178	253	464	599
Adjustment for non-cash transactions		230	239	496	727
Income tax paid		(26)	(3)	(165)	(144)
Financial items paid, net		(0)	4	(19)	(20)
Cash flow from operating activities before change in net working capital		382	493	776	1,162
Change in net working capital		(447)	(173)	(1,361)	(888)
<b>Cash flow from operating activities</b>		<b>(65)</b>	<b>320</b>	<b>(585)</b>	<b>274</b>
Purchase of intangible assets		(73)	(54)	(196)	(147)
Purchase of property, plant and equipment		(83)	(80)	(206)	(187)
Disposal of property, plant and equipment		-	7	-	7
Disposal of non-current assets held for sale		-	-	-	99
Purchase of other non-current financial assets		-	-	-	(3)
Proceeds from investment in joint venture	4.1	1	-	10	-
Addition of share in joint venture	4.1	(3)	-	(6)	-
<b>Cash flow from investing activities before acquisitions of subsidiaries and financial investments</b>		<b>(158)</b>	<b>(127)</b>	<b>(398)</b>	<b>(231)</b>
<b>Free cash flow before acquisitions of subsidiaries and financial investments</b>		<b>(223)</b>	<b>193</b>	<b>(983)</b>	<b>43</b>
Acquisition of subsidiaries, net of cash	4.2	-	-	(65)	-
Purchase of financial investments	3.5	(157)	-	(422)	-
<b>Free cash flow</b>		<b>(380)</b>	<b>193</b>	<b>(1,470)</b>	<b>43</b>
Dividend paid		-	-	(250)	(278)
Sales of own shares		-	-	-	1
Purchase of treasury shares		(91)	(177)	(292)	(275)
Transactions with non-controlling interests	3.6	9	-	13	-
<b>Cash flow from financing activities</b>		<b>(82)</b>	<b>(177)</b>	<b>(529)</b>	<b>(552)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(462)</b>	<b>16</b>	<b>(1,999)</b>	<b>(509)</b>
Cash and cash equivalents at the beginning of period		2,100	2,928	3,653	3,550
Exchange rate adjustments of cash and cash equivalents		(10)	(42)	(26)	(139)
<b>Cash and cash equivalents at the end of the period</b>	3.2	<b>1,628</b>	<b>2,902</b>	<b>1,628</b>	<b>2,902</b>

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

*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 Group
<b>Q3 2018</b>				
Revenue	2,402	409	-	2,811
Costs	(2,176)	(309)	(50)	(2,535)
<b>Operating profit (EBIT) before special items</b>	<b>226</b>	<b>100</b>	<b>(50)</b>	<b>276</b>
Special items			(40)	(40)
<b>Operating profit (EBIT)</b>				<b>236</b>
Income from investments in joint ventures and associates				23
Net financial items				(21)
<b>Profit before tax</b>				<b>238</b>
Amortisation and depreciation included in total costs	(87)	(10)	(11)	(108)

In third quarter of 2018, impairment losses of EUR 26m and provision of EUR 14m related to the León assembly factory has been recognised in special items where impact is not allocated.

mEUR	Power solutions	Service	Not allocated	Total Group
<b>Q3 2017*</b>				
Revenue	2,375	368	-	2,743
Costs	(2,034)	(302)	(52)	(2,388)
<b>Operating profit (EBIT)</b>	<b>341</b>	<b>66</b>	<b>(52)</b>	<b>355</b>
Income from investments in joint ventures and associates				(18)
Net financial items				-
<b>Profit before tax</b>				<b>337</b>
Amortisation and depreciation included in total costs	(79)	(7)	(9)	(95)

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

## 1.1 Segment information (continued)

mEUR	Power solutions	Service	Not allocated	Total Group
<b>9 months 2018</b>				
Revenue	5,577	1,188	-	6,765
Costs	(5,061)	(886)	(157)	(6,104)
<b>Operating profit (EBIT) before special items</b>	<b>516</b>	<b>302</b>	<b>(157)</b>	<b>661</b>
Special items			(40)	(40)
<b>Operating profit (EBIT)</b>				<b>621</b>
Income from investments in joint ventures and associates				28
Net financial items				(29)
<b>Profit before tax</b>				<b>620</b>
Amortisation and depreciation included in total costs	(254)	(26)	(31)	(311)

In the second quarter of 2018, impairment losses of EUR 6m related to patents impacted the Power solution segment.

In third quarter of 2018, impairment losses of EUR 26m and provision of EUR 14m related to the León assembly factory has been recognised in special items where impact is not allocated.

mEUR	Power solutions	Service	Not allocated	Total Group
<b>9 months 2017*</b>				
Revenue	5,726	1,108	-	6,834
Costs	(4,931)	(899)	(159)	(5,989)
<b>Operating profit (EBIT)</b>	<b>795</b>	<b>209</b>	<b>(159)</b>	<b>845</b>
Income from investments in joint ventures and associates				(50)
Net financial items				3
<b>Profit before tax</b>				<b>798</b>
Amortisation and depreciation included in total costs	(239)	(24)	(21)	(284)

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

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

In second quarter of 2017, impairment losses of EUR 28m related to R&D facilities and reversal of impairment losses from prior years of EUR 8m related to manufacturing facilities were reflected. Net EUR 20m has negatively impacted the Power solutions segment.



## 1.2 Revenue

Vestas has applied IFRS 15 using the modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018, and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from these under IFRS 15 and the impact of changes is disclosed in Note 5.3.

### Group accounting policies

Revenue is measured based on the consideration specified in a contract with a customer. Vestas recognises revenue when it transfers control over a product or service to a customer.

In comparative period, sale of individual wind turbines and wind power plants based on standard solutions (supply-only and supply-and-installation) was recognised in the income statement, provided that risk was transferred to the buyer. Revenue from contracts to deliver wind power plants with a high degree of customisation was recognised as the wind power plants was constructed based on the stage of completion of the individual contracts (turnkey/ EPC projects). Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, were recognised as revenue over the term of the agreement as the services were provided. Spare parts sales were recognised in the income statement provided that risk was transferred to the buyer.

### Revenue recognition under IFRS 15

Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts. The following is a description of the principal activities from which Vestas generates its revenue.

#### Supply-only projects

Revenue from sale of individual wind turbines based on standard solutions is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue at a point in time, when control is transferred to the customer, and the consideration agreed is expected to be received. Control is generally deemed to be transferred upon delivery of the components in accordance with the agreed delivery plan.

#### Supply-and-installation projects

Revenue from sale of wind power plants based on standard solutions with alternative use is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue when control of the fully operational turbine is transferred to the customer, and the consideration agreed is expected to be received. Control is deemed to be transferred at the point in time when the turbine is fully operational.

#### Turnkey (EPC) projects

Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised over time as the wind power plants are constructed based on the stage of completion of the individual contracts. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the cost incurred to the extent that it is probable that the costs will be recovered.

#### Service sales

Revenue from service sales, comprising services and maintenances agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised over the term of the agreement as the services are provided. Spare parts sales are recognised at a point in time when control has been transferred to the customer, and provided that consideration agreed is expected to be received.

### Key accounting estimates and judgements

Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future.

Vestas applies the percentage-of-completion method in accounting for service contracts and certain wind power plants, in general projects with a high degree of customisation. The use of the percentage-of-completion method requires Management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method). Based on the estimated stage of completion, a respective portion of the consideration is recognised.

## 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	
	Q3 2018	Q3 2017*	Q3 2018	Q3 2017*	Q3 2018	Q3 2017*
<b>Timing of revenue recognition</b>						
Products and services transferred at a point in time	2,134	2,141	73	60	2,207	2,201
Products and services transferred over time	268	234	336	308	604	542
	<b>2,402</b>	<b>2,375</b>	<b>409</b>	<b>368</b>	<b>2,811</b>	<b>2,743</b>
<b>Revenue from contract types</b>						
Supply-only	1,126	899	-	-	1,126	899
Supply-and-installation	1,109	1,242	-	-	1,109	1,242
Turnkey (EPC)	167	234	-	-	167	234
Service	-	-	409	368	409	368
	<b>2,402</b>	<b>2,375</b>	<b>409</b>	<b>368</b>	<b>2,811</b>	<b>2,743</b>
<b>Primary geographical markets</b>						
EMEA	820	1,183	230	209	1,050	1,392
Americas	1,374	988	138	122	1,512	1,110
Asia Pacific	208	204	41	37	249	241
	<b>2,402</b>	<b>2,375</b>	<b>409</b>	<b>368</b>	<b>2,811</b>	<b>2,743</b>

mEUR	Power solutions		Service		Total	
	9 months 2018	9 months 2017*	9 months 2018	9 months 2017*	9 months 2018	9 months 2017*
<b>Timing of revenue recognition</b>						
Products and services transferred at a point in time	4,672	5,311	187	182	4,859	5,493
Products and services transferred over time	905	415	1,001	926	1,906	1,341
	<b>5,577</b>	<b>5,726</b>	<b>1,188</b>	<b>1,108</b>	<b>6,765</b>	<b>6,834</b>
<b>Revenue from contract types</b>						
Supply-only	1,953	2,588	-	-	1,953	2,588
Supply-and-installation	2,992	2,723	-	-	2,992	2,723
Turnkey (EPC)	632	415	-	-	632	415
Service	-	-	1,188	1,108	1,188	1,108
	<b>5,577</b>	<b>5,726</b>	<b>1,188</b>	<b>1,108</b>	<b>6,765</b>	<b>6,834</b>
<b>Primary geographical markets</b>						
EMEA	2,037	2,611	701	617	2,738	3,228
Americas	2,509	2,711	366	377	2,875	3,088
Asia Pacific	1,031	404	121	114	1,152	518
	<b>5,577</b>	<b>5,726</b>	<b>1,188</b>	<b>1,108</b>	<b>6,765</b>	<b>6,834</b>

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

## 1.3 Special items

### Group accounting policies

Special items comprise significant unusual and/or infrequently occurring items that are not attributable to Vestas' normal operations. Special items comprise income and costs related to significant organisational restructuring and significant adjustments to production capacity and the product programme. The costs include the write-down of intangible and tangible assets as well as provisions for re-organisations and any reversal/adjustments thereof.

### Key accounting judgement

#### Classification

The use of special items entails management judgement in the separation from other items in the income statement. In connection with the use of special items, it is crucial that they are of a significant unusual and/or infrequently occurring nature that are not attributable to Vestas' normal operations, as such classification highlights to users of financial statements the items to which the least attention should be given when understanding current and future performance.

### Closure of León assembly factory

With reference to the press release of 27 August 2018, Vestas intends to cease production at the assembly factory in León in the EMEA region. A provision for severance and closure costs of EUR 14m and impairment loss of EUR 26m has therefore been recognised in special items.

### Basis for impairment test

A review of the recoverable amount of the León assembly factory has been carried out because of indications of impairments due to cease production in León. The review led to the recognition of an impairment loss of EUR 26m recognised in August 2018. The impairment loss is not allocated to a segment and is the result of the impairment loss of land and building and plant and machinery.

The value in use is assumed to be substantially equal to the fair value less costs of disposal, as the expected cash flows underlying the value in use calculation will largely represent the expected sales proceeds less costs of disposal. The impairment test is therefore based on the fair value less costs of disposal and the fair value measurement of the León factory is categorised within the fair value hierarchy Level 2. Vestas has obtained broker reports, which consider previous sales, including price per square meter, of similar land and buildings.

mEUR	30 September 2018	30 September 2017	31 December 2017
Impairment loss on property, plant and equipment	(26)	-	-
Staff costs	(14)	-	-
<b>Special Items</b>	<b>(40)</b>	-	-

## 2 Other operating assets and liabilities

### 2.1 Investments in associates and joint ventures

In May 2018, Vestas has entered into a partnership with Swedish utility, Vattenfall, and Danish pension fund, PKA, for a 353 MW wind energy project in Sweden. For the project, Vestas will become a shareholder through a share purchase agreement for 40 percent of the project. PKA and Vattenfall will own 30 percent project equity each. No capital contribution has been recognised in the interim report for third quarter 2018. Financial close has been finalised in the fourth quarter of 2018, with a capital contribution of EUR 6m.

### 2.3 Warranty provisions (included in provisions)

mEUR	30 September 2018	30 September 2017	31 December 2017
Warranty provisions, 1 January	566	524	524
Impact on change in accounting policy – IFRS 15	(13)	-	-
Provisions for the period	108	130	185
Warranty provisions consumed during the period	(118)	(100)	(143)
<b>Warranty provisions</b>	<b>543</b>	<b>554</b>	<b>566</b>
The provisions are expected to be payable as follows:			
< 1 year	163	127	132
> 1 year	380	427	434

In the first nine months of 2018, warranty provisions charged to the income statement amounted to EUR 108m, equivalent to 1.6 percent of revenue. Warranty consumption amounted to EUR 118m – compared to EUR 100m in the first nine months of 2017. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.6 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 US Patents No. 7,629,705 and No. 6,921,985 (the “705 Patent” and the “985 Patent”). The 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 15 December 2017. As set forth in its counterclaims, it is Vestas’ assessment that GE’s patents are invalid and unenforceable, and that Vestas does not infringe. 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 other 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 2017, note 3.6, page 92.

### 3 Capital structure and financing items

#### 3.1 Share capital

Pursuant to authorisation granted to the Board of Directors by the Annual General Meeting, which has authorised Vestas to acquire treasury shares at a nominal value not exceeding 10 percent of the share capital at the time of authorisation, Vestas initiated a share buy-back programme on 12 February 2018 and a second one on 15 August 2018.

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

#### Treasury shares

Number of shares / Nominal value (DKK)	30 September 2018	30 September 2017	31 December 2017
Treasury shares as at 1 January	11,843,929	7,770,888	7,770,888
Purchases for the period	5,082,734	3,637,741	10,503,515
Cancellation for the period	(9,800,944)	(6,047,780)	(6,047,780)
Sale of treasury shares for the period	(586,449)	(332,443)	(382,694)
<b>Treasury shares</b>	<b>6,539,270</b>	<b>5,028,406</b>	<b>11,843,929</b>

#### 3.2 Cash and cash equivalents

mEUR	30 September 2018	30 September 2017	31 December 2017
Cash and cash equivalents without disposal restrictions	1,591	2,496	3,197
Cash and cash equivalents with disposal restrictions	37	406	456
<b>Cash and cash equivalents</b>	<b>1,628</b>	<b>2,902</b>	<b>3,653</b>
The balance is specified as follows:			
Cash and cash equivalents	1,632	2,903	3,653
Bank overdraft*	(4)	(1)	-
<b>Cash and cash equivalents</b>	<b>1,628</b>	<b>2,902</b>	<b>3,653</b>

\*) Bank overdraft is repayable on demand.

#### 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 2017, note 4.5, page 96-101. The risks remain similar in nature compared to 2017.

#### 3.4 Financial instruments

As at 30 September 2018, the fair value of financial investments was EUR 624m, equal to book value. Derivative financial instruments was positive with a market value of net EUR 6m, equal to book value, and included in other receivables and other liabilities with EUR 122m and EUR 116m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the Annual report 2017, note 4.7, page 105. There have been no significant new items compared to 2017 and there have been no significant transfers between levels.

The book value of the Green Corporate Eurobond was EUR 498m with a corresponding fair value of EUR 530m as at 30 September 2018.

### 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	30 September 2018	30 September 2017	31 December 2017
Marketable securities	202	203	203
Deposits	422	-	-
<b>Financial investments</b>	<b>624</b>	<b>203</b>	<b>203</b>
Financial investments specified as follows:			
0-1 year	422	-	7
> 1 year	202	203	196
<b>Financial investments</b>	<b>624</b>	<b>203</b>	<b>203</b>

### 3.6 Change in Vestas' ownership interest in a subsidiary

In April 2018, Vestas disposed 49 percent of its interest in Vestas Manufacturing Rus through capital injections from third parties, reducing its continuing interests to 51 percent. The proceeds from third parties of EUR 4m were received in cash. An amount of EUR 4m (being the proportionate share of the carrying amount of the net assets of Vestas Manufacturing Rus) has been transferred to non-controlling interest.

## 4 Other disclosures

### 4.1 Related party transactions

Vestas has had the following material transactions with joint ventures:

mEUR	Q3 2018	Q3 2017	9 months 2018	9 months 2017
<b>MHI Vestas Offshore Wind A/S</b>				
Revenue for the period	31	26	102	260
Receivables as at 30 September	32	5	32	5
<b>Roaring Fork Wind, LLC</b>				
Proceeds from sale of projects	1	-	10	-
Capital increase	(3)	-	(6)	-
Prepayments balance as at 30 September	83	72	83	72

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 2017, note 6.4, page 113.

## 4.2 Business combinations

### Acquisition of Utopus Insights, Inc.

On 4 February 2018, Vestas acquired 100 percent of the share capital of Utopus Insights, Inc. ("Utopus"), a leading energy analytics and digital solutions company. The acquisition significantly improves Vestas' existing market-leading capabilities for advanced analytics and integrated energy software solutions.

The goodwill of EUR 70m arising from the acquisition is attributable to synergies expected from combining the operations of Vestas and Utopus. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the considerations paid for Utopus, the fair value of assets acquired and liabilities assumed at the acquisition dates.

mEUR	Utopus
Cash	70
Contingent consideration	11
<b>Total consideration</b>	<b>81</b>

The acquisition price for Utopus is EUR 65m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

mEUR	Utopus
Technology (included in Other intangible assets)	13
Cash	5
Deferred tax liability	(3)
Trade payables	(1)
Other liabilities	(3)
<b>Total identifiable net assets</b>	<b>11</b>
Goodwill	70
<b>Total</b>	<b>81</b>

The contingent consideration arrangement requires Vestas to pay, in cash, to the former owners of Utopus, an earn-out up to EUR 16m, undiscounted, contingent on revenue in 2020.

The fair value of the acquired identifiable net asset of EUR 11m (including Technology) is provisional pending final valuations for those assets.

The revenue included in the consolidated income statement since 14 February 2018 contributed by Utopus was EUR 1m. Utopus also contributed a loss after tax of EUR 4m over the same period.

Had Utopus' financial statements been consolidated with Vestas' financial statements from 1 January 2018, Vestas' consolidated income statement would have been impacted with revenue of approx. EUR 5m and loss after tax of approx. EUR 1m.

The revenue, costs, and EBIT from Utopus are allocated to the Service 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 2017 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 to note 1.3 Special items and to the consolidated financial statements in the Annual report for the year ended 31 December 2017, note 7.2, page 119.

### 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 2017, to which reference is made.

#### Impact of new accounting standards for third quarter 2018

Vestas has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2018 financial year, including:

- IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- Clarifications to IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 9, Financial Instruments (effective date 1 January 2018)

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 nine months of 2018. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

#### IFRS 15, Revenue from Contracts with Customers and Clarifications to IFRS 15

IFRS 15 has been implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2018. Vestas has applied IFRS 15 using modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018. The transition impact and the opening equity has been impacted negatively by EUR 54m as at 1 January 2018.

Consequently, 2017 comparative figures are reported according to IAS 11/IAS 18 and are not restated to reflect the numbers according to IFRS 15. In the table below, 2018 numbers according to both IFRS 15 and IAS 11/IAS 18 are disclosed so as to provide comparability between 2017 and 2018 and to disclose the effect from the changed regulation.

Under IFRS 15, total revenue of a contract will remain unchanged compared to IAS 11/IAS 18; however, the timing of the revenue recognition will be deferred for supply-only and turnkey (EPC) contracts. The details of the changes and quantitative impact of the changes are set out below.

#### Supply-only projects

Vestas continues to recognise revenue for supply-only projects at a point in time; however, under IFRS 15 revenue is deferred as control is deemed to be transferred to the customer upon delivery of the components in accordance with the agreed delivery plan, which is at a later stage compared to IAS 11/IAS 18.



### Turnkey (EPC) projects

Vestas continues to recognise revenue for turnkey (EPC) projects over time applying the percentage-of-completion method; however, under IFRS 15 work performed as part of the percentage-of-completion method is assessed to be executed at a later stage, which is deferring revenue.

### Impact on financial statements

The following table summarise the impacts of adapting IFRS 15 in the consolidated financial statements. There is no material impact on Vestas' basic or diluted earnings per share for the first nine months of 2018.

Impact on income statement	Q3 2018			9 months 2018		
	As reported	Adjustments Total	Balances without adoption of IFRS 15	As reported	Adjustments Total	Balances without adoption of IFRS 15
mEUR						
<b>Revenue</b>	<b>2,811</b>	<b>(116)</b>	<b>2,695</b>	<b>6,765</b>	<b>(355)</b>	<b>6,410</b>
Production costs	(2,376)	100	(2,276)	(5,633)	309	(5,324)
<b>Gross profit</b>	<b>435</b>	<b>(16)</b>	<b>419</b>	<b>1,132</b>	<b>(46)</b>	<b>1,086</b>
Research and development costs	(53)	-	(53)	(158)	-	(158)
Distribution costs	(46)	-	(46)	(132)	-	(132)
Administration costs	(60)	-	(60)	(181)	-	(181)
<b>Operating profit (EBIT) before special items</b>	<b>276</b>	<b>(16)</b>	<b>260</b>	<b>661</b>	<b>(46)</b>	<b>615</b>
Special items	(40)	-	(40)	(40)	-	(40)
<b>Operating profit (EBIT)</b>	<b>236</b>	<b>(16)</b>	<b>220</b>	<b>621</b>	<b>(46)</b>	<b>575</b>
Income from investments in joint ventures and associates	23	-	23	28	-	28
Net financial items	(21)	-	(21)	(29)	-	(29)
<b>Profit before tax</b>	<b>238</b>	<b>(16)</b>	<b>222</b>	<b>620</b>	<b>(46)</b>	<b>574</b>
Income tax	(60)	5	(55)	(156)	10	(146)
<b>Profit for the period</b>	<b>178</b>	<b>(11)</b>	<b>167</b>	<b>464</b>	<b>(36)</b>	<b>428</b>

The following table summarises the impact on net working capital of adapting IFRS 15 in Vestas' consolidated financial statements.

### Impact on Net working capital 30 September 2018

	As reported	Adjustments Total	Balances without adoption of IFRS 15
mEUR			
Inventories	4,025	59	4,084
Receivables	2,012	-	2,012
Contract assets / liabilities*	(100)	50	(50)
Prepayments from customers	(4,009)	(71)	(4,080)
Trade payables	(2,239)	-	(2,239)
Other current liabilities	(454)	-	(454)
<b>Net Working Capital as at 30 September 2018</b>	<b>(765)</b>	<b>38</b>	<b>(727)</b>

\*) As part of the implementation of IFRS 15, Vestas has changed the name of Construction contracts in progress to Contract assets and Contract liabilities

## **IFRS 9, Financial Instruments**

As stated in the Annual report 2017, Vestas has adopted IFRS 9 effective from 1 January 2018. IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments. The implementation of IFRS 9 has not affected the recognition, measurement and classification of Vestas' financial instruments, but has aligned the way that Vestas undertakes risk management activities with the hedge accounting qualification criteria.

Figures and disclosures for the comparative periods are not restated as the classification and measurement requirements are not impacting Vestas.

The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is considered immaterial due to the low credit risk of Vestas's customers. The immaterial effects of implementing IFRS 9 end of 2017 have been recognised in the first quarter of 2018.

## 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 30 September 2018.

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 2017 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 30 September 2018 and of the results of Vestas' operations and cash flow for the period 1 January to 30 September 2018.

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 2017.

Aarhus, Denmark, 7 November 2018

### 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 Araluce  
*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

Jens Hesselberg Lund

Kim Hvid Thomsen\*

Michael Abildgaard Lisbjerg\*

Sussie Dvinge Agerbo\*

Peter Lindholst\*

### 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 2017 (available at [vestas.com/investor](http://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.