



Vestas®

# Annual report 2017

1 January 2017 - 31 December 2017  
Vestas Wind Systems A/S  
Hedeager 42, 8200 Aarhus N, Denmark  
Company Reg. No.: 10403782

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Financial year: 2017

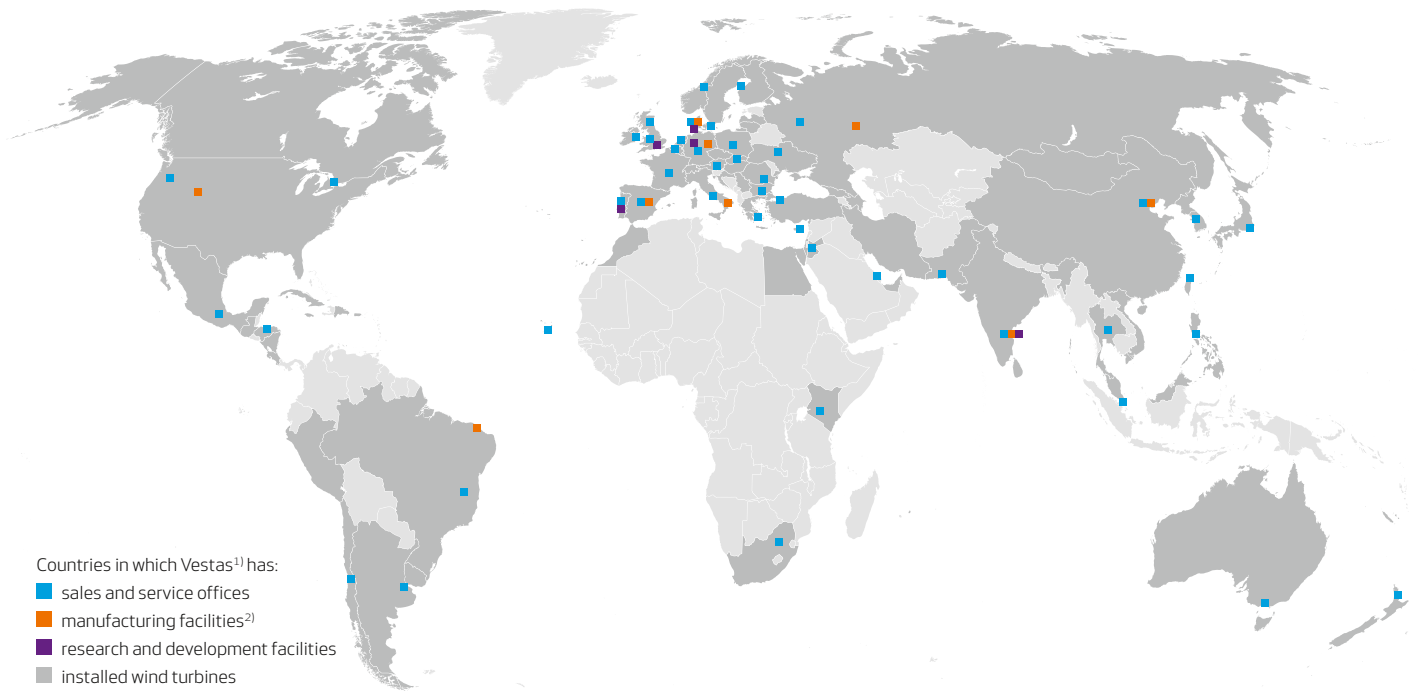
Presented and adopted at the company's annual  
general meeting on 3 April 2018.

Chairman of the general meeting:



Attorney Klaus Søgaard  
Gorrissen Federspiel

## Vestas' global footprint



## Who we are

### Pioneering the wind power industry

Founded in 1898 as a blacksmith shop in western Denmark, Vestas started manufacturing wind turbines in 1979. Since then, Vestas has gained a market leader position with 90 GW of installed wind power capacity and 76 GW under service across the globe – and has 23,303 dedicated Vestas employees working in more than 50 countries.

Vestas works in close partnerships with customers and suppliers to offer the most efficient sustainable energy solutions. Our core business is the development, manufacturing, and maintenance of wind energy solutions – with competencies that cover every aspect of the value chain from site studies to service and maintenance.

On behalf of our customers, Vestas monitors the performance of more than 35,000 wind turbines globally. This allows our engineers to carry out preventive maintenance, ensuring maximum yield at all times, and to collect knowledge to develop the next generation of wind turbines.

### Global leader in sustainable energy solutions

The current world population of 7.6 billion is expected to reach 8.6 billion in 2030, 9.8 billion in 2050, and 11.2 billion in 2100, according to the United Nations report 2017.<sup>3)</sup> This means increased consumption, despite limited resources, and increased demand for energy to create prosperity – or energy to feed the world's population.

That is why our mission is to deliver best-in-class energy solutions for the benefit of Vestas' customers and the planet. In collaboration with our customers, suppliers, employees, the surrounding communities, and our shareholders, we will deliver on our mission.

1) For an overview of MHI Vestas Offshore Wind's facilities, see page 035.

2) The facility in Russia is expected to open in 2019.

3) Source: UN Department of Economic and Social Affairs: World Population Prospects: The 2017 Revision. June 2017.

## EUR 10bn

In 2017, Vestas generated a revenue of EUR 10.0bn and reached an EBIT of EUR 1.2bn.

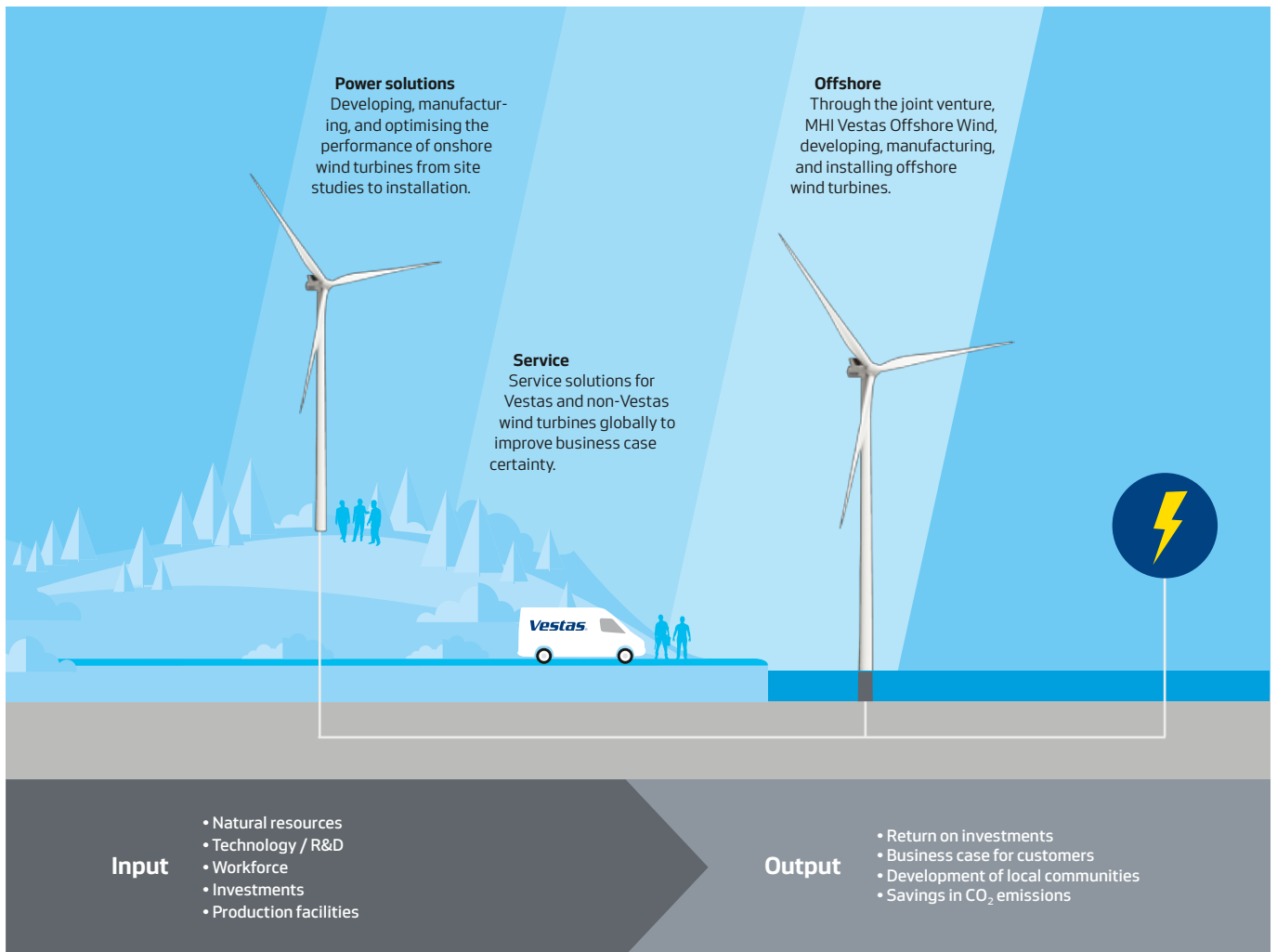
## 8,779 MW

The capacity delivered in 2017 can generate more than 23 million MWh of electricity per year – enough to cover the residential electricity consumption of more than 13 million Europeans and globally reduce carbon emissions by more than 11 million tonnes of CO<sub>2</sub> per year.

## EUR 21bn

At the end of the year, the wind turbine order backlog reached EUR 8.8bn and the value of the service order backlog reached an expected contractual revenue of EUR 12.1bn.

## Vestas' business model



Today, Vestas is the global leader within wind power. But we are striving to push even further, with a vision to be the global leader in sustainable energy solutions, working towards an affordable and sustainable energy future for all.

### Vestas' three main business areas

Vestas' business model is built on three main business areas, which enable Vestas to execute its corporate strategy:

- Power solutions
- Service
- Offshore

Vestas has a strong position within all three areas which offers a solid base for continued growth and stability.

In the coming years, Vestas expects the onshore wind turbine market to have a stable growth in new installations. An expected close to double-digit growth of the accumulated installed base worldwide will create further opportunities to grow the service business. Finally, offshore wind power is projected to become a large-scale renewable technology, creating the foundation for a high-growth scenario in the offshore market.

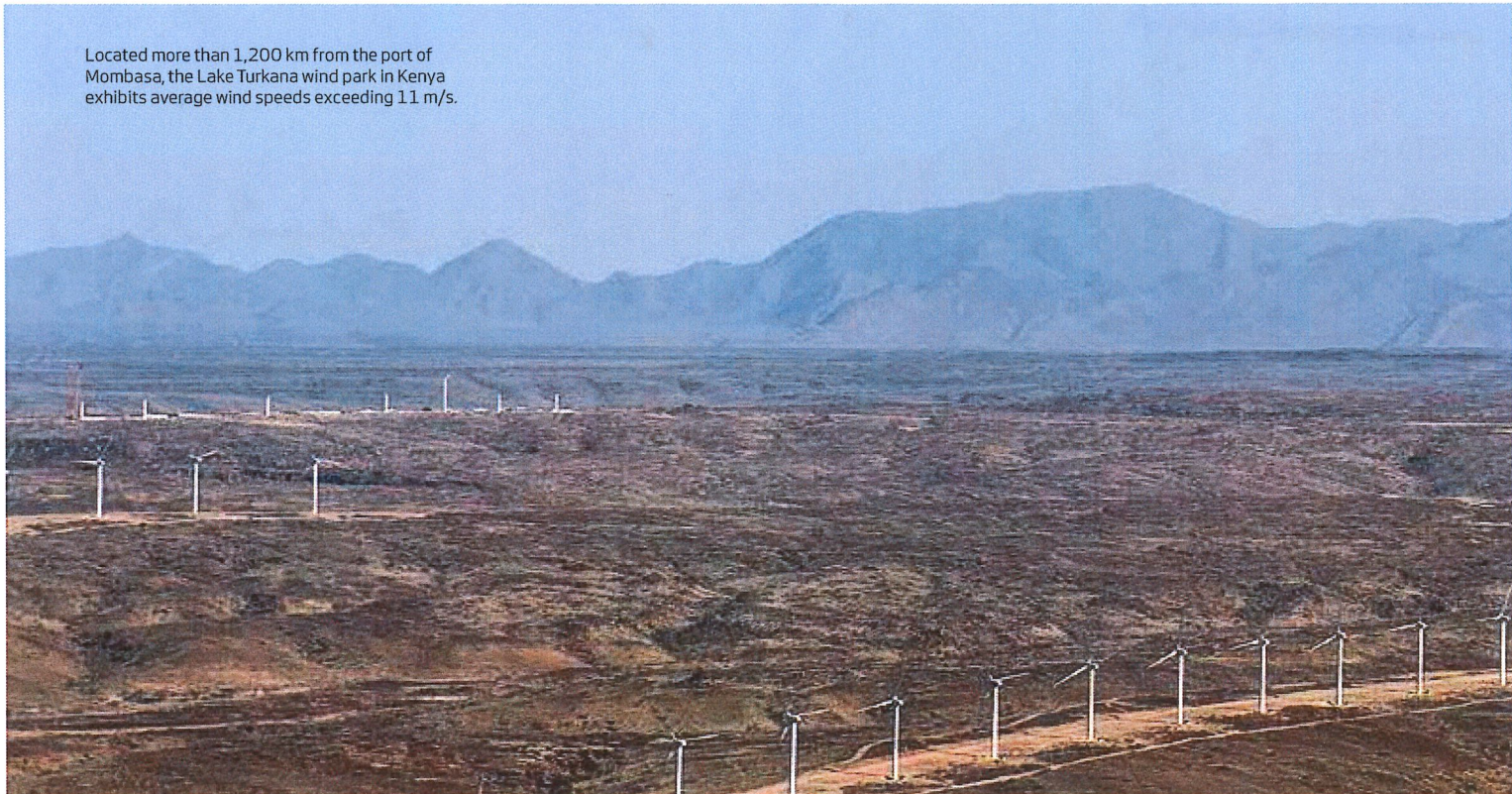
## Vision

To be the global leader in sustainable energy solutions

## Mission

To deliver best-in-class sustainable energy solutions for the benefit of Vestas' customers and the planet

Located more than 1,200 km from the port of Mombasa, the Lake Turkana wind park in Kenya exhibits average wind speeds exceeding 11 m/s.



## Standing strong in a changing market environment



“Going forward, we will continue to deliver solutions with the lowest cost of energy by enhancing our technology and service leadership.”

### The future looks bright

Although we acknowledge that our market conditions are changing, we continue to look forward to improving our efficiency and competitive position. Renewable energy's journey to become mainstream energy continues to progress, driving a positive long-term outlook and creating multiple opportunities for the wind energy sector. These are opportunities that we will take advantage of with the right strategic approach and the right management team in place, and I am confident that we will achieve our strategic ambitions.

### The route to continuing leadership in sustainable energy

I want to highlight some steps on our journey to becoming the global leader in sustainable energy solutions.

In 2017, we announced a collaboration with Windlab Limited, an Australian-based developer, to create the world's first utility-scale, fully integrated wind, solar, and battery project. The Kennedy project is designed to shape a path forward for how to integrate more renewable energy into the energy mix and address grid stability challenges that have been a traditional restraint to greater uptake of renewable energy. Learnings from this project ultimately can help accelerate the global transition to an energy mix led by renewable energy.

We have also engaged in a collaborative partnership with battery manufacturer Northvolt AB. This initiative, like Kennedy Energy Park in Australia, is about leveraging Vestas' core, wind expertise, as a strong base for creating smart, sustainable energy solutions.

Inevitably, short-term results are impacted by current market challenges, but we strongly believe that successful execution of our strategy will lead us to new growth opportunities and sound profitability. Our financial performance in 2017 allowed the Board to increase cash returns to the shareholders, as demonstrated by our dividend and the completion of two share buy-back programmes during the year.

I would also like to take this opportunity to thank our customers, shareholders, and employees. You all make the company successful, and you enable Vestas to be a key driver in the world's transition from fossil fuels to renewable energy.

Bert Nordberg  
Chairman of the Board of Directors



## Strengthening our **leadership** position in a transitional market

### Staying ahead in a changing market environment

The changes that are happening to the renewable energy industry are coming fast. This past year, we saw the price of electricity from renewable sources being significantly reduced and competition become fiercer in markets around the world. Facing this dynamic market, we have stayed in the lead, reporting solid results, and delivered on our strategic objectives to grow faster than the market, deliver best-in-class margins, and offer the lowest cost of energy solutions to our customers.

### Achievements in 2017

Looking back at 2017, I am encouraged by the results Vestas has made in terms of order intake, revenue, profitability, and cash flow generation. In addition, many other achievements were made as well during the year. We continued the development of our two commercially successful platforms, including an upgrade of the 3 MW platform to 4 MW with the introduction of three new variants.

2017 was another busy year at Vestas' production facilities. We managed to cope with a high manufacturing level while at the same time strengthening our global footprint and competitiveness. Safety continues to be an integral part of achieving operational excellence, and over the last 10 years, Vestas has been building a strong safety culture. In 2017, Vestas stayed well below its target of max. 6.0 total recordable injuries per one million working hours.

Service delivered strong financial performance, and continues to be an ever-increasing value creator for Vestas. Service is on track to delivering 50 percent revenue growth by 2020 versus 2016.

Despite the turbulent situation with the US tax reform, we are pleased that the final version of tax legislation preserves the original terms, and leaves in place the phase-down schedule and value of the Production Tax Credit.

### Positioned and prepared for new challenges and opportunities

We need to stay agile, both in how we use our wind expertise to shape future technologies, and in how we organise our business to adjust to the changing market. Combining our commercial best practices and resources is part of staying agile and enables us to both further consolidate our market leadership and position ourselves strongly to capture future growth opportunities.

I want to thank all Vestas' employees for your dedication to help creating a more sustainable future for the world.

  
Anders Runevad  
Group President & CEO



“ Vestas is financially strong and well prepared to meet the opportunities and challenges of the ever-evolving energy market.”

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The V126-3.45<sup>+</sup> MW turbine is specifically designed for low-wind sites – and has proved how well-suited it is for the challenging Nordic climate. In 2017, Vestas delivered the 93 MW Simo III project in the province of Lapland, Finland.



# Highlights for the Group

mEUR	2017	2016	2015	2014	2013
<b>FINANCIAL HIGHLIGHTS</b>					
<b>INCOME STATEMENT</b>					
Revenue	9,953	10,237	8,423	6,910	6,084
Gross profit	1,963	2,126	1,505	1,178	896
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	1,651	1,826	1,258	977	530
Operating profit (EBIT)	1,230	1,421	906	607	102
Special items (included in EBITDA and EBIT)	-	-	46	48	(109)
Net financial items	2	(33)	(15)	(53)	(138)
Profit before tax	1,192	1,287	925	523	(36)
Profit for the year	894	965	685	392	(82)
<b>BALANCE SHEET</b>					
Balance sheet total	10,871	9,931	8,587	6,997	5,640
Equity	3,112	3,190	2,899	2,379	1,524
Investments in property, plant and equipment	268	304	220	163	73
Net working capital	(1,984)	(1,941)	(1,383)	(957)	(596)
Net invested capital	(397)	(361)	301	677	1,349
Interest-bearing position (net), end of year	3,359	3,255	2,270	1,411	86
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	1,625	2,181	1,472	1,126	1,248
Cash flow from investing activities before marketable securities	(407)	(617)	(425)	(285)	(239)
Free cash flow before marketable securities	1,218	1,564	1,047	841	1,009
Free cash flow	1,218	1,364	1,047	841	1,009
<b>FINANCIAL RATIOS<sup>1)</sup></b>					
<b>FINANCIAL RATIOS</b>					
Gross margin (%)	19.7	20.8	17.9	17.0	14.7
EBITDA margin (%)	16.6	17.8	14.9	14.1	8.7
EBIT margin (%) before special items	12.4	13.9	10.2	8.1	3.5
EBIT margin (%)	12.4	13.9	10.8	8.8	1.7
Return on invested capital (ROIC) (%) <sup>2) 3)</sup>	(9,044.1)	265.2	117.2	35.3	7.7
Net interest-bearing debt/EBITDA <sup>3)</sup>	(2.0)	(1.8)	(1.9)	(1.5)	(0.1)
Solvency ratio (%)	28.6	32.1	33.8	34.0	27.0
Return on equity (%)	28.1	32.6	26.2	20.1	(5.2)
<b>SHARE RATIOS</b>					
Earnings per share (EUR)	4.2	4.4	3.1	1.8	(0.4)
Book value per share (EUR)	14.4	14.4	12.9	10.6	7.5
Price / book value (EUR)	4.0	4.3	5.0	2.9	2.9
P / E ratio	13.6	14.0	21.2	17.2	neg.
Dividend per share (EUR)	1.24 <sup>4)</sup>	1.31	0.91	0.52	0.0
Payout ratio (%)	29.9 <sup>4)</sup>	30.0	29.9	29.9	0.0
Share price 31 December (EUR)	57.6	61.7	64.8	30.4	21.5
Number of shares at the end of the year	215,496,947	221,544,727	224,074,513	224,074,513	203,704,103
<b>OPERATIONAL KEY FIGURES</b>					
Order intake (bnEUR)	8.9	9.5	8.2	5.8	5.8
Order intake (MW)	11,176	10,494	8,943	6,544	5,964
Order backlog – wind turbines (bnEUR)	8.8	8.5	7.9	6.7	6.8
Order backlog – wind turbines (MW)	11,492	9,530	8,732	7,513	7,417
Order backlog – service (bnEUR)	12.1	10.7	8.9	7.0	6.7
Produced and shipped wind turbines (MW)	11,237	9,957	7,948	6,125	4,513
Produced and shipped wind turbines (number)	4,241	4,264	3,330	2,527	2,025
Deliveries (MW)	8,779	9,654	7,486	6,252	4,862

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

2) Adjustment for tax based on effective tax rate for the year.

3) Before special items

4) Based on proposed dividend.



	2017	2016	2015	2014	2013
<b>SOCIAL AND ENVIRONMENTAL KEY FIGURES</b>					
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>					
Total recordable injuries (number)	243	303	335	384	307
– of which lost time injuries (number)	92	82	56	53	66
– of which fatal injuries (number)	1	0	1	0	1
<b>CONSUMPTION OF RESOURCES</b>					
Consumption of energy (GWh)	569	567	516	501	586
– of which renewable energy (GWh)	325	296	283	278	325
– of which renewable electricity (GWh)	264	268	257	255	309
Consumption of fresh water (1,000 m <sup>3</sup> )	454	428	427	366	512
<b>WASTE DISPOSAL</b>					
Volume of waste (1,000 tonnes)	71	75	67	51	71
– of which collected for recycling (1,000 tonnes)	39	37	33	27	42
<b>EMISSIONS</b>					
Emission of direct CO <sub>2</sub> (1,000 tonnes)	60	58	49	50	56
Emission of indirect CO <sub>2</sub> (1,000 tonnes)	26	26	25	29	44
<b>LOCAL COMMUNITY</b>					
Environmental accidents (number)	0	0	0	0	0
Breaches of internal inspection conditions (number)	0	1	0	3	1
<b>EMPLOYEES</b>					
Average number of employees	22,504	21,625	18,986	16,325	16,598
Number of employees at the end of the period	23,303	21,824	20,507	17,598	15,192
<b>SOCIAL AND ENVIRONMENTAL INDICATORS</b>					
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>					
Incidence of total recordable injuries per one million working hours	5.3	6.9	8.7	11.8	9.8
Incidence of lost time injuries per one million working hours	2.0	1.9	1.5	1.6	2.1
Absence due to illness among hourly-paid employees (%)	2.3	2.2	1.9	2.3	2.5
Absence due to illness among salaried employees (%)	1.2	1.2	1.1	1.3	1.2
<b>PRODUCTS</b>					
CO <sub>2</sub> savings over the lifetime of the MW produced and shipped (million tonnes of CO <sub>2</sub> )	317	281	224	173	125
<b>UTILISATION OF RESOURCES</b>					
Renewable energy (%)	57	52	55	56	56
Renewable electricity for own activities (%)	100	100	100	100	100
<b>EMPLOYEES</b>					
Women in Board of Directors <sup>1)</sup> and Executive Management (%)	23	23	23	23	15
Women at management level (%) <sup>2)</sup>	19	19	18	18	17
Non-Danes at management level (%) <sup>2)</sup>	63	60	57	54	53

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

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

To realise the best possible return on customers' investment, an effective operations and maintenance strategy is just as important as reliable wind turbines. The AOM 5000 premium service concept is applied to the South Plains 1 Wind Farm in USA, which consists of 100 V100-2.0 MW turbines.



## Corporate **strategy**

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.

At the same time as wind energy is becoming the lowest cost of energy solution in many markets, competition in the industry has become even more fierce, while renewable energy markets are transitioning away from tax and policy support to more competitive tender structures. In this environment, Vestas has delivered on its strategy to grow faster than the market and produce best-in-class margins, and has strengthened its global leadership in all three business areas: onshore, offshore, and service.

## Sustainable future for the wind power market

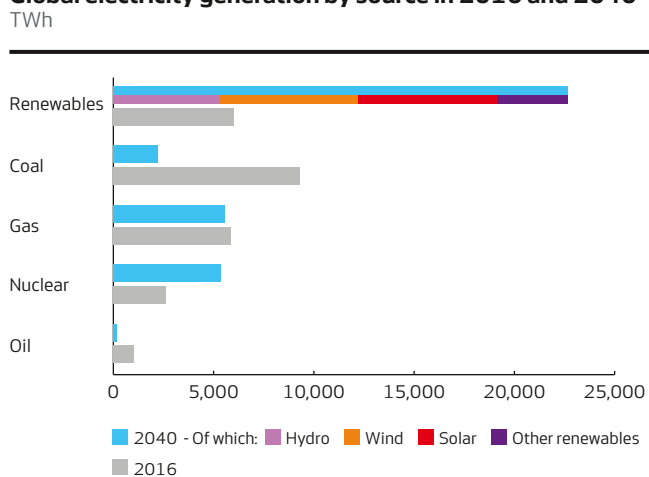
Renewable energy's journey to become mainstream energy continues to progress, driving a positive long-term outlook and creating multiple opportunities for the wind energy sector.

Driven by increasingly strong national commitments to reducing CO<sub>2</sub> emissions, as well as the phasing-out and replacement of older fossil fuel and nuclear generation capacity, more space is being created for renewable energy within the global energy mix. Concurrently, growth in global electricity demand is creating further prospects for renewables. The International Energy Agency (IEA) estimates that demand for electricity will grow by 60 percent towards 2040<sup>1)</sup>, driven increasingly by renewable energy generation investment in developing countries.

Government actions are also contributing to this trend, with growing long-term policy stability and country-specific CO<sub>2</sub> reduction targets creating a supportive environment for continued investment in renewables.

The decarbonisation of the energy sector is underway, with estimates showing renewables overwhelmingly dominating power generation capacity leading up to 2040.<sup>2)</sup> In the context of the transition from fossil fuels to renewables, and within the range of renewable energy technologies, wind is in a strong position.

### Global electricity generation by source in 2016 and 2040\*



Source: International Energy Agency: World Energy Outlook 2017. November 2017.  
\*Based on Sustainable development scenario.

The constant reduction in the levelised cost of energy for wind, as well as improvements in reliability and productivity of wind power plants, have seen the prospects for wind energy improve significantly. This trend is expected to continue over the coming years as wind energy continues to outcompete fossil fuel-based generation on cost, while reducing CO<sub>2</sub> emissions that cause global warming.

This scenario presents a strong environment for the stable growth of wind energy, leveraging the continued maturity and competitiveness of the sector in the context of a global market that is moving away from fossil fuels for energy generation.

### Vestas' vision – to be the global leader in sustainable energy

Vestas' vision to be the global leader in sustainable energy solutions builds on its pioneering legacy in the renewables industry and serves as a response to the emerging market opportunities Vestas sees ahead. As Vestas strives to achieve its vision, the company will continue to enable a more cost-effective and sustainable energy sector.

1) Source: The International Energy Agency: World Energy Outlook 2017. November 2017.  
2) Source: Bloomberg New Energy Finance: New Energy Outlook 2017. November 2017.

For Vestas, sustainable energy solutions comprise power-generating equipment, services, and digital solutions, as well as new business models that support a faster journey to a fully decarbonised energy sector.

Being a global leader means being actively present in all key markets. This requires offering the most competitive portfolio of solutions enabled by technology and service leadership. Combining these assets with industry-leading commercial capabilities will allow Vestas to win market share by being the preferred partner of its customers.

Being a global leader also enables Vestas to drive scale and sustain best-in-class margins, allowing for reinvestment into innovations for the benefit of customers, shareholders and the planet.

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

Sustainable energy solutions will build upon Vestas' core business, widening its commercial playing field and opening the door to new, profitable revenue streams. Wind power will remain the core of Vestas' offerings and Vestas anticipates that sustainable energy solutions will enlarge the wind turbine market, enable new revenue streams and expand Vestas' global market share.

As a pioneer in the renewables industry, Vestas has vast experience in developing, installing, and managing complex energy solutions enabled by competencies across the broader energy system. Vestas has leveraged this experience and expertise to take significant steps on the journey from global leader in wind to a global leadership position in sustainable energy solutions.

Going forward, Vestas will continue to deliver solutions with the lowest cost of energy by enhancing its technology and service leadership. To ensure it stays ahead, Vestas will continue its lead in R&D and innovation to secure an industry-leading product portfolio, while investing into growing and differentiating the service business. Together, these imperatives will accelerate the transition to a more sustainable energy mix.

Vestas' global presence, position in the onshore and offshore power plant market and its service backlog, create a strong starting point for leading this transition. Building on global scale and continuous focus on improving operations, Vestas stays committed to preserving its best-in-class margins above industry competitors.

Furthermore, Vestas continues to future-proof and expand its commercial reach in order to realise its long-term vision and strategic objectives while meeting the evolving challenges of the renewable energy sector. A few recent examples illustrate this movement:

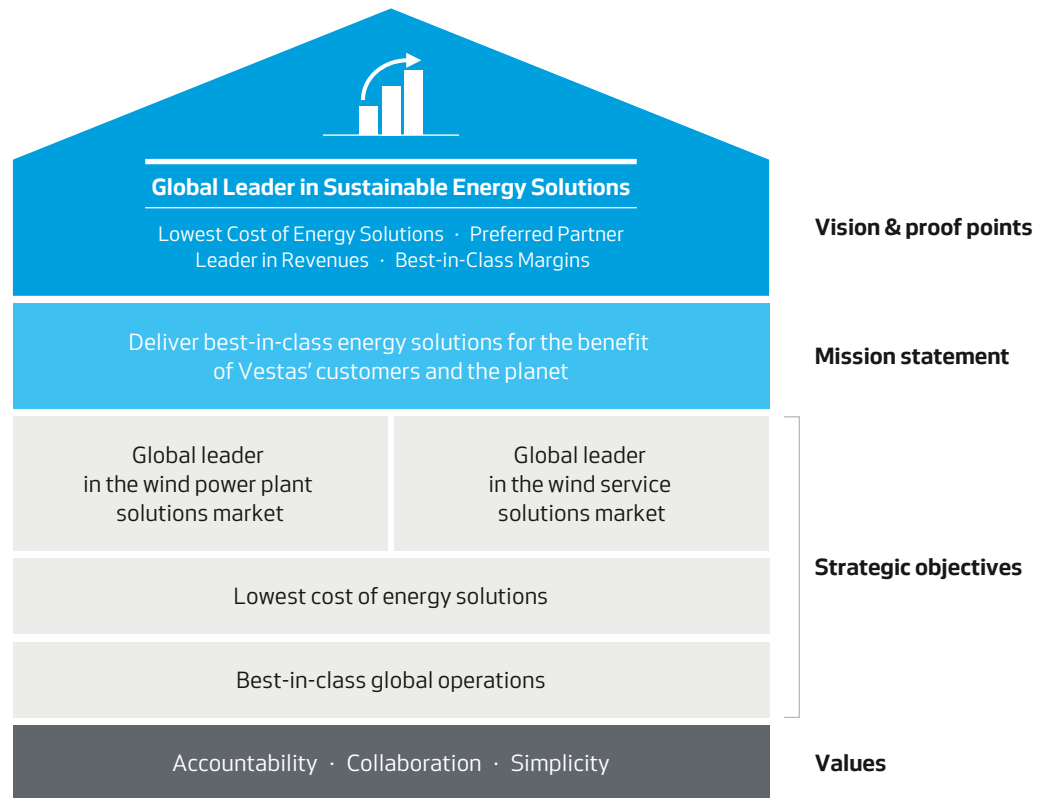
- In October 2017, Vestas announced a collaboration with energy developer Windlab Limited to build the world's first utility-scale, on-grid hybrid project integrating wind, solar, and battery energy storage. Projects like these enable a higher penetration of renewables, a lower levelised cost of energy and respond directly to customers' most important goal: business case certainty.
- In December 2017, Vestas signed a strategic partnership with battery technology provider Northvolt AB. The aim of the partnership is to bring the most competitive battery storage solutions to the market and determine how to better integrate storage and renewable energy generation technologies as a means to better integrate renewable energy into the power grids, ultimately leading to an increased uptake of renewables.

### Strategic objectives

Overall, Vestas remains dedicated to its strategic direction. 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

## The building blocks of the corporate strategy



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.

### 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.

### Global leader in the wind power 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.

### 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.

### 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 lowering 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

### Vestas' business areas – a strong and balanced portfolio

Vestas holds leadership positions in all three key areas of wind: onshore wind turbines, offshore wind turbines, and service. All three areas are attractive individually, and when combined, create a well-balanced portfolio of business at different stages of maturity in terms of growth, competitive dynamics, and profitability. Continuing to pursue leadership in all three areas allows Vestas to achieve significant and complimentary benefits commercially, operationally, and financially.

### Long-term market outlook: the transition to maturity, stability, and opportunity

Towards the early 2020s, the wind power industry will be entering a phase of significant change driven by increasing maturity, changing regulation, continued rapid reduction in levelised cost of energy, and shifts in the customer landscape. The overall challenge to decarbonise the energy sector remains in place, with further and longer-term decarbonisation of the energy sector being required in order to slow down the pace of climate change. This perspective is one rationale supporting the increased long-term commitments to renewable energy by nations, states, cities, and corporations, and ensures demand for sustainable energy solutions over the coming decades.

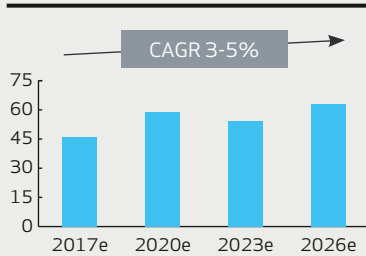
## Vestas' three main business areas

### Global leader in the onshore wind power plant solutions market



#### Stable growth

#### Onshore installations per year\* GW



#### Vestas' position

- 88 GW total installed (No.1 globally)
- 13 percent annual revenue growth 2013-2017

#### Priorities

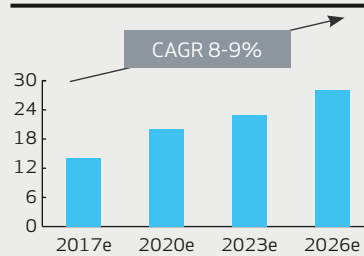
- Grow faster than the market
- Best-in-class margins
- Lowest cost-of-energy solutions

### Global leader in the wind power service solutions market



#### High growth

#### Global wind O&M revenue\*\* USDbn



#### Vestas' position

- 76 GW under service (No. 1 globally)
- 14 percent annual revenue growth 2013-2017

#### Priorities

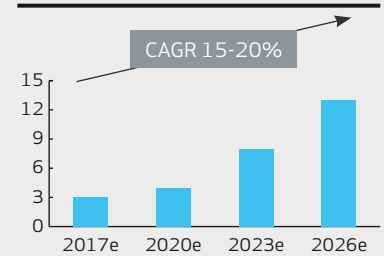
- >50 percent revenue growth vs. 2016
- Best-in-class margins

### Top player in the offshore wind power market via MHI Vestas Offshore Wind



#### High growth

#### Offshore installations per year\* GW



#### Position of offshore joint venture

- 3 GW total installed (No. 2 globally)
- Industry-leading offshore wind turbine

#### Priorities

- Lowest cost-of-energy solutions
- Claim a leading position

\* Source: MAKE Consulting: Q4 Global Wind Power Market Outlook Update. November 2017.

\*\* Source: MAKE Consulting: Global Wind Turbine O&M. December 2017.

Leading up to and during this period, policymakers and energy system stakeholders will increasingly focus on the total system value of new generation capacity beyond offering the lowest cost of energy. This will add further momentum to renewables that can provide energy at the time and location where it is most valued. Vestas is taking industry leadership in commercialising storage solutions, utility-scale wind-solar hybrids, and other long-term innovations that address the full value to the energy system.

While these trends add short-term volatility at industry level, they create opportunities and enable Vestas to leverage its strong position and exposure across wind power plant and service solutions.

The changes reflect a required step on the path to a more mature, unsubsidised renewable energy industry, which is now able to cost-effectively meet demand for large-scale, sustainable energy solutions. Globally, policymakers and stakeholders are increasing their commitment to renewable deployment. Notably, the EU has recently confirmed its commitment to renewables with a 27 percent target by 2030. In the USA, several states are increasing targets for renewable power in electricity systems. Countries like India and South Korea have increased

their targets for wind deployment. This is to a large extent driven by the increased cost-competitiveness of wind.

As such, the stakes for wind OEMs have increased. Delivering on the strategic priorities enables profitable growth through the mid term and enables Vestas to maintain leadership in an expanded and maturing industry through the long term.

### Onshore

Onshore wind power has crossed a threshold and is today the lowest-cost of energy solution in several parts of the world. Reductions in levelised cost of energy will accelerate in coming years, unlocking new markets and further expanding wind's competitiveness against conventional energy sources.

Towards the mid 2020s, global onshore markets are expected to grow at approx. 3-5 percent annually from the 2017 base<sup>3)</sup>, as healthy volume in mature markets is coupled with emerging market growth.

Vestas will leverage its global technical, commercial, and supply chain strength to manage the inevitable volatility across markets, claim a

3) Source: MAKE Consulting: Q4 Global Wind Power Market Outlook. November 2017.

strong position in emerging markets, and maintain a clear leadership position in mature markets.

As wind energy and other renewable technologies become more competitive, they serve to support the gradual but complete transition of market mechanisms towards large-scale tenders and auctions. Additionally, this trend will require an accompanying commercial transition – specifically, a stronger emphasis on partnering with customers to tailor packages that combine products, services, and commercial solutions for tenders and auctions, as well as taking an active role in deal origination.

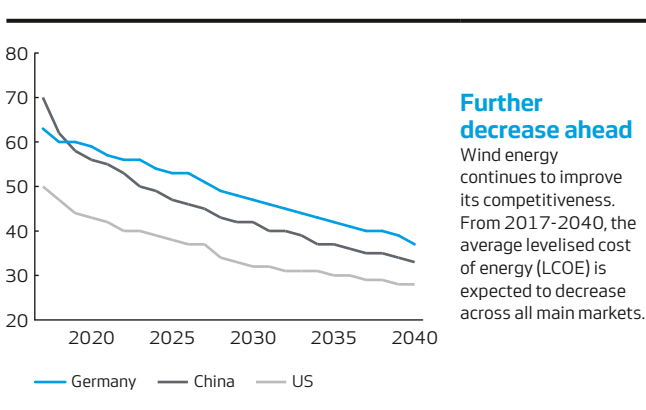
At the same time, intense competition for large auction orders is driving downward pressure on remuneration for owners of new wind power plants. This development also impacts the supply chain, including accelerated pressure on OEMs to reduce levelised cost of energy. However, experience also shows that markets tend to gradually stabilise after the introduction of new market mechanisms, leading to lower but more stable levels. Due to its global reach, Vestas is already very familiar with the transition to the new reality of auctions and believes to be stronger positioned to benefit here than most of its peers due to broad exposure to, and familiarity with, auction and competitive tender schemes.

Beyond auctions, repowering is another significant opportunity. In traditional wind markets such as North America, Europe, and China, repowering will drive an additional valuable supplement to greenfield installations, as customers recognise the strong business case of replacing ageing turbines at high-wind sites with more efficient and productive technology. This adds to the strength of the long-term forecasts.

Long-term opportunities are also driven by the evolution of other commercial elements. As renewables gradually replace fossil-fuel generated energy, the requirements of grids and energy systems will evolve and challenge OEMs to provide solutions that integrate multiple technologies, including effective energy storage, provide more efficient and effective asset management, and utilise data and digital solutions to enable renewables to better integrate into power grids.

Vestas will continue to accelerate its focus on introducing new and more efficient wind power plant solutions while reducing costs at all levels of the wind power value chain. In sum, the added emphasis on levelised cost of energy reduction places a premium on Vestas' position with global scale efficiency, technology leadership and industry-leading R&D capabilities.

### Expected average LCOE developments for onshore wind



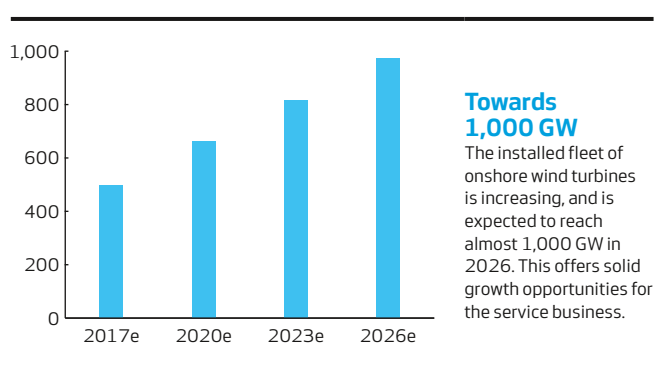
Source: Bloomberg New Energy Finance: New Energy Outlook: Wind. June 2017.

### Service

Service will continue to see high volume growth of more than 10 percent annually throughout the period, driven by growth in the installed base. Service growth is key to Vestas by providing a highly predictable and profitable component of its overall business portfolio.

4) Source: MAKE Consulting: Q4 Global Wind Power Market Outlook. November 2017.

### Expected development of total onshore installed base



Source: MAKE Consulting: Q4 Global Wind Power Market Outlook Update. November 2017.

Vestas is in a strong position to grow its service business even faster than the market, and from the level in 2016, Vestas aims to grow service revenue by at least 50 percent towards 2020, while also continuing to deliver industry-leading and stable service margins. The strong performance in 2017 indicates that Vestas is on the pathway of achieving this ambition.

Achieving this requires Vestas to differentiate itself by delivering more value to customers than its peers and to deliver services at the lowest cost. Vestas is strongly positioned to deliver through its focus on operational excellence across the service value chain and by having the largest fleet under service globally (76 GW). Towards 2020, Vestas will continue to enhance its service leadership and value-add to customers through the expansion of its multibrand capabilities, the deployment of new digital tools, and other means to increase customers' energy production, reduce their operating expenses, and increase their revenue. At the same time, continual efficiency improvements will ensure the quality of Vestas' service offerings and help maintain its cost leadership.

Beyond 2020, the growth of the service market is expected to continue as the onshore installed base is projected to double to approx. 1,000 GW by 2026.<sup>4)</sup> Given the strong growth and Vestas' high profitability in this segment, service is likely to become the company's largest profit stream. Vestas will continue to expand its volume leadership position through Vestas' own wind turbines and increasing multibrand sales.

### Offshore

The offshore segment is expected to accelerate growth, with projected industry volumes growing at 15-20 percent annually from a small base of roughly 3 GW installed in 2017.<sup>4)</sup>

Northern Europe will remain the core market for installations in the near-term, and the overall market is expected to grow moderately towards 2020. However, as other regions come on line, strong growth is expected beyond 2020 – mainly driven by Asia Pacific. Due to long lead times, the segment is characterised by a relatively high degree of certainty of minimum market volumes.

Through MHI Vestas Offshore Wind, Vestas' offshore joint venture with Mitsubishi Heavy Industries, Vestas will continue to invest to claim a leading position and expand the joint venture's reach in offshore wind throughout this period. MHI Vestas Offshore Wind has established itself as a leading offshore wind player, with orders over the last few years from the UK, Germany, Denmark, Belgium, and the Netherlands. With the outlook for offshore wind energy looking positive through the opening of new markets and further reductions in the cost of energy, MHI Vestas Offshore Wind is now shifting its strategic focus to expand into new markets and further consolidate its position in mature markets.

Vestas has 38,892 wind turbines under service distributed all over the world, from Nicaragua over Morocco to China.



## Capital structure strategy

Vestas' capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company.

The main priority is to invest in Vestas' corporate strategy and use capital resources for required investments and R&D to realise this strategy.

As a player in a market where projects, customers, and wind turbine investors are becoming larger, Vestas aims to be a strong financial counterpart. Capital resources will be maintained to secure compliance with the capital structure targets:

- Net interest bearing debt/EBITDA ratio below 1x at any point in the cycle
- Solvency ratio of min. 25 percent by the end of each financial year

Available capital resources may also be used for bolt-on acquisitions to accelerate or increase profitable growth prospects.

Any decision to distribute cash to shareholders will be taken in appropriate consideration of the capital structure targets and availability of excess cash. Determining the level of excess cash will be based on the company's growth plans and liquidity requirements.

The dividend policy reflects the general intention of the Board of Directors to recommend a dividend of 25-30 percent of the year's net result after tax, which will be paid out following the approval by the Annual General Meeting.

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

In years without major investments, most of the free cash flow may be distributed to shareholders through dividends and share buy-backs.

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### Priorities for capital allocation

#### 1. Organic growth

- Investments
- Research and development
- Strong balance sheet to enable growth

#### 2. Acquisitions

- Bolt-on acquisitions

#### 3. Dividend

- 25-30 percent of the net result of the year after tax
- Payout during first half year given approval by the Annual General Meeting

#### 4. Share buy-back

- From time to time to adjust capital structure
  - If relevant, launch during second half year based on realised performance
-

In 2017, Vestas installed wind turbines in Honduras (59 MW) and Mongolia (50 MW) for the first time. In total, Vestas delivered 8,779 MW in 30 different countries during the year.



# Outlook

## Outlook 2018

Revenue is expected to range between EUR 10bn and 11bn, including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin of 9-11 percent with the service EBIT margin remaining stable.

Total investments<sup>1)</sup> are expected to amount to approx. EUR 500m, and free cash flow<sup>1)</sup> is expected to be minimum EUR 400m in 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)	10-11
EBIT margin (%)	9-11
Total investments <sup>1)</sup> (mEUR)	approx. 500
Free cash flow <sup>1)</sup> (mEUR)	min. 400

## Updated 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 power 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 is able to present updated long-term financial ambitions that reflect its projection for market conditions and the presumed result of its strategy – including initiatives that are currently being undertaken.

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

## Updated long-term financial ambitions

Revenue	Grow faster than the market and be the market leader in revenue
EBIT margin	At least 10 percent
Free cash flow	Positive each year
ROIC	Double-digit each year over the cycle

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



More than 23,000 dedicated employees are working for Vestas across more than 50 countries – and their mission is to deliver best-in-class sustainable energy solutions for the benefit of Vestas' customers and the planet.



## How Vestas **performed** and created value in 2017

Realised 2017	Guidance 2017	
EUR 10bn	EUR 9.5bn-10.25bn	<b>Revenue</b> reflecting high activity levels – albeit a 3 percent decline compared to record-high revenue in 2016
12.4%	12%-13%	<b>EBIT margin</b> impacted by lower volumes combined with lower average project margins in the Power solutions segment, partly offset by higher Service margins
EUR 1,218m	EUR 1,150m-1,250m	<b>Free cash flow*</b> generated from solid results in the underlying business; guidance updated in January 2018
EUR 407m	approx. EUR 400m	<b>Net investments*</b> in line with expectations driven by tangible blade investments and capitalised R&D projects, partly offset by sale of office buildings

\* Before investments in marketable securities and short-term financial investments and incl. proceeds from sale of office buildings.

## Income statement

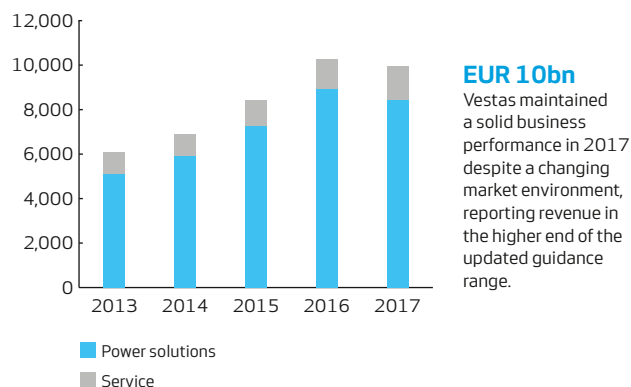
### Result for the year

#### Revenue

Revenue amounted to EUR 9,953m, which was within the updated guidance range of EUR 9.5bn-10.25bn announced on 9 November 2017. Revenue reflects high activity levels, although representing a 3 percent decline compared to record-high revenue in 2016. Revenue in 2017 was impacted by a negative currency effect of EUR 161m, primarily driven by the EUR/USD development.

#### Revenue

mEUR



Europe, Middle East, and Africa (EMEA) accounted for 49 percent (2016: 45 percent) of revenue, while Americas and Asia Pacific accounted for 42 percent (2016: 47 percent) and 9 percent (2016: 8 percent), respectively.

#### Distribution of revenue

mEUR

	2017	2016
Europe, Middle East, and Africa	4,859	4,641
Americas	4,175	4,823
Asia Pacific	919	773
<b>Total</b>	<b>9,953</b>	<b>10,237</b>
- of which service revenue	1,522	1,309

#### Gross profit

Gross profit amounted to EUR 1,963m, corresponding to a gross margin of 19.7 percent – a 1.1 percentage point decrease relative to 2016. The gross profit decrease was mainly driven by lower volumes, combined with lower average project margins in the Power solutions segment, but partly offset by improved performance within the Service segment.

#### Research and development costs

Research and development costs recognised in the income statement amounted to EUR 235m, which was slightly higher compared to EUR 227m in 2016. The total R&D expenditure prior to capitalisation and amortisation increased to EUR 225m in 2017, against EUR 198m in 2016, due to continued research activities and improvement initiatives as part of bringing new technology to the market as a response to market demands.

#### Distribution costs

Distribution costs amounted to EUR 229m in 2017, equivalent to an increase of 0.4 percentage points of revenue compared to 2016, driven by additional execution costs and allowances for doubtful receivables combined with increased sales and marketing costs.

#### Administration costs

Administration costs constituted 2.7 percent of revenue in 2017, compared to 2.8 percent in 2016.

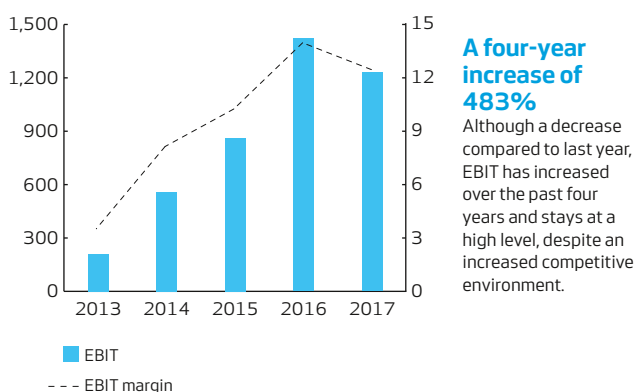
#### Operating profit (EBIT)

EBIT amounted to EUR 1,230m in 2017, equivalent to an EBIT margin of 12.4 percent, which is within the updated guidance range of 12-13 percent disclosed on 9 November 2017. The EBIT margin decreased by 1.5 percentage points mainly driven by the decreased gross profit due to increased price pressure and competitive environment, combined with additional execution costs.

Depreciation, amortisation and impairment amounted to EUR 421m in 2017, compared to EUR 405m in 2016. The increase was due to reassessment of useful life of certain assets as well as impairment losses and reversal of impairment losses on assets.

#### Operating profit (EBIT)

mEUR



#### Income from investments in joint ventures

Result from investments in joint ventures amounted to a loss of EUR 40m in 2017, compared to a loss of EUR 101m in 2016. The improvement was mainly attributable to Vestas' share of loss in MHI Vestas Offshore Wind on a standalone basis being reduced during 2017, combined with timing difference in elimination of proportional profit on deliveries from the Group to MHI Vestas Offshore Wind.

#### Income tax

Income tax amounted to EUR 298m, equivalent to an effective tax rate of 25 percent. Effective tax rate is unchanged compared to 2016.

#### Profit for the year

Profit for the year amounted to EUR 894m in 2017, which was a decrease of 7 percent compared to 2016. The decline in profit for the year is mainly a result of the decreased gross profit and EBIT.

As the targets for bonus payout were achieved in 2017, a global bonus of EUR 112m will be paid out to all employees (cash effect 2018), compared to EUR 120m in 2016 (cash effect 2017).

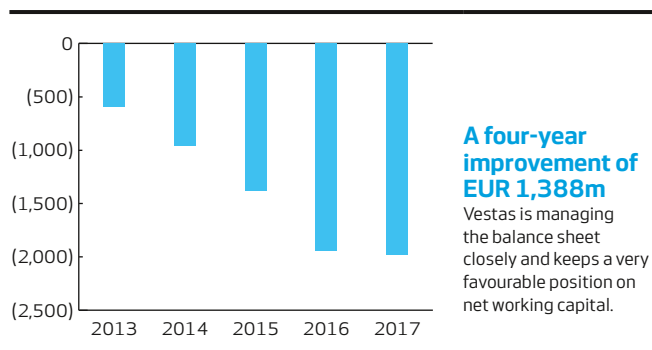
## Balance sheet

### Working capital

Net working capital amounted to a net liability of EUR 2.0bn at the end of 2017, which is on par with last year. The level was impacted by inventory build-up, offset by increasing trade payables, whereas the level last year was impacted by high prepayments from customers in relation to Production Tax Credit (PTC) projects in the USA.

### Net working capital

mEUR



### Capital structure and financing items

#### Equity

As at 31 December 2017, total equity amounted to EUR 3,112m; a 2 percent reduction from EUR 3,190m end of 2016. Equity was maintained at the 2016 level, despite dividend payout and share buy-back programmes of a combined value of EUR 975m.

To adjust the capital structure and to meet the obligations arising from employee share option programmes, Vestas bought 10,503,515 shares under the two share buy-back programmes active during 2017.

The strength of the balance sheet combined with the results achieved in 2017 has led the Board of Directors to recommend a dividend of DKK 9.23 (EUR 1.24) per share, equivalent to 29.9 percent of the net result for the year after tax.

#### Earnings per share

Earnings per share amounted to EUR 4.2 in 2017, a decrease of EUR 0.2 compared to EUR 4.4 in 2016, mainly driven by lower net profit but partly offset by cancellation of treasury shares.

### Net interest-bearing position and cash position

At the end of 2017, the net interest-bearing position was positive of EUR 3,359m, an improvement of EUR 104m, compared to the end of 2016 with a positive net interest-bearing position of EUR 3,255m.

The ratio net interest-bearing debt/EBITDA of (2.0) by the end of 2017 was comparable to (1.8) in 2016 driven by the high cash balance maintained throughout the year.

Cash and cash equivalents amounted to EUR 3,653m in 2017, up 3 percent from EUR 3,550m in 2016. The cash position was maintained at the record-high level from last year, significantly impacted by cash flow from operating activities and a well-executed working capital management strategy.

### Solvency ratio

At the end of December 2017, the solvency ratio was 28.6 percent, which was a decline of 3.5 percentage points from 2016. The solvency ratio is below the target of 30-35 percent as a result of the high balance sheet combined with dividend payout and share buy-backs made during 2017.

## Return on equity

Return on equity was 28.1 percent in 2017, which was a decrease of 4.5 percentage points compared to 2016. The decrease was a result of the lower net profit, partly offset by the decrease in equity.

## Cash flow

### Operating activities

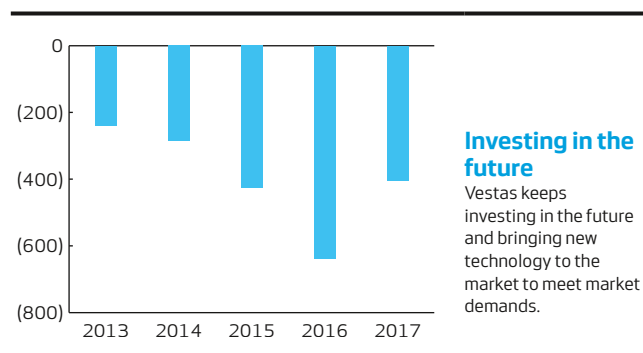
Cash flow from operating activities was EUR 1,625m in 2017, which was a decrease of 26 percent compared to last year. The decrease was a result of lower profit for the year, lower non-cash adjustments and lower change in net working capital.

### Net investments

Cash flow used for investing activities amounted to EUR 407m in 2017, which was in line with the updated guidance of approx. EUR 400m announced on 9 November 2017. Investments were mainly driven by tangible blade investments as well as capitalised R&D projects, but also impacted by the sale of office buildings.

### Net investments\*

mEUR



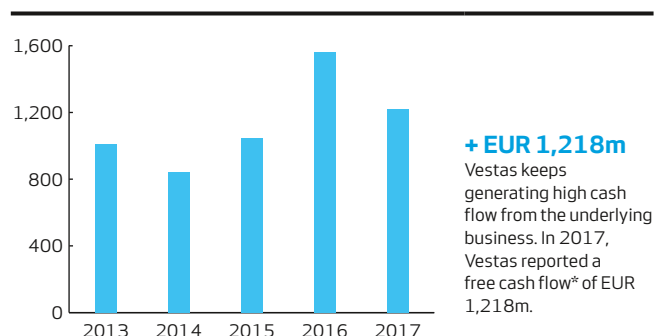
\* Before investments in marketable securities and short-term financial investments and for 2017 including proceeds from sale of office buildings.

## Free cash flow

The free cash flow, excluding investments in marketable securities and short-term financial investments, and including proceeds from sale of office buildings, amounted to EUR 1,218m, which was in line with the updated guidance of EUR 1,150m-1,250m disclosed on 8 January 2018.

### Free cash flow\*

mEUR



\* Before investments in marketable securities and short-term financial investments and for 2017 including proceeds from sale of office buildings.

The V136 turbine is one of the turbine variants on the 4 MW platform. It was tested at the Østerild test centre in 2016 and brought to market in 2017. It has a rotor diameter of 126 metre, a blade-swept area of 12,469 m<sup>2</sup>, and a 61.7 metre long blade.



## Activities in the **Power solutions** area

Vestas' total installed onshore capacity increased from almost 79 GW in 2016 to 88 GW in 2017 – an increase of 11 percent.

In a rapidly changing market, Vestas achieved an increase in order intake compared to 2016, with a record-high 11,176 MW. This also resulted in an order backlog of 11,492 MW. Activity levels remained at a high level with more than 11,237 MW produced and shipped and 8,779 MW delivered to the customers.

Revenue from Power solutions decreased by 6 percent to EUR 8,431m. The EBIT margin for the area was 13.5 percent in 2017, down 2.4 percentage points from 15.9 percent in 2016.

As a result of an improved economics of wind power, several markets adopted auctions in 2017, and the trend is expected to continue.

The transition towards market-based solutions has increased the competitive pressure, but is a long-term positive for the industry, and the ability for wind power to compete directly with other sources of energy is what the industry has been striving for all along.

The ability to continue to grow faster than the market requires a constant development of more efficient wind turbines as well as a continuous optimisation of the manufacturing setup.

During the year, several upgrades were made to Vestas' product portfolio. New rotor sizes were introduced to both turbine platforms in the portfolio. The 3 MW platform was upgraded to 4 MW with the introduction of three new variants, including the V150-4.2 MW™. Vestas' largest onshore wind turbine, offering an increase of up to 56 percent in annual energy production since the platform's launch in 2010.<sup>1)</sup>

A lean and scalable manufacturing setup remains a top priority for Vestas in order to meet the requirements of a market environment in constant change. In 2017, Vestas expanded its global footprint with the opening of the blade factory in India. Besides supporting a stronger presence in the Indian market, the factory will be utilised in the entire Asia Pacific region.

1) Comparison based on V112-3.0 MW™ vs. V150-4.2 MW™.

## Financial performance

### Result for the period

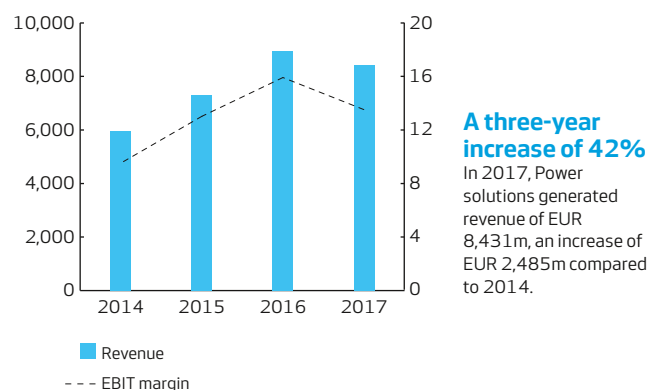
Compared to 2016, revenue from Power solutions in 2017 decreased by 6 percent to EUR 8,431m. The decrease was primarily driven by a decrease in deliveries to customers, as well as negative impacts from currency rate developments.

EBIT decreased by 20 percent to EUR 1,142m in 2017, relative to 2016. Consequently, the EBIT margin from Power solutions was 13.5 percent in 2017, down 2.4 percentage points from 15.9 percent in 2016. The decrease was mainly a consequence of lower volumes, combined with lower average project margins.

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.

### Revenue and EBIT margin for Power solutions

mEUR · Percent



### Level of activity

Vestas had a busy year with a high activity level in its factories. In 2017, Vestas produced and shipped wind turbines with an aggregate output of 11,237 MW against 9,957 MW in 2016.

Deliveries to customers amounted to 8,779 MW – a decrease of 9 percent compared to 2016. The decrease was driven by Americas due to high deliveries in 2016.

By the end of 2017, Vestas had installed a total of 88 GW onshore capacity in 77 countries, including its first-ever deliveries in Honduras and Mongolia.

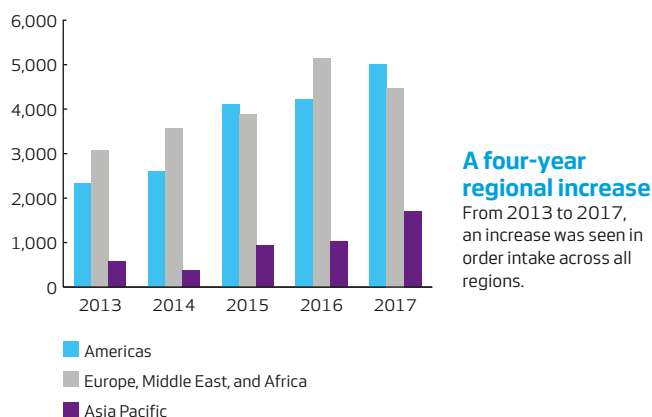
### Order intake

In 2017, order intake amounted to 11,176 MW, corresponding to EUR 8.9bn. Compared to 2016, order intake in MW for the year increased by 6 percent while the monetary value decreased by EUR 0.6bn.

Europe, Middle East, and Africa accounted for 40 percent (2016: 49 percent), Americas for 45 percent (2016: 41 percent), and Asia Pacific for 15 percent (2016: 10 percent) of the order intake in 2017 in MW. In 2017, 75 percent of total orders were announced.

### Order intake

MW



### Order backlog

At the end of the year, the order backlog amounted to 11,492 MW, equalling EUR 8.8bn. Compared to last year, the order backlog in MW increased by 21 percent equivalent to EUR 0.3bn. Despite the increase in delivery of wind turbines, the order backlog has developed positively due to strong order intake.

### Global trends in the onshore wind energy market

The volume of annual installed onshore wind power capacity globally in 2017 is expected to have declined to 51 GW compared to 53 GW in 2016.<sup>2)</sup> The deterioration is mainly driven by a continued normalisation of the Chinese market, where annual onshore wind power installations declined to 15 GW in 2017, compared to 22 GW the year before.<sup>3)</sup> As expected, the US market declined in 2017, with onshore installations of 7 GW compared to more than 8 GW in 2016.<sup>4)</sup> This decline is interpreted mainly as a result of the Production Tax Credit (PTC) structure allowing a four-year construction window to the projects qualified in 2016.

Excluding the Chinese market, global onshore installations for the year are forecast to have reached 32 GW<sup>2)</sup>, which is a slight increase compared to 2016. More importantly, however, wind energy continues to increase the penetration compared to most other energy sources. In 2016, wind power only constituted approx. 7 percent of the total electricity capacity, while this share is expected to grow significantly towards 2040.<sup>5)</sup>

### Movement towards auctions

There is no doubt that auctions and competitive tenders are the future of the wind power industry, see also Vestas' strategy, page 010. In 2017, several countries introduced auctions, and Vestas anticipates this trend to continue.

This is a long-term positive transformation for the industry, as auctions and competitive tenders have proven the competitiveness of wind power, and put it on a level playing field with other energy sources, thereby increasing the future potential market. In the short-term, however the industry transition is causing accelerated competition and, to some extent, changes in the market dynamics.

The value-adding role that wind turbine manufacturers play in auctions, and a key differentiator for Vestas, is the ability to optimise the business case of each individual wind power project site.

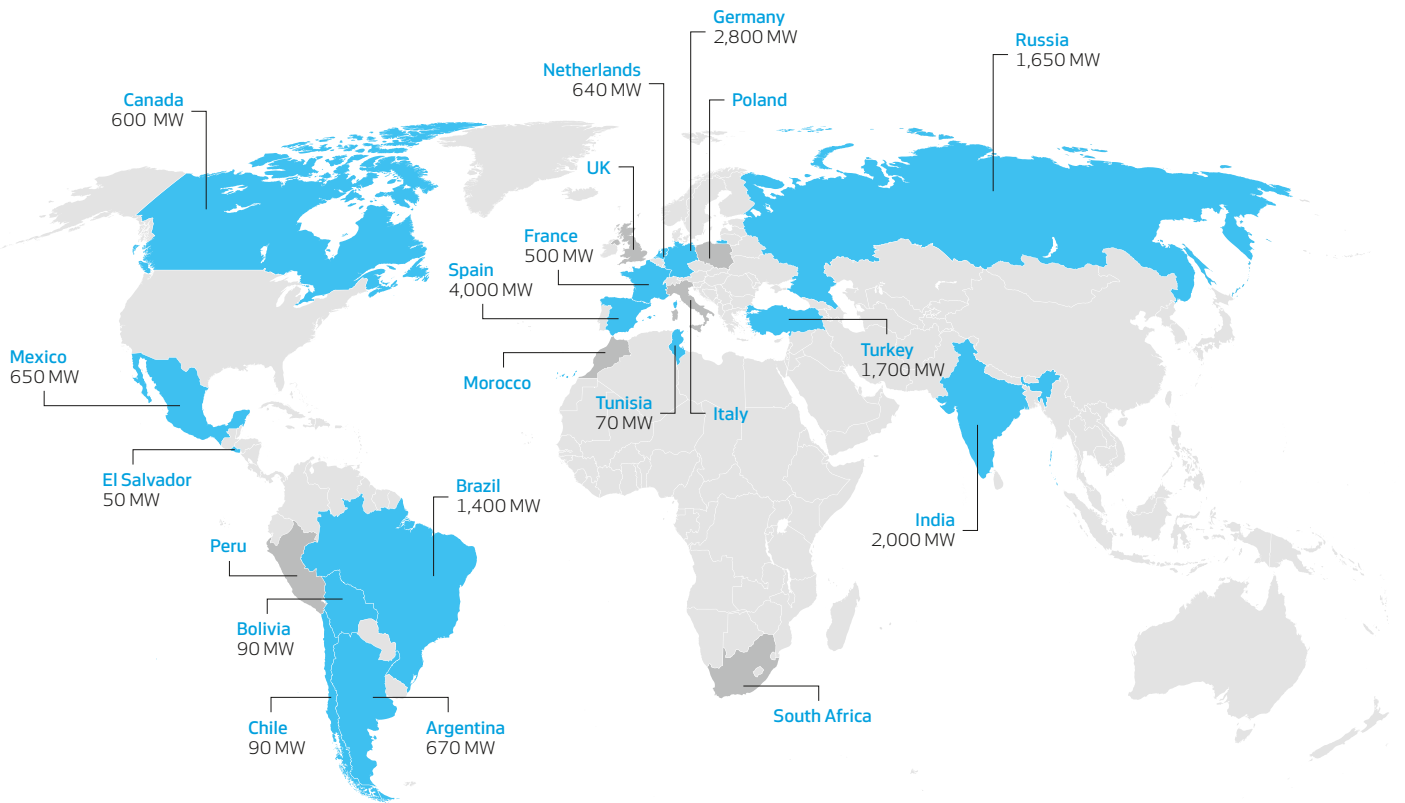
2) Source: Bloomberg New Energy Finance: Q4 2017 Market Outlook. December 2017.

3) Source: Bloomberg New Energy Finance: China's Wind, Solar Curtailment Improved in 2017. January 2018.

4) Source: American Wind Energy Association: US Wind Industry Fourth Quarter 2017 Market Report. January 2018.

5) Source: International Energy Agency: World Energy Outlook. November 2017.

## Volume awarded to onshore wind power in auctions



■ Countries that conducted auctions in 2017 with MW awarded to onshore wind power  
 ■ Countries where onshore wind power previously has won in auctions, but without activity in 2017

In response to more auctions and tenders, Vestas' customers are seeking greater collaboration. Early engagement with customers to build capabilities to jointly win auctions and tenders will be increasingly critical in the future for every wind turbine manufacturer, and this approach has helped Vestas to success in many of the conducted auctions.

As the market is transforming, the importance of scale and full understanding of every element in the value chain will define the winners of the industry. Vestas finds itself well-positioned to reap the benefits from these developments due to its experience and knowledge built on over 30 years of innovation and optimisation across the entire wind energy value chain.

### Repowering

The fleet of installed wind turbines is ageing, unlocking new opportunities to replace old wind turbines with newer ones, and reaping the advantage of more efficient and productive turbines on high-quality project sites. In the coming years, the majority of the repowering market will centre around the pioneering markets of the wind power industry in Europe, the Middle East, and Africa (EMEA).

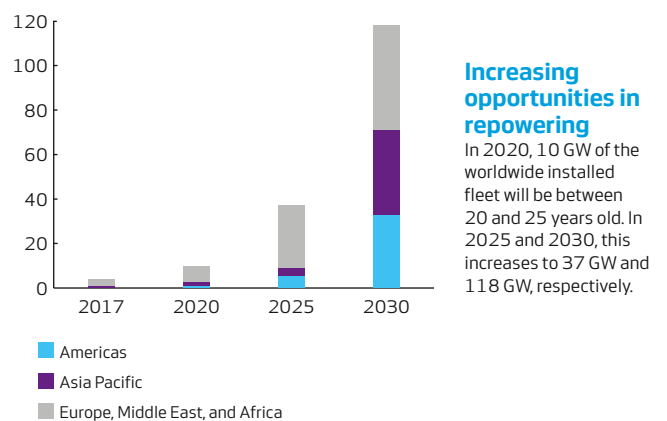
With a designed lifespan of 20 years for a wind turbine, the repowering market is expected to grow rapidly from 10 GW in 2020 and reach 37 GW already in 2025.<sup>6)</sup> After 2025, the addressable market for repowering is anticipated to expand outside EMEA, and be more evenly distributed among the major regions.

Favourable wind sites and an improvement in technology is expected to make repowering attractive for Vestas' customers. In the future, repowering is expected to provide the wind power industry with the stability known from more mature industries. Having the largest installed fleet

and more understanding of wind than any other competitor, Vestas has confidence in its opportunities within the repowering market.

### Ageing of the installed base towards 2030

GW onshore



Source: Bloomberg New Energy Finance: New Energy Outlook: Wind. June 2017.

### Hybrid solutions

Demand is increasing for onshore wind energy to provide hybrid solutions that integrate with other energy technologies and energy storage. For Vestas, 2017 was a milestone year for these new solutions.

6) Source: Bloomberg New Energy Finance: New Energy Outlook: Wind. June 2017.

Combining wind, solar, and battery energy storage, the Kennedy Energy Park located in Queensland, Australia, will be the renewable energy industry's first on-grid, utility-scale hybrid solution. With Vestas supplying the project's wind turbines and the control system that integrates the turbines, solar panels and battery storage, Kennedy illustrates Vestas' capacity to provide market-leading sustainable energy solutions.

Vestas expects the demand for such hybrid solutions to become an important part of the future energy mix, and having showcased the capability to operate the first utility-scale project, Vestas is confident that it can achieve its strategy to be the global leader in sustainable energy solutions.

### Vestas' market development in 2017

To be global leader in the wind power plant solutions market – one of the four strategic objectives in Vestas' strategy – in 2017, the sales organisation had focus on profitable growth in both mature and emerging markets and on partnering more closely with its customers.

With deliveries across 30 countries in 2017, Vestas' wide geographic diversification remains a key strategic strength, allowing it to balance out the inevitable ups and downs in any given market.

Vestas' increasing efforts to build closer customer relationships, expand existing customer relationships, and partner with new customers in both mature and new wind power markets, led to Vestas experiencing order intake growth across two out of three regions and signing orders in a total of 33 countries in 2017. This also underlines Vestas' aim to earn the right to be its customers' preferred partner – as articulated in the company's vision, see Vestas' strategy, page 010. Demand for wind turbines from Vestas' 2 MW and 4 MW platforms remains strong. In 2017, approx. two-thirds of the order intake was based on the 4 MW platform, while the remaining one-third related to the 2 MW platform.

### Europe, Middle East, and Africa

The European onshore wind energy market was stable in 2017, adding an estimated 12 GW of new installations, similar to 2016.<sup>7)</sup>

The stable market development in Europe is founded on long-term targets and policy stability for renewable energy. The EU has committed to a 20 percent share of energy consumption from renewable sources by 2020, and the target is distributed between the EU member states with national action plans. Furthermore, the current target for 2030 of 27 percent has recently been proposed raised to 35 percent, though no agreement on this has been reached yet.

### Northern Europe

As part of Vestas' goal to grow faster than increasingly competitive markets in Northern Europe, in December of 2017, Vestas announced the merge of its Northern European and Central European sales business units, in order to streamline the organisation and allow it to be more competitive.

The German market continues to display its importance as Vestas' second largest market overall, and the largest European market in terms of deliveries. Other markets, such as the UK, Sweden, and Finland supported Vestas' performance in 2017.

Germany saw another year with high activity levels in 2017, where installations reached more than 5 GW, an increase of 1 GW compared to 2016.<sup>8)</sup> Vestas continues to be a key player in the German market with 1,336 MW installed in 2017, bringing the total installed capacity to more than 13 GW.

In 2017, Germany completed the first three rounds of onshore wind power auctions with a total volume of 2.8 GW.<sup>9)</sup> Citizen-owned wind parks secured the vast majority of the allocated capacity. These projects could enter into the auctions without a building permit, effectively granting two additional years on top of the two-year construction window to mature the projects. The permit exemption of the citizen-owned wind parks has been revised for the first two auction rounds in 2018 and will then be analysed for future rounds, but a permanent solution requesting a permit as pre-qualification seems likely going forward.

For the coming years, the wind power auctioning volume (including repowering) in Germany is planned to 2.8 GW annually, split over three to four rounds until 2019 and at 2.9 GW annually from 2020 onwards.<sup>10)</sup>

### Southern Europe

On one hand, electricity demand and economic conditions continue to dampen installation levels across the countries in Southern Europe. On the other hand, the majority of the countries remain committed to their renewable energy targets, and have been key players in the adoption of auctions during 2017.

Spain completed two rounds of auctions with a total of 8 GW allocated to renewable energy. Wind energy won 4 GW of capacity that is to be installed towards 2020, and the Spanish market is expected to be a key market in the mid- and long term.

With expected installations of 1.2 GW in 2017, France experienced a good year, albeit on a lower level than 2016, where installations amounted to 1.6 GW.<sup>7)</sup> Vestas delivered 568 MW in France in 2017, and maintains its leading position in the market. In the fourth quarter of 2017, France also completed its first renewable energy auction of 500 MW, and is further expected to auction 1 GW throughout 2018. In parallel, the former Feed-in-Tariff system is still in place for smaller wind farms.<sup>11)</sup>

One of the first-movers towards auctions in Europe, Italy, saw projects continuing to materialise. With installed capacity in 2017 expected around 250 MW<sup>7)</sup>, Italy has been a stable market throughout the last couple of years. Vestas has received orders of more than 800 MW in total from Italian auctions.

### Eastern Europe

One of the highlights in Eastern Europe in 2017 was the much-anticipated third round of the first renewable energy auction in Russia. 1.65 GW was awarded to wind power, and more importantly, Russia is expected to continue to display a promising market for wind power in the future.<sup>12)</sup>

Vestas entered into a frame agreement with OOO Fortum Energy, a joint venture between Fortum Russia and RUSNANO, to supply wind turbines for capacity allocated in the auction. Close collaboration between Vestas and OOO Fortum Energy led to success in the auction and marks an important start to the promising Russian market.

Despite long-term growth potential, regulatory uncertainty continues to take its toll on the markets in Eastern Europe. Even though several smaller markets are experiencing steadily increasing support for renewables, it has not been enough to compensate for the shortfall in activity that is affecting markets such as Poland, Romania, and Ukraine.

### Africa and the Middle East

Africa and the Middle East continue to offer growth potential, although from a low base. In 2017, annual installed capacity is expected to have reached 1.2 GW<sup>7)</sup>, which is a significant increase compared to 500 MW in 2016.

7) Source: Bloomberg New Energy Finance: Q4 2017 Market Outlook. December 2017.

8) Source: Deutsche Windguard: Status Des Windenergieausbaus an Land in Deutschland. January 2018.

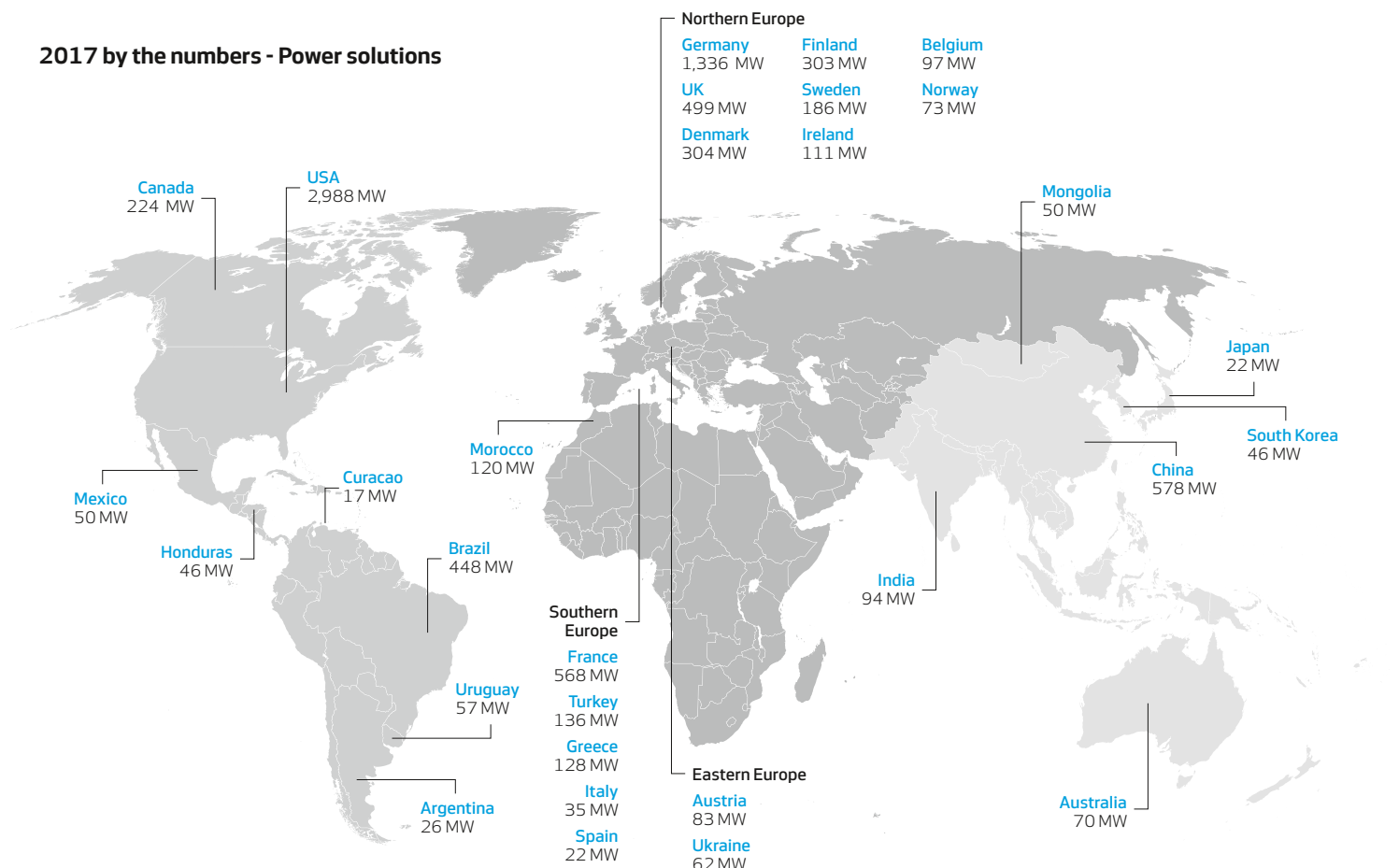
9) Source: Bundesnetzagentur: Beendete Ausschreibungen. Article on [www.bundesnetzagentur.de](http://www.bundesnetzagentur.de).

10) Source: Bundesministerium der Justiz und für Verbraucherschutz: Gesetz für den Ausbau erneuerbarer Energien (Erneuerbare-Energien-Gesetz - EEG 2017). 2017.

11) Source: Commission de régulation de l'énergie: Cahier des charges de l'appel d'offres portant sur la réalisation et l'exploitation d'installations de production d'électricité à partir d'énergies renouvelables en autoconsommation.

12) Source: MAKE Consulting: Much-Anticipated Wind Power tender in Russia brings strategic prospects for local manufacturing. June 2017.

## 2017 by the numbers - Power solutions



### 2017 deliveries worldwide

- Europe, Middle East, and Africa – total: 4,063 MW
- Americas – total: 3,856 MW
- Asia Pacific – total: 860 MW

	Americas	Europe, Middle East, and Africa	Asia Pacific
Order intake, firm and unconditional orders	5,006 MW	4,476 MW	1,694 MW
Produced and shipped wind turbines	5,479 MW	4,135 MW	1,623 MW
Under completion, 31 December 2017	2,509 MW	1,279 MW	913 MW
Order backlog - wind turbines	4,504 MW	5,237 MW	1,751 MW
Largest wind site completed (take-over completed)	400 MW	110 MW	126 MW
In total, 8,779 MW delivered to customers in	8 countries	16 countries	6 countries



The region is characterised by good wind resources and high GDP growth and holds an enormous potential for renewables due to the historically untapped nature of these markets.

Vestas has now installed all wind turbines for the Lake Turkana wind power project in Kenya. Once connected to the grid, the project will cover approx. 15 percent of Kenya's total electricity consumption.

## Americas North America

After a busy year-end in 2016 in the USA with customers qualifying their projects for the maximum Production Tax Credit (PTC), 2017 was the first year in a four-year construction window where these projects could materialise. As a consequence, 2017 is expected to be the softest of the four years towards 2020 in terms of installations. The installed capacity in 2017 in the USA amounted to 7 GW.<sup>13)</sup> Among this, Vestas delivered 2,988 MW, maintaining its leadership position in the US market.

In December 2017, the USA reached an agreement on a tax bill. The final version of the tax bill preserves the original terms of the bipartisan PATH act, and leaves in place the phase-down schedule and value of the PTC. While the full impacts of the tax bill will take some time to understand, Vestas believes the bill will enable the further growth of the US wind energy industry.

In 2017, Vestas secured orders of more than 3,500 MW in North America, where component orders that enable future project pipeline in the USA constituted 266 MW – most of which is expected to materialise in 2021.

## Latin America

Following the introduction of auctions in several countries, the potential for the Latin American markets remains strong. The demand for energy security and a diversity of supply has been driving the transition towards auctions. Countries such as Mexico and Argentina carried out their first power auctions in 2016, and a substantial part of the new electricity contracts were allocated to wind power. Vestas was very active with its customers in these auctions. With more than 1.3 GW of orders in 2017 from these two markets alone, Vestas showcased its reignited efforts in Latin America in accordance with its local strategic plan.

Brazil continued to drive installations in Latin America, albeit at a lower level compared to the previous years. After a last-minute cancellation of the auction in 2016, the announced auctions in 2017 were much anticipated.

Vestas delivered 644 MW to the markets in Latin America in 2017, compared to 873 MW in 2016.

## Asia Pacific

Asia Pacific is expected to see an overall decline in market installations in 2017 compared to 2016.<sup>14)</sup> An expected increased activity in the rest of Asia will not compensate for the normalising Chinese market and the decline in India.

The Chinese market remained the largest global wind energy market in 2017, but annual installations declined in 2017 to 15 GW from 22 GW in 2016.<sup>15)</sup> This development is partly a consequence of a gradual reduction of the feed-in tariff scheme started in 2016, and partly a result of grid curtailment issues being addressed by the Chinese authorities.

China is expected to continue as the largest market for onshore wind power. To strengthen Vestas' market position in the Chinese market, the

Asia Pacific sales organisation was reorganised into two independent sales organisations, with one focusing solely on China, and one with a continued strong focus on the remaining Asia Pacific markets.

In 2017, Vestas secured orders of 700 MW in China, compared to 490 MW in 2016. Thus, Vestas continues to show commitment to the Chinese market, and remains confident to grow its position in the market.

India's energy sector continues its transformation towards greater deployment of renewable energy, and remains committed to its ambitious target of 60 GW by 2022.<sup>16)</sup> During 2017, India introduced auctions for wind power, held on federal and state level. 2 GW of capacity was auctioned. However, there were some delays in the execution of the auctioned volume, leading to a slowdown in installations. The Indian authorities have announced a plan for annual wind energy tendering of 10 GW for the next two financial years, 2018 and 2019, respectively, in order to reach its renewable energy targets.<sup>17)</sup>

Highlighted by the inauguration of the blade factory in 2017, the Indian market is a strategic focus market for Vestas. In 2017, Vestas also showcased its expanded capabilities with 350 MW of turnkey projects in the country and with more than 600 MW of additional orders announced, 2017 was a good year for Vestas in India.

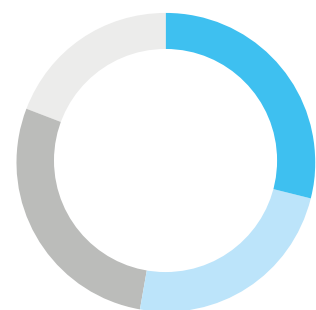
The rest of the Asia Pacific holds a promising long-term outlook. An increasing demand for energy and renewable targets in place in most countries is expected to ensure a solid future in the broader Asia Pacific region.

## Customer relations

Vestas has broad access to all relevant segments and markets and serves, directly or indirectly, a broad base of customers, including utilities, developers, independent power producers, pension funds, large corporations, and others.

### Customer segmentation based on order intake 2017

Percent



**29%**

Representing 29 percent of Vestas' customers, developers constitute Vestas' largest customer group, based on orders placed in 2017.

■ Developers (29%) ■ Other (28%)  
■ IPP\*s\* (24%) ■ Utilities (19%)

\* IPPs (Independent Power Producers) include community wind power plant customers.

A crucial part of Vestas' strategy process is obtaining customer insights and evaluation of the company. Vestas carries out a customer satisfaction survey each year to understand customers' priorities, focus areas, their view on future trends and how they evaluate Vestas' competitiveness. The results are used to develop and validate Vestas' strategic priorities.

13) Source: American Wind Energy Association: US Wind Industry Fourth Quarter 2017 Market Report. January 2018.

14) Source: MAKE Consulting: Installed base database. November 2017.

15) Source: Bloomberg New Energy Finance: China's Wind, Solar Curtailment Improved in 2017. January 2018.

16) Source: International Energy Agency: World Energy Outlook 2017. November 2017.

17) Source: Recharge: India signals 6.5 GW wind power auction spree in early 2018 (article). 28 December 2017.

The 2017 customer survey was carried out in November, and included 820 respondents in 63 countries, representing more than 66 percent of Vestas' customers.

For the power solutions area, customers were asked to give feedback on what they find important when choosing a wind turbine supplier in an auction environment, and what they expect from digital services. The responses will be used to drive discussions regarding Vestas' strategic priorities.

The survey results also showed that Vestas' customers consider the company to be competitive in the current environment and the majority of the customers believe that Vestas will continue to be competitive in the future.

### Technology for the future

Lowering the cost of energy remains Vestas' single most important technology objective and is the driving force for its product development and technology roadmap.

With the largest research and development investments in the industry, Vestas' ambition is to remain the technology leader in the industry and reduce levelised cost of energy faster than market average.

To further strengthen research and development capabilities, in 2017, Vestas established a new engineering design centre in Porto, Portugal, which supplements sites in the UK, Germany, India, and Denmark. A dedicated workforce of Vestas employees work at these centres with the development of new technology. Combined with an extensive test setup, this enables Vestas to continuously reduce levelised cost of energy and time to market for new products and solutions while keeping the reliability of Vestas' products at an industry-leading level.

Vestas' technology roadmap ensures that it can respond effectively to market requirements. The modularised and configurable product program, based on standard building blocks, provides a flexible portfolio of products. This enables Vestas to offer customers tailored solutions to match project-specific requirements and wind conditions, while maintaining the benefits of scale to drive out cost of the products.

The full value chain perspective to product development also includes a continued focus on standardisation to reduce complexities across the value chain. Using fewer and standardised components and systems enables Vestas to lower the cost associated with sourcing, manufacturing, and service, leveraging Vestas' scale and global footprint.

This approach has allowed Vestas to expand the number of product variants considerably in past years, while reducing the number of components used across the product portfolio. It also supports the use of standardised transport, installation and maintenance solutions, and allows for a greater level of vertical integration and localisation to match growing demands for local content.

### Expanding wind turbine platforms

In 2017, Vestas continued the development of its two commercially successful platforms.

#### 4 MW platform

In June, Vestas upgraded the 3 MW platform to 4 MW with the introduction of three new variants, including the V150-4.2 MW™, Vestas' largest onshore wind turbine. The upgrade strengthens performance by double-digit gains in annual energy output across low, medium, and high wind conditions.

The 4 MW platform now includes eight product variants, constituting the most comprehensive span of products in the market, ranging from typhoon to ultra-low wind condition, improving the platform's versatility and customisation to match an even broader range of sites. Combined with previous evolutionary upgrades, the platform, first launched in 2010, has seen up to 56 percent increase in annual energy production, depending on wind class.<sup>18)</sup>

18) Comparison based on V112-3.0 MW™ vs. V150-4.2 MW™.

#### 2 MW platform

Vestas also carried out the fifth major upgrade to the 2 MW platform since its first introduction in 2000 with two new turbine variants, V116-2.0 MW™ and V120-2.0 MW™. The new wind turbines expand the 2 MW platform to five rotor sizes and strengthens performance in medium, low, and ultra-low wind. Evolutionary upgrades to the platform have now yielded up to 40 percent increase in annual energy production while staying true to the original platform design parameters. In 2017, 17 years after its introduction, the 2 MW platform reached a significant milestone with the cumulative installation of 20,000 wind turbines, equalling 38 GW, under the platform. The wind turbines have been installed across 45 countries on six continents.

Building on established platforms means continued leveraging of the existing well-established global supply base and optimised transportation solutions to reduce project risk and reduce cost of energy.

#### Expanding the applicability of wind

Vestas develops and offers a range of options that can be added to wind power plants to suit a project's specific needs, enhance performance, or open up new sites to wind power. This includes Vestas IntelliLight®, a new version of which was launched in 2017. The aircraft detection system ensures that aviation lights are only activated when required, avoiding unnecessary continuous lighting. The new version

### Vestas' wind turbine portfolio – a product for every site

	IEC III (6.0 – 7.5 m/s)	IEC II (7.5 – 8.5 m/s)	IEC I (8.5 – 10.0 m/s)	Above 10.0 m/s
<b>2 MW PLATFORM*</b>				
V120-2.2 MW™ IEC III B/IEC S	■	■	■	■
V116-2.1 MW™ IEC IIB	■	■	■	■
V110-2.0 MW™ IEC III A/IEC S Power Optimised Mode up to 2.2 MW	■	■	■	■
V100-2.0 MW™ IEC IIB/IEC S Power Optimised Mode up to 2.2 MW	■	■	■	■
V90-2.0 MW™ IEC IIA/IEC S** Power Optimised Mode up to 2.2 MW	■	■	■	■
<b>4 MW PLATFORM*</b>				
V150-4.0/4.2 MW™ IEC III B/IEC S Power Optimised Mode up to 4.2 MW	■	■	■	■
V136-4.0/4.2 MW™ IEC IIB/IEC S Power Optimised Mode up to 4.2 MW	■	■	■	■
V136-3.45 MW™ IEC IIB/IEC III A Power Optimised Mode up to 3.6 MW	■	■	■	■
V126-3.45 MW™ IEC IIA/IIB Power Optimised Mode up to 3.6 MW	■	■	■	■
V117-4.0/4.2 MW™ IEC IB/IEC IIA/IEC T Power Optimised Mode up to 4.2 MW	■	■	■	■
V117-3.45 MW™ IEC IB/IEC IIA Power Optimised Mode up to 3.6 MW	■	■	■	■
V112-3.45 MW™ IEC IA Power Optimised Mode up to 3.6 MW	■	■	■	■
V105-3.45 MW™ IEC IA Power Optimised Mode up to 3.6 MW	■	■	■	■

Wind classes - IEC ■ Standard IEC conditions ■ Site dependent

\* Wind turbine application is flexible depending on site specific conditions. All wind turbines can be deployed on sites with lower wind speeds than indicated.

\*\* V90-2.0 MW™ applicable in average wind speeds up to 9.5 m/s.

of the system expands the applicability to new markets and to non-Vestas wind turbines.

### Exploring new technologies

Vestas is committed to remaining the technology leader in the wind power industry in the mid and long term and manages a broad and strong portfolio of potential new technical solutions to be applied to future products.

One example is the cable-stayed tower, a technology that explores a different approach to increasing annual energy production and lowering the cost of energy. A demonstrator project was installed in 2017 at the test centre for large wind turbines at Østerild, Denmark, to assess the technical and commercial feasibility of the concept. Challenging the conventional scaling rules, the technology allows for higher hub heights while maintaining a low tower diameter, resulting in less material use and easier transportation.

Vestas' continued efforts to innovate and explore new technologies also include a strong strategic focus on building partnerships with external technology and innovation partners such as suppliers, customers, research institutes, universities as well as adjacent industries. These partnerships provide Vestas with insights and access to new innovations that support Vestas' technology leadership.

### Hybrid energy solutions

While wind energy is the core of its offerings, Vestas sees a growing potential for technology that efficiently manages wind in combination with other energy sources. Hybrid solutions address the significant challenge of integrating more renewable energy into grid systems, allowing for a greater uptake of renewable energy. Exploring the opportunities in hybrid power plants is in line with the updated vision: To be the global leader in sustainable energy solutions, see Corporate strategy, page O10.

Combining and managing wind, solar, and storage in one system can contribute to lowering the levelised cost of energy, facilitate market entrance, and enable transition to a more sustainable energy mix. Vestas has well-established competencies within system controls and grid integration to be applied in this field, and has since 2012 participated in a number of pilot projects installed in Denmark, Spain, and Greece.

In 2017, Vestas announced a partnership with Windlab Limited to establish Kennedy Energy Park phase 1 in Australia, which will be the world's first utility-scale, on-grid wind, solar, and battery energy storage project. The innovative 60 MW project will help shape a path forward for how countries can integrate more renewable energy into the energy mix and address grid stability challenges.

Through this and a number of pilot projects, Vestas aims to gain additional knowledge and experience and identify opportunities for commercial products and services in the area.

### Intellectual Property Rights

Vestas believes that Intellectual Property (IP) assets are important and valuable assets in the area of renewable energy. Vestas' IP strategy is based on two main principles; freedom to operate in existing and future markets and protection of the company's IP assets. The IP strategy is reflected throughout the Vestas value chain, including when Vestas engages in collaborations and partnerships.

Vestas continues to file a high number of patents and has systems and policies in place to protect Vestas' IP assets, including know-how and trade secrets. This approach safeguards Vestas' technology and operations, thereby safeguarding the company's investment in research and development.

### A scalable manufacturing setup

In a volatile market environment, any organisation must be able to quickly adjust to changes in demand. Vestas utilises its global reach to generate economies of scale on new projects and to continuously optimise its manufacturing, transportation, and sourcing costs. The manufacturing setup of Vestas is lean and scalable – guaranteeing

delivery of high quality products to Vestas' customers. This is ensured by manufacturing of core components in-house and acquiring non-core components from carefully chosen sub-suppliers.

To ensure an optimised and competitive manufacturing and sourcing setup, it is vital that Vestas manages its suppliers at a global level. Vestas has secured a strong supplier portfolio by continuing its extensive global supplier selection process in 2017. Vestas aims to increase its competitiveness and flexibility by optimising production and outsourcing manufacturing where relevant. This was supported by entering several new agreements in 2017 in every region.

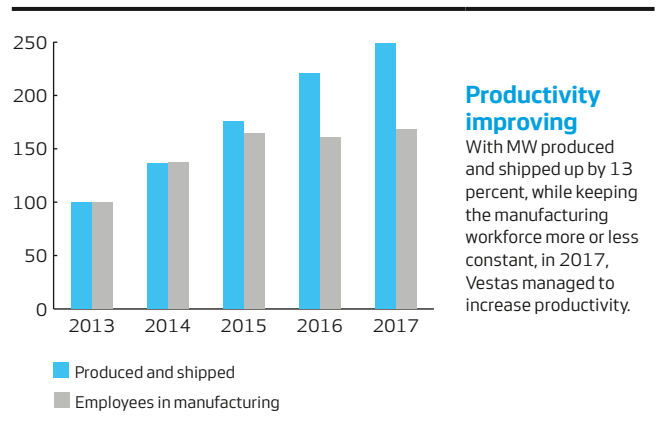
### The year 2017 – continued ramp-up across global footprint

2017 was another busy year at Vestas' production facilities. Work continues in close collaboration with R&D to phase-in the various new subsystems for the 2 MW and 4 MW platforms at Vestas' factories. In 2017, production of the 4 MW platform was introduced at Vestas' manufacturing complex in China to further support activities in the region. Furthermore, production of the V136 blade was implemented at Vestas' blade manufacturing facility in Germany.

Warranty consumption was EUR 143m in 2017, compared to EUR 90m the year before. The Lost Production Factor remains at a low level of under 2 percent. Both indicators demonstrate Vestas' high-quality levels and that Vestas has maintained a well-functioning operation throughout changes in its production and operations setup.

### Productivity per employee

Index



More than 9,500 passionate and dedicated employees are building high-quality wind turbines at Vestas' factories globally. While continuously working to optimise the production and supply chain for the benefit of Vestas' customers, the focus on ensuring high safety and quality standards remains. The company constantly looks for new areas to improve safety behaviour, with the ultimate goal being a zero-injury culture.

Vestas' main safety-related key performance indicator "Incidence of total recordable injuries per one million working hours" was 5.3 in 2017, the full-year target for the year being max. 6.0. The injury rate has decreased by 46 percent in the last five years, see Social and environmental performance, page O36.

### Strengthening global footprint and competitiveness

In March 2017, Vestas opened a new blade factory in India, the establishment of which supports Vestas' commitment to the Indian market. While supplying blades to the local market, the factory will be utilised for export purposes as well. In addition, Vestas continues to strengthen its collaboration with external manufacturers to ensure a flexible supply chain, which is key to ensure a competitive footprint.

In April, Vestas entered an agreement with TPI Composites to start sourcing of blades in Mexico, adding to the already established third-party blades sourcing in China, Turkey, and Brazil.

In late 2017, Vestas made agreements with partners to build a manufacturing supply chain in Russia. Together with local partners, Vestas will set up a blade factory in the region of Ulyanovsk, providing local jobs and a strong manufacturing footprint for the new emerging Russian wind power market. In addition, a nacelle assembly factory and a tower factory will be established by Vestas suppliers.

Vestas continues to form close strategic partnerships with large suppliers and involve these in the development of products and processes, as the suppliers often possess many years of knowledge and experience that can be utilised for the benefit of both parties.

In support of the corporate strategy and vision, cost savings, and achieving cost leadership within the wind power industry, remain a priority for the company. During 2017, Vestas took a great step forward with cost-out programmes in all markets, making its cost setup even more competitive.

Competition remains high in all markets, so further progress on the cost-out journey will have to continue in coming years.

Vestas continues to work on improving all parameters in the net working capital, which will remain an important focus area.



Vestas has manufacturing facilities in the USA, Brazil, Spain, Italy, Germany, Denmark, India, and China.

A look inside the hub of a V126-3,34 MW™ turbine on a site in Germany, where a Vestas service engineer is checking the hydraulic pitch manifolds.



## Activities in the **Service** area

In 2017, Vestas' service business continued to grow its activities with an increased profitability. In the year, revenue for the service segment reached EUR 1,522m with an EBIT margin of 20.1 percent.

Vestas' reputation as a trusted service partner for customers was confirmed by 2017's order intake. At the end of 2017, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 12.1bn, an increase of EUR 1.4bn compared to 2016. At the end of the year, Vestas had a total of 76 GW under service across 64 countries.

Vestas wants to remain the global leader in the wind power service market, and one of the most important ways of continuing to hold that position is through innovations and new solutions. For example, the service contract signed with Infigen Energy in June 2017 demonstrates Vestas' competencies in servicing the customer's multibrand fleets. Multibrand service is a promising market segment where Vestas will place more focus in the coming years.

An area to be further explored as well is servicing of hybrid power plants, as the Kennedy I energy power plant in Australia, for which Vestas signed a contract in October 2017.

The quality of Vestas' operations and maintenance was once again cemented with a Lost Production Factor below 2.0 percent measured across more than 23,100 wind turbines with performance guarantee.

As pointed out in Vestas' corporate strategy, service growth is key as it provides a predictable and profitable supplement to Vestas' Power solutions business. In an increasingly competitive environment, Vestas must deliver services at the lowest cost and differentiate by delivering more value to its customers than its peers.

Vestas' remains committed to its financial ambition and aims to grow the service business by more than 50 percent organically towards 2020 versus 2016 revenue, while at the same time delivering best-in-class margins.

## Financial performance

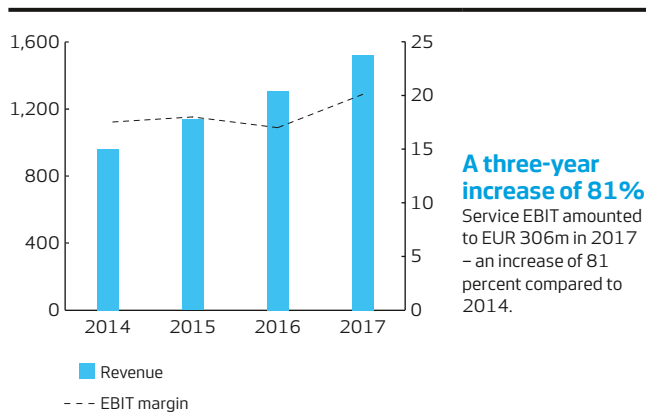
### Result for the period

The service market continues to grow and 2017 was an exciting period for Vestas. The service business generated revenue of EUR 1,522m in 2017, which equals a year-on-year growth rate of 16 percent. The increase in service revenue was mainly driven by increased activity, leveraging from organic growth.

Importantly, the profitability of the service business improved in 2017 with an EBIT margin of 20.1 percent, compared to an EBIT margin of 17.2 percent in 2016; and increase of 2.9 percentage points. A successful integration of the two independent service providers Availon Holding GmbH and UpWind Solutions, Inc. partly explains the solid development in profitability. A reliable performance of the wind turbines under service contracts in combination with an efficient cost management also contributed to the good margin performance for the service operation.

### Revenue and EBIT for Service

mEUR · Percent



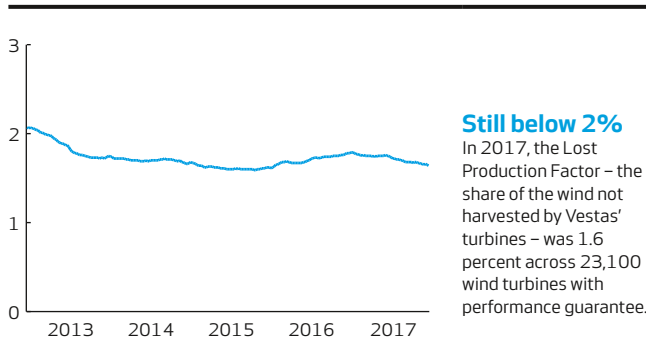
### Level of activity

The wind turbine service market is growing faster than the market for installation of wind turbines, and is becoming more and more important to Vestas.

Vestas' service business is expanding, with a base of almost 39,000 wind turbines under service in 64 countries by the end of 2017. Therefore, the activity level has been high.

### Lost Production Factor

Percent



Vestas' very low Lost Production Factor below 2.0 percent measured across more than 23,100 wind turbines with performance guarantees, combined with the growing scale of Vestas' service business, enables Vestas to offer attractive service solutions to its customers.

### Order backlog

At the end of 2017, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 12.1bn, an increase of EUR 1.4bn compared to 2016. At the end of the year, the average duration in the service order backlog was approx. seven years, an increase from last year.

### Global trends in the wind power service market

The global wind power service market is underpinned by a strong growth in the installed fleet of wind turbines. In 2017, the cumulative installed capacity grew by 10 percent compared to the year before, surpassing a notable milestone – 500 GW of installed capacity.<sup>1)</sup>

The service market is a vital part of the wind power industry and it is expected to offer stronger growth relative to the market for new wind turbine installations. The latest market reports indicate that the service market is expected to grow by 8-9 percent annually over the next eight years.<sup>2)</sup>

Auctions and forward-selling create new dynamics for the service business. Vestas is adapting to an environment where the ability to forecast future trends and make decisions today is critical. Making the right projections requires gathering a wide variety of information and insights. In order to inform accurate decisions, Vestas utilises its unmatched data processing and analytics capabilities. This allows Vestas' service offerings to become a value enabler when acting in a market with more auctions and competitive tenders.

### Vestas' market development in 2017

Vestas' accumulated onshore installations now comprise 88 GW. This provides a unique platform from which to grow. Wind turbines sold with a warranty are always sold with a service agreement as well, and the service business is thus set to continue its positive development.

For Vestas, the service market is becoming more and more important as customers shift their focus from capital expenditures to total cost of ownership. Vestas' strategy within service remains largely unchanged with focus on capturing scale, improving efficiency, and building the multibrand and data business, supported by strengthening of the sales organisation.

Leveraging Vestas' data processing and analytics expertise to strengthen its digital capabilities will be key within service, as it can drive large value shifts for the asset owners, e.g. through lower operation and maintenance costs and better asset performance visibility.

One effect of a maturing wind power industry is that customers have multiple brands of wind turbines in their fleet. In the pursuit of becoming a fleetwide lifetime service partner, Vestas has consequently taken on the task of servicing non-Vestas assets.

By growing services on third-party wind turbines along with keeping renewal rates at a steady high level, Vestas aims to increase the share of installed capacity that Vestas services. Based on estimates for the total onshore installations at the end of 2017, Vestas services approx. 15 pct. of the global capacity.<sup>3)</sup>

### Financial ambitions

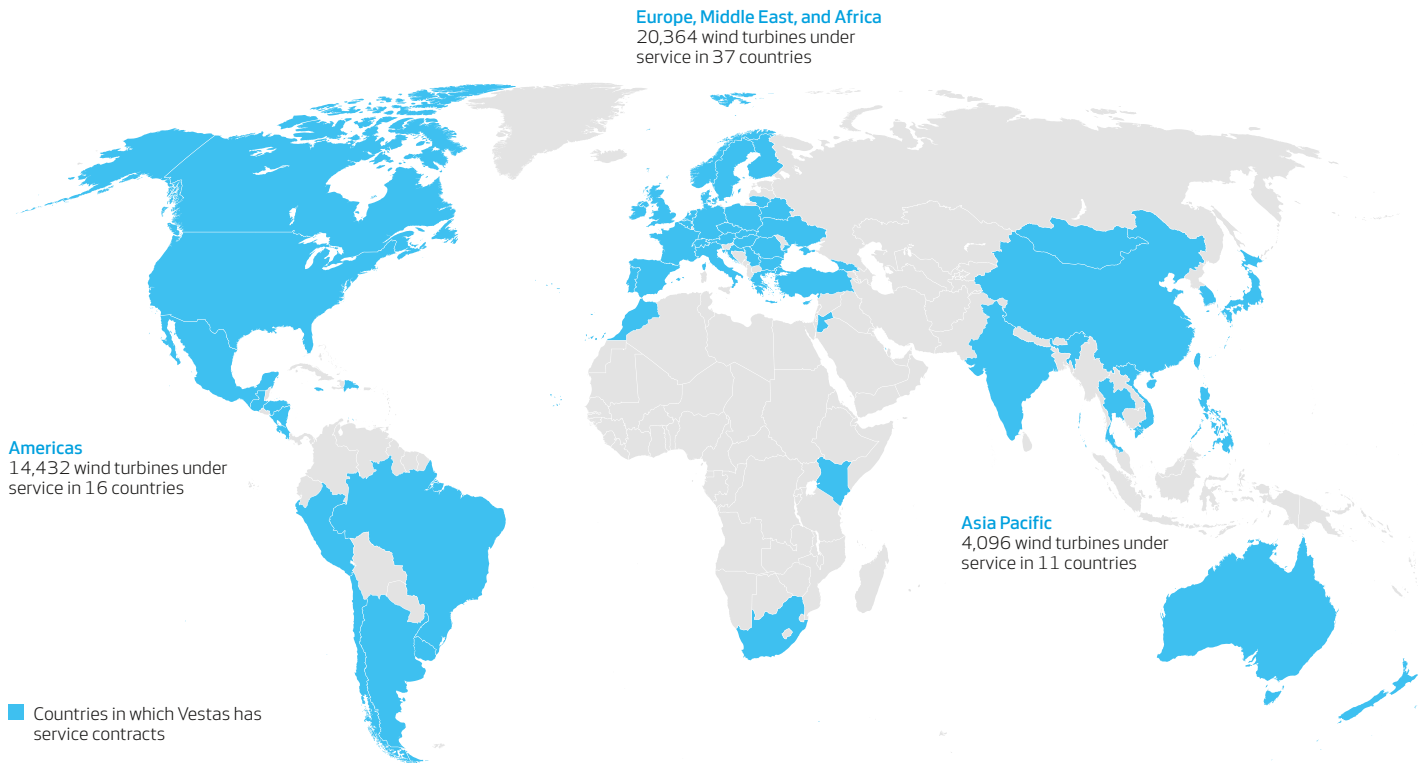
The service strategy is being executed according to plan and through Vestas' multitude of offerings available and increased ability to provide fleet-wide services, the business outlook is continued growth with stable margins. Vestas' financial ambition for service remains intact: to grow the service business by more than 50 percent organically towards

1) Source: MAKE Consulting: Installed base database. November 2017.

2) Source: MAKE Consulting: Global Wind Turbine O&M. December 2017.

3) Calculation based on estimated annual installations in 2017 from Bloomberg New Energy Finance: Q4 2017 Market Outlook. December 2017, added to the installed base end 2016, see Global Wind Energy Council: Global Wind Statistics 2016. February 2017.

## 2017 by the numbers - Service



Revenue	EUR 1,522m
EBIT margin	20.1%
Number of MW under service by end of year	75,843 MW
Number of wind turbines under 24-hour surveillance	35,927
An order backlog with expected contractual revenue of	EUR 12.1bn
Largest wind power plant under full-scope service contract	400 MW
Number of countries where Vestas provides service	64 countries

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

## Developments in the service business during the year Vestas' four-leg service portfolio

Vestas offers its customers service solutions covering all areas of the wind power service business: maintenance partnering, parts & repair offerings, fleet optimisation solutions, and data & consultancy services.

### Maintenance partnering

At the core of Vestas' service portfolio is the maintenance partnering, based on the Active Output Management (AOM) service concept. Through long-term partnerships, Vestas helps its customers capture the maximum available wind to ensure the highest energy output at the lowest cost, benefitting from Vestas' scale and cost-effective global supply-chain.

### Service agreements signed with new wind turbine orders\*

Percent (of MW service order intake)

Type of contract	2017	2016
AOM 2000	1.3	2.7
AOM 3000	3.4	4.2
AOM 4000	33.7	47.0
AOM 5000	61.6	46.1

\*AOM 1000 not included as it conceptually registers as pay-as-you-go services on demand.

The average length of Vestas' service agreements is still showing an upward trend, reflecting the trust that asset managers put in the company's ability to provide a reliable and predictable return on investment. Of new service contracts sold with wind turbine orders in 2017, the predominant part – 95 percent – was either AOM 4000 or AOM 5000, the most extensive service packages where Vestas gives a performance guarantee. Many of the service partnerships are long-term, sometimes with a duration of 20 years or more.

### Parts & repair offerings

Supplementary to the operation and maintenance services, Vestas offers an extensive range of parts & repair services. This includes up-tower repairs of major components, advanced inspection programmes, and an eCommerce platform for wind turbine spare parts. By the end of 2017, this digital platform, called Shop Vestas, includes more than 22,000 spare parts, making it the world's largest wind turbine spare parts shop.

In addition, Vestas now offers a Parts Loyalty Program, which rewards customers that wish to have a close partnership with Vestas.

### Fleet optimisation

Upgrading existing wind turbines with the latest advancements within wind technology can boost the business case of a wind power plant. Vestas has many years of expertise within fleet optimisation and offers a wide variety of Annual Energy Production (AEP) enhancing upgrades – the PowerPlus™ series.

In 2017, Vestas added several new aftermarket enhancements to its portfolio, including a controller upgrade for the V90-3.0 MW™ turbine. Furthermore, Vestas now offers vortex generators for non-Vestas turbines, which are designed to enable blades to recapture some of the lost aerodynamic ability that has been compromised to meet structural requirements.

### Data & consultancy services

Vestas has a data-driven culture, built off expertise from over 35 years of experience in the wind power industry. By monitoring more than 35,000 wind turbines 24/7 across the globe and having the wind power industry's largest wind data library, Vestas has unparalleled insight into global wind and weather conditions.

## Multibrand – meeting customers' demand for servicing non-Vestas turbines

The typical customer portfolio consists of more than one brand of wind turbines, and hence, to meet customers' demand for a one-stop-shop that provides an umbrella service solution for a mixed fleet, Vestas has in recent years successfully expanded its service business to cover a wide range of non-Vestas wind turbine platforms.

The acquisitions in 2015 and 2016 of UpWind Solutions, Inc. and Availon Holding GmbH, provided an instant lift to scale and capabilities and an even stronger service base in North America and Europe. Today, Vestas is the preferred choice when it comes to servicing multibrand fleets, with non-Vestas wind turbines representing approx. 10 percent of the total MW under service, and Vestas will continue to further develop its competencies in this area.

### Ground-breaking deals in 2017

In 2017, Vestas signed several service deals that serve to underline the service strategy being on track.

In June 2017, Vestas and Infigen Energy signed a fleet-wide long-term service agreement across six sites in Australia for 557 MW of Vestas and Suzlon turbines. With this deal, Vestas will provide service maintenance to Infigen's entire operating fleet until the end of its design life, illustrating the belief among customers in the Vestas multibrand concept.

With the partnership with Windlab Limited in Australia on the 60 MW Kennedy I project in October 2017, Vestas entered a new era. The Kennedy wind park will be the world's first utility-scale energy power plant, combining wind, solar, and storage, and Vestas will not only provide long-term service on the wind turbines, but also scheduled maintenance for the solar panels, battery storage, and electrical systems.

### Service technicians and safety

For the more than 5,500 Vestas service technicians, safety always comes first. Before entering a wind turbine, a Vestas service technician receives basic safety training and hereafter follows a structured induction, ensuring safety and technical competences to service the customer's assets at highest safety and quality standards.

Vestas provides a global management system, documentation and testing to all service solutions provided and all technicians are ensured best practice sharing. Continuous targets are set to drive down the injury rate and improve the quality of Vestas' products and services.

### Customer relations

The customer landscape is changing rapidly, wind assets are changing hands quicker than ever before, and new global and local players are entering the market. New customer segments in the market are emerging and curtailing the predominance of the global utilities. These include large corporations aiming to consume more renewable electricity and global investment funds (primarily funded by pension funds) which see wind energy as a stable investment.

To respond to the changing industry dynamics, Vestas is working intensively on strengthening partnerships with emerging customer segments by implementing a Service Key Account Management structure.

Cases in point would be the strategic partnership, in which Vestas has supported Allianz Capital Partners GmbH in optimising the performance on its existing fleet across Europe, or the partnership Vestas has entered with IKEA, taking over the operation and maintenance responsibility of some of its assets in Sweden to support in reducing complexity in the operation and maintenance setup.

Further, the strategic partnership, announced in May 2017, with Arise Windpower AB, which has chosen to outsource the service on its seven wind power plants in Sweden to Vestas, as well as Infigen Energy's trust in Vestas to handle the operation and maintenance of its entire portfolio, are examples of the results of the intensified work with account management.



The offshore Kentish Flats power plant consists of 30 V90-3.0 MW\* turbines and 15 V112-3.3 MW\* turbines. The purpose of the red marks is to make the blades more visible when the rotor is parked for helihoist operations.



## Activities in the **Offshore wind power** area

2017 was another eventful year for MHI Vestas Offshore Wind A/S. Several milestones were reached as the company continued to secure new orders, expand its manufacturing set-up, and introduce new technology.

The company's financial performance was characterised by increased activity levels, progress on earnings and a strong order backlog. Short-term earnings are still to be impacted by the expected expensive ramp-up and large amortisation of the 8 MW platform.

During the year, MHI Vestas Offshore Wind won more than 700 MW of orders in Germany and confirmed two preferred supplier agreements in the UK. The solid order intake provided conditions for the steady ramp-up of manufacturing, underlined by a new blade painting and logistics facility in the UK and recruitment of more than 400 employees in Denmark.

In 2017, MHI Vestas Offshore Wind successfully installed the first V164-8.0 MW™ turbine, and also updated the 8 MW wind turbine platform, enabling it to reach 9.5 MW at specific site conditions.

The main priorities for MHI Vestas Offshore Wind in 2018 are focus on continued manufacturing ramp-up, project execution, and securing profitability.

## Financial performance and accounting method

Founded in April 2014 as a joint venture between Mitsubishi Heavy Industries, Ltd. and Vestas Wind Systems A/S, MHI Vestas Offshore Wind has equal ownership status between the two parent companies.

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

For Vestas, the investment amounted to a loss of EUR 40m in 2017, compared to a loss of EUR 101m in 2016. The improvement was mainly attributable to Vestas' share of loss in the joint venture on a standalone basis being reduced during 2017, combined with timing difference in elimination of proportional profit on deliveries from the Group to MHI Vestas Offshore Wind.

For further information about the investment in MHI Vestas Offshore Wind, see note 3.4 to the Consolidated financial statements, page 087.

## Global trends in the offshore wind power market

### Positive outlook

Offshore wind power plays an increasingly important role in the overall energy mix. In 2017, annual installed capacity for offshore wind power globally is expected to have reached 3 GW, compared to 2 GW in 2016.<sup>1)</sup> This indicates that offshore wind power is still a fast-growing renewable energy technology.

This trend is expected to continue, and the outlook for the offshore wind power industry remains positive. According to MAKE Consulting, annual global offshore wind power installations are expected to reach 13 GW in 2026, which constitutes a compound annual growth rate of 19 percent from 2016.<sup>1)</sup>

Northern Europe, with Germany and the UK in the lead, continues to be the most mature offshore wind power markets.

In September, the UK held the second round of the Contract for Difference (CfD) auction with more than 3 GW of offshore wind power allocated, with delivery of the projects scheduled to begin in 2021. The third round of the CfD auction is scheduled for 2019, when the unallocated budget from the second round is added to the overall budget for this round.

Germany also completed an auction round during 2017, when 1,490 MW of offshore wind power projects were allocated.<sup>2)</sup> With significant reductions in bid prices, the auction highlighted the increased competitiveness of offshore wind energy.

Looking into other European markets, the Federal Government of Belgium recently announced a strike price of EUR 79 per MWh for its next round of projects.<sup>3)</sup> In the Netherlands, there is currently an open tender for the Zuid Holland projects. The tender process will conclude in early 2018.<sup>3)</sup>

The USA showed commitment to offshore wind power after the Massachusetts Legislature passed a bill mandating that the state's utilities procure 400 MW of offshore wind power in 2017 – as a step to 6.2 GW of installed capacity by 2030. It is expected that the USA will commission its first large-scale offshore wind power plant by 2020.<sup>3)</sup>

While China has already established a market for offshore wind power and has set a 5 GW target by 2020<sup>3)</sup>, other countries in Asia are moving in the same direction as well. Japan, South Korea, and Taiwan are expected to have installed large-scale offshore wind power plants by 2020.<sup>1)</sup>

## Reduction in the cost of offshore wind power as a key driver

2017 was a milestone year for the offshore wind power industry.

In the first round of the German offshore auction, three projects with a total capacity of 1,380 MW were awarded with a zero-subsidy bid, and are hence only reliant on the wholesale power price. The three projects are planned to be commissioned in 2024, subject to a final investment decision in 2021, and demonstrate that the offshore wind power industry has made considerable progress in reducing the levelised cost of energy. More importantly, it also highlights the confidence that the cost of offshore wind power can be lowered even further.

As the offshore industry grows and technology improves, various players turn to offshore as a realistic solution for deploying large-scale wind power plants. This is key in order for the positive outlook for the industry to materialise.

## MHI Vestas Offshore Wind's market development in 2017

During the year, MHI Vestas Offshore Wind announced two firm and unconditional orders; its largest order ever of 450 MW for the Borkum Riffgrund II project in Germany, and a 252 MW order for the Deutsche Bucht project, also in Germany.

Furthermore, the joint venture confirmed that it had been appointed preferred supplier for both the Triton Knoll (860 MW) and Moray Firth (950 MW) projects in the UK.

Compared to the overall order activity in the market, the joint venture is satisfied with the amount of orders received, and finds itself well-positioned as one of the leading offshore players.

MHI Vestas Offshore Wind has been a very active participant in the market, and has generally had a presence in most tenders taking place since its formation.

## Developments in the offshore business during the year

### Further upgrades to the world's most powerful wind turbine

During 2017, MHI Vestas Offshore Wind once again pushed the boundaries of offshore wind power by launching the V164-9.5 MW™ turbine, based on the 8 MW platform originally designed for the V164-8.0 MW™ turbine. The increased rating is a result of great offshore experience and deep understanding of wind turbine technology. It is furthermore an important step in order to continue the reduction of the levelised cost of energy for offshore wind power.

The upgrade increases energy production per wind turbine and will add great value to future offshore projects by reducing the logistical costs, the amount of foundations, and sub-sea electrical cabling needed.

### High activity levels, and still ramping up

As a result of a good order intake and a positive outlook for MHI Vestas Offshore Wind's activity levels, the joint venture is ramping up for future production.

The current manufacturing footprint comprises blade production on the Isle of Wright, UK and at Nakskov, Denmark, an assembly facility at Lindø, Denmark, plus pre-assembly facilities in the port of Esbjerg, Denmark. In addition, as announced in November 2017, the company will establish a blade painting and logistics facility at Fawley in the UK, which is expected to be operational in April 2018.

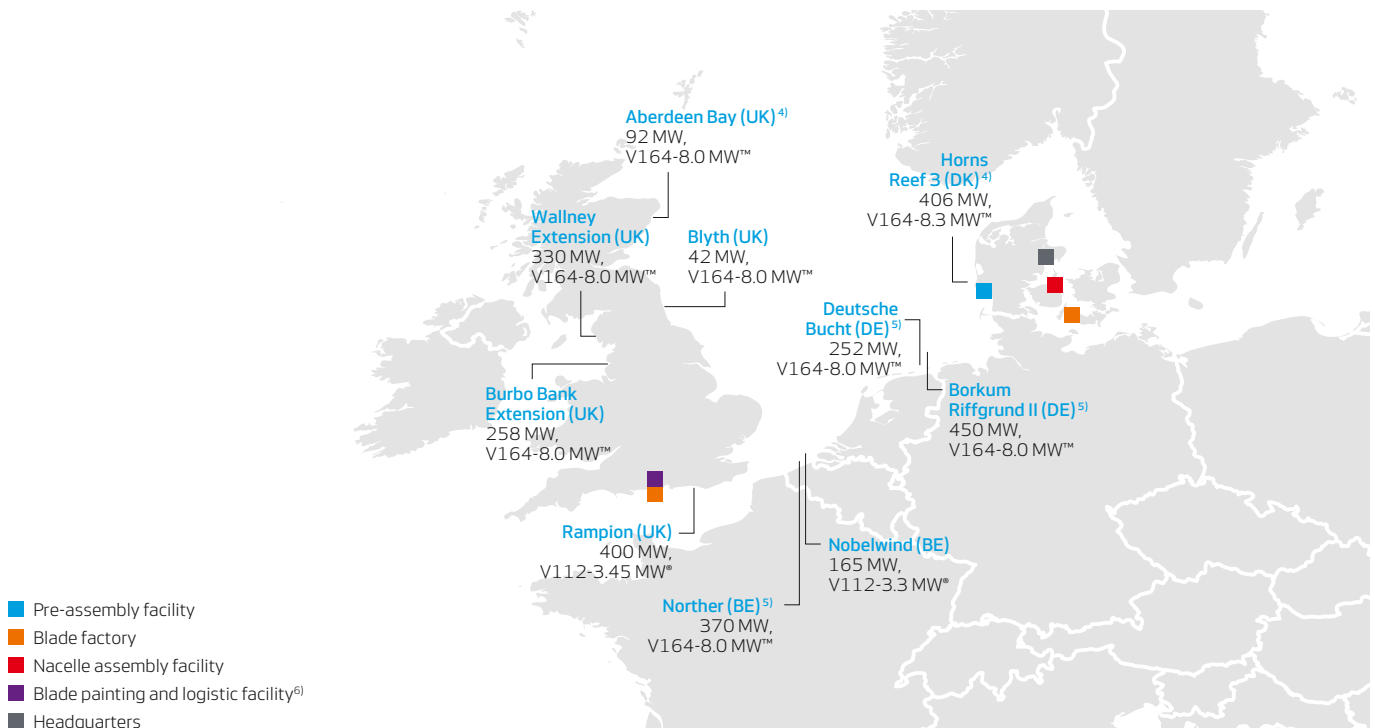
During 2017, a state-of-the-art, 5,600 m<sup>2</sup> Power Converter Modules (PCM) manufacturing facility was inaugurated close to the pre-assembly facility at the port of Esbjerg. The expansion of the manufacturing footprint follows a hiring ramp-up at existing production facilities in Denmark earlier in the year, when more than 400 employees were recruited to the blade factory and nacelle assembly facility in Denmark.

1) Source: MAKE Consulting: Market Outlook Update. November 2017.

2) Source: Bundesnetzagentur (article): Bundesnetzagentur erteilt Zuschläge in der ersten Ausschreibung für Offshore-Windparks. 13 April 2017.

3) Source: Bloomberg New Energy Finance: H2 2017 Offshore Wind Market Outlook. December 2017.

## MHI Vestas Offshore Wind - manufacturing footprint and headquarters, and projects delivered or under construction in 2017



MHI Vestas Offshore Wind completed the installation of 3.45 MW turbines for its largest offshore wind park to date, the 400 MW Rampion project in the Southern UK. Nobelwind in Belgium (165 MW), using the 3.3 MW turbine, was likewise completed during 2017.

In October 2017, MHI Vestas Offshore Wind announced a partnership with Clemson University in South Carolina, USA. The partnership entails all testing and verification of the V164-9.5 MW™ turbine's gearbox and main bearings at Clemson University's 15 MW test bench. Through utilisation of big data from the extensive testing results, the joint venture can ensure optimum reliability and minimise the fatigue on components. The partnership further highlights the confidence in the competitiveness and future position of the V164-9.5 MW<sup>®</sup> turbine in the US market.

### Successful installations of V164-8.0 MW™ turbines

During the year, MHI Vestas Offshore Wind finalised the installation and commissioning of the 258 MW Burbo Bank Extension project – the first large-scale project to use the V164-8 MW™ turbine. Installation has also been finalised for Walney Extension in the UK (330 MW), and Blyth in the UK (42 MW).

### Financial guidance

MHI Vestas Offshore Wind continues to enjoy success in the marketplace and activity levels are expected to continue to increase with factories ramping up for new installations of projects for the 8 MW platform. In the short-term, this will adversely impact earnings. In addition, large amortisations of the 8 MW platform will likewise impact financial performance.

Accordingly, MHI Vestas Offshore Wind expects to double its revenue over a three-year period from a base of its completed financial year 2015/2016, while EBITDA is expected to reach break-even by 2018 and pre-tax profit is anticipated to reach break-even by 2019.

The expected development is in line with previous internal expectations, and the strong financial position secured during the first years of operation is tailored to cope with this expected performance.

4) Expected installation year 2018.

5) Expected installation year 2019.

6) Expected operational in April 2018.



Vestas has a goal of zero injuries and firmly believes that all injuries can be prevented if every hazard is managed and the correct behaviour is in place wherever Vestas employees and contractors are working around the globe.

## Social and environmental performance

Vestas strives for driving social and environmental sustainability in operating the business and its impact on the communities where the company plays a role. This approach strives to achieve the company's mission of benefitting the planet in delivering best-in-class renewable energy solutions for Vestas' customers.

Vestas acknowledges that producing solutions to harness wind energy makes a small negative impact on the environment. Together with its suppliers and customers, Vestas is committed to reducing this impact to the greatest extent possible, and believes that it is a corporate obligation. Minimising Vestas' environmental impacts include those manifested over the operational lifetime of a wind turbine. Progress was made in 2017, with the product carbon footprint target set for 2020 – a reduction of 5 percent versus 2015 – reached three years ahead of schedule, and a target for further reduction by 2020 has been set.

Vestas continues to increase the share of renewable energy consumption and has joined the organisation RE100, underlining the commitment to 100 percent renewable electricity. Since end of 2016, Vestas has increased the share of renewable energy of its total energy consumption from 52 to 57 percent.

Vestas' commitments to sustainability are also reflected in the Code of Conduct and supporting policies on human rights, health, safety and environment. In 2017, the new Code of Conduct was rolled out to employees and business partners.

To support social sustainability, Vestas conducts Social Due Diligence to ensure social risks are mitigated and community development opportunities are identified. Such initiatives are right now ongoing in markets such as India, Mexico, and South Africa.

In 2017, Vestas continued to reduce the number of injuries and managed to stay below the target rate. Despite a continued reduction in injuries, a Vestas employee and a contractor employee suffered fatal injuries. A number of health and safety initiatives were started in 2017, complementing existing initiatives that continue to be rolled out.

## Sustainability in Vestas

Vestas' vision is to be the global leader in sustainable energy solutions. This requires a global approach to sustainability that encapsulates the three core concepts: environmental, social, and economic sustainability. For Vestas, the concept of continuous improvements in these areas forms the baseline for how Vestas works.

In addition to creating sustainable products, Vestas also strives to produce them in a sustainable way. Key to sustainability at Vestas is partnerships with customers, suppliers, and local communities. Vestas believes that in the long term, it is in the best interests of the company, its employees, and its shareholders to be accountable for Vestas' impact on its surroundings: the environment as well as the local, national, and global communities.

### One approach, globally

Vestas' commitment to sustainability goes beyond producing, installing, and servicing wind turbines. The company is a signatory to the international initiatives in the United Nations Global Compact and the World Economic Forum's Partnering Against Corruption Initiative. These public commitments form the foundation of Vestas' global business approach and are expressed in the company's Code of Conduct for employees and business partners.

### UN Sustainable Development Goals

Furthermore, Vestas' approach is informed by the current global agenda: Vestas is committed to supporting the UN Sustainable Development Goals (SDGs). The SDGs are integrated into Vestas' sustainability approach, which allows identifying the goals where the company can add most value.

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

The selected UN Sustainability Goals that will guide Vestas' sustainability approach.



### Global certificates

Supporting its public commitments, Vestas' operations specifically builds on global certificates for these three standards: ISO 9001 for Quality, ISO 14001 for Environment, and OHSAS 18001 for Health and Safety.

In committing to, and implementing, international sustainability initiatives, standards, and goals spanning the sustainability spectrum, Vestas is able to back its intent to power sustainability, both within the organisation and beyond.

### Communication on Progress (COP)

Combined with additional information about Vestas' sustainability initiatives at [vestas.com](http://vestas.com), this annual report constitutes Vestas' 'Communication on Progress' (COP)<sup>1)</sup> under the UN Global Compact. In this way, Vestas applies the option stipulated in section 99a of the Danish Financial Statements Act concerning the statutory duty of large enterprises to report non-financial information by referring to the COP report.

The principal sustainability risks and opportunities related to Vestas' operations are identified as: occupational injuries of employees and contractors; carbon footprint of wind turbines, and impacts on human rights in communities where Vestas operates. Policies and associated due diligence address these risks and opportunities.

### Code of Conduct

Vestas' commitment to social sustainability is also reflected in the way that the company works. The Vestas Employee Code of Conduct and Business Partner Code of Conduct outline the rules and principles by which Vestas expects its employees and business partners to behave. These rules and principles are based on international rules and principles and cover the areas of health and safety, human rights, bribery and corruption, environment, and protection of company assets, information and reputation.<sup>2)</sup>

With the launch of the new Employee and Business Partner Code of Conducts in the fourth quarter of 2016, Vestas has been focused on rolling out the new codes throughout 2017.

Salaried employees were introduced to the Code of Conduct in late 2016, and in 2017, the roll-out continued to include hourly-paid employees, with a focus on increasing awareness of Vestas' global standards. As part of their introduction to the new Employee Code of Conduct, hourly-paid employees were invited to participate in case dilemmas and discuss issues within their teams. All new salaried employees are required to complete the new Employee Code of Conduct e-learning as part of their on-boarding. High-risk employees receive tailored face-to-face training, in conjunction with the business ethics training.

Key suppliers have been introduced to the Business Partner Code of Conduct at supplier days, and it has been implemented in all contracts.

### Business ethics

Vestas' compliance initiatives and processes aim to address the risks arising from changing legal and market conditions. Development of new initiatives as well as modification of existing initiatives works to ensure a risk-based and adequate compliance setup. These initiatives support an ethical behaviour among Vestas' employees and business partners by ensuring that they are familiar with its business ethical standards. Sanction screenings and Integrity Due Diligence continue to be an integrated part of the business.

In 2017, the main activities have been aimed at:

- Increasing transparency through a company-wide web-based Gifts and Business Entertainment Register
- Ensuring risk-based screening and due diligence of business partners
- Ensuring easy access for employees to information about guidelines and contact information online for the areas covered in the Vestas Employee Code of Conduct activities
- Strengthening awareness through mandatory Code of Conduct sign-off (and associated guidelines) for all salaried employees

1) Read more: [www.vestas.com/en/about/sustainability](http://www.vestas.com/en/about/sustainability).

2) The Codes of Conduct can be downloaded from [vestas.com/en/investor/corporate\\_governance#!governanceprinciples](http://vestas.com/en/investor/corporate_governance#!governanceprinciples).

## EthicsLine

Vestas works to ensure that compliance violations are always brought forward and dealt with accordingly. The Employee Code of Conduct makes it mandatory for managers to report compliance violations to EthicsLine and employees are strongly encouraged to report compliance violations to their managers or via EthicsLine.

Vestas continued to raise awareness of EthicsLine in 2017. Vestas' employees, business partners, and stakeholders should always feel empowered to report unethical behaviour – anonymously or openly.

Vestas received a total of 138 cases/reports through EthicsLine in 2017, compared to 111 in 2016.

## EthicsLine cases

Number

	2017	2016
Questions submitted to EthicsLine	14	8
Compliance cases reported	105	87
– hereof substantiated	31	19
– hereof non-substantiated	74	68
Cases under investigation end of year	19	16

The substantiated cases closed in 2017, including cases opened in 2016, have led to various disciplinary actions such as 22 warnings and 14 dismissals.

## Human impact

Vestas considers its employees to be its most important asset. Therefore, health and safety are consistently given highest priority to provide and maintain a safe and secure workplace for all employees. Vestas is strongly committed to human rights and employees' rights, as stated in the International Bill of Human Rights and the eight core conventions of the International Labour Organization.

## Employees

Throughout 2017, Vestas has experienced an increase in activity level within the service area. As a result, Vestas has increased its number of employees with 1,479, compared to 2016.

## Vestas employees as at 31 December 2017

FTE

	Europe, Middle East, and Africa		Asia Pacific	Total
	Americas			
Power solutions	5,699	3,039	3,354	12,092
Service	5,050	2,134	1,268	8,452
Others	1,646	344	769	2,759
<b>Total</b>	<b>12,395</b>	<b>5,517</b>	<b>5,391</b>	<b>23,303</b>

## Employee satisfaction

Each year, Vestas conducts an employee engagement/satisfaction survey to measure how Vestas employees perceive their daily workplace, and subsequently finds areas where Vestas can become an even better place to work. Vestas conducted the annual employee satisfaction survey in September 2017, and the response rate was 95 percent – the same as in 2016, which is a very satisfactory level.

The result of the overall satisfaction and motivation index was 71 in the 2017 survey, compared to 72 in 2016. Although a small decrease on the main satisfaction score, there is an increase in three out of eight drivers, the rest remain the same as in 2016.

The drivers are important in working with how to improve engagement with employees, and the results are used as a guide for follow-up actions.

## Global bonus programme

All employees contribute to the same value creation and provide support to the same customers, regardless of whether they work in a support function or in developing, manufacturing, marketing, selling, installing, or servicing wind turbines. As such, all employees are rewarded when Vestas achieves a set of KPIs, which measure progress on Vestas' strategic goals.

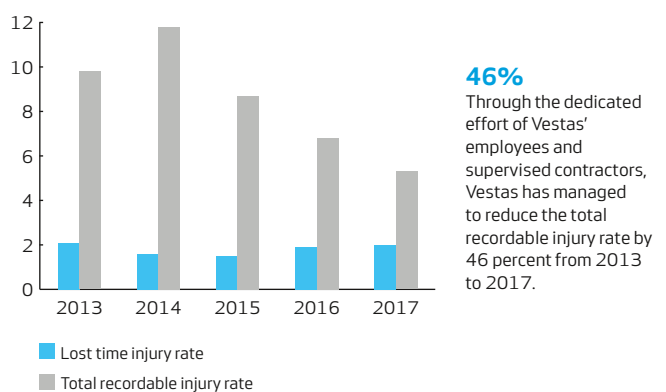
As the targets for bonus pay-out were achieved in 2017, a global bonus of EUR 11.2m will be paid out to all employees (cash effect 2018), compared to EUR 12.0m in 2016 (cash effect 2017).

## Health and safety

In 2017, Vestas reduced the incidence of total recordable injuries per one million working hours to 5.3, compared to 6.9 in 2016, keeping below the target of max. 6.0. A new target of max 4.8 has been set for 2018. For the more narrow category of lost time injuries, the incidence rate was 2.0.

## Incidence of injuries

Per one million working hours



The significant improvement of total recordable injuries in manufacturing is in part attributable to the Vestas Behavioural Change (VBC) programme, which is now firmly implemented in 13 factories, plus at all service sites in New Zealand and Australia. The VBC programme, which is to be rolled out to all Vestas factories and service sites, depending on local safety maturity, is an employee-led observation programme, which identifies safe and at-risk behaviours with the opportunity of immediate remedial action to prevent injuries. The VBC programme also encourages safety dialogues between employees at every level of the organisation.

While the overall incidence rate on injuries was kept at a satisfactory low level, a fatal incident tragically occurred in 2017, when a Vestas service technician fell from the nacelle of a wind turbine. Investigations by the authorities have not yet been concluded, but the incident is nevertheless a reminder of the dangers of working at heights and the importance of following Vestas' safety procedures at all times.

In addition, in March a tragic accident occurred in India at a wind power plant when an employee of a service contractor moved beyond the lockout-tagout electrical isolation boundaries. He received an electric shock and later died of his injuries. The root cause of the incident has been identified and appropriate remedial actions implemented.

## Safety initiatives

With the implementation of safety initiatives, Vestas contributes to SDG No. 8, Decent work and economic growth.

A key behavioural safety training programme has been developed which, when implemented, will support the development and maturity of the Vestas safety culture. The programme, called My Team My Responsibility (MTMR), complements existing Vestas safety tools and will eventually cover all Vestas employees, customised to particular environments and job roles. Vestas' contractors will likewise be introduced to the programme.

MTMR introductory pilots have been successfully conducted in Northern Europe and several factories globally. A full internal MTMR implementation roll-out plan, dependent on the safety maturity of each region, will be identified. MTMR contractor safety workshops have also been held in Europe, China, Australia, India, and the USA. The intention is to carry out workshops on an annual basis.

An occupational health and safety strategy was launched in 2017. The overall ambition of the strategy is to raise the profile of occupational health and establish and implement a baseline standard. The ultimate goal is that when employees leave or retire from Vestas they should be able to reflect on their career and consider that their physical and mental wellbeing has been enhanced due to the conscientious focus Vestas places on occupational health and safety. The first phase of this strategy, which was to conduct a global mapping of occupational health practices, has been completed. A white paper giving guidance to the business will be produced and communicated.

In 2017, absence due to illness increased by 0.1 percentage points for hourly-paid and remained stable for salaried employees compared to 2016.

### Social sustainability

Vestas has actively integrated social sustainability into its business. Building on its established sustainability approach, there is a natural link to the UN Sustainable Development Goals (SDGs). The social sustainability work contributes in particular to SDG No. 4: Quality education, and SDG No. 8: Decent work and economic growth.

Vestas recognises its responsibility to respect human rights as set out in the UN Guiding Principles on Business and Human Rights. This commitment, which includes its expectations for Vestas' business partners, is outlined in the Vestas Human Rights Policy and implemented across the organisation. Vestas' responsibility to respect human rights forms the foundation of the social sustainability approach.

### Social Due Diligence

To support Vestas' emerging markets entry strategy and ensure that Vestas obtains the social license to operate, Vestas has developed a Social Due Diligence (SDD) methodology. The SDD is targeted at ensuring that social risks and impacts are identified, prevented and mitigated in Vestas wind power plant projects.

For projects in scope, Vestas conducts an assessment of the project and the affected local communities. The SDD enables, for example, identification of local community development projects. The clear strategy to work with the SDGs therefore enables prioritisation of which local community development projects to initiate.

Vestas strives to work closely with customers to assist them in securing and maintaining the social license to operate during construction and operation of projects, according to international standards. Vestas' SDD process plays a central role in informing the dialogue with the customer concerning its social license to operate in the particular project. In addition to the ongoing dialogue with relevant stakeholders, the establishment of project-level grievance mechanisms available to workers, affected local communities, and other stakeholders play a vital role. Overall, Vestas' approach contributes to lowering the societal risks associated with a project.

### Local community development

Vestas understands the importance of sustainably investing in local communities. When Vestas enters new markets, builds wind power plants, sets up new factories, or expands its existing presence, the company seeks opportunities to sustainably support the local communities in which Vestas is present, with a long-term mindset.

In order to identify and prioritise opportunities, Vestas primarily focuses on education, training, and job possibilities (SDGs Nos 4 and 8) in the local area. Examples of this work include initiatives in Mexico, India, and South Africa, as described below.

In Tamaulipas, Mexico, Vestas has made an agreement with 16 universities on education and training in the field of wind energy. In cooperation with the state's Ministry of Education, Vestas will be offering the training, including onsite learning, to prepare the local labour market for the future demands in the wind power industry.

In India, Vestas' community development and engagement projects relate to manufacturing facilities and service sites, as well as wind power plants under construction, and education is a major priority area.

One ongoing initiative near Vestas' new blade factory, inaugurated in March 2017, involves training of 200 school teachers in science, math, and environmental issues. Eventually, the aim is to reach around 20,000 primary and high school students in the Indian state of Gujarat.

Similar projects have been initiated in 2017, which will benefit more than 1,700 rural school children near the EPC project site in Karnataka state and 250 school children in two villages near a service site in the Maharashtra state, through technology-aided learning and a safe school campus. The initiatives are planned to continue throughout 2018.

Apart from initiatives focused on education, in India Vestas is also working to improve sanitation in rural communities and will reach out to 2,000 children on sanitation awareness and behavioural change. This project includes the plan to provide around 800 rural households near Vestas' new blade factory with clean water in 2018.

In South Africa, Vestas complies with the Broad-Based Black Economic Empowerment (B-BBEE) legislation via initiatives that are aligned with Vestas' local community development approach and focus on education. Vestas works actively to improve educational outcomes in primary school learners, increasing capacity of teachers and principals of partner schools, and partnering with local organisations to address the contextual issues that hinder educational advancement. These initiatives target primary education as a foundation that enables broad-based economic empowerment.

### Environmental impact

A single Vestas wind turbine:

- will generate around 30 to 50 times<sup>3)</sup> more energy than it uses in its entire lifecycle and
- over its entire lifecycle only emits around 1 percent of carbon dioxide per kWh when compared to a coal power plant.

As the wind power industry is expected to account for a growing share of the future energy mix, it is important that Vestas acknowledges that when producing solutions to harness wind energy, a small negative impact on the environment is made.

Vestas is committed to reducing this impact to the extent possible, together with its suppliers and customers, and believes that it is a prerequisite for Vestas' continued development. Improvement in wind turbine efficiency and reduction in environmental impact both contribute to SDG No. 7, Affordable and clean energy.

3) Return on energy varies, depending on e.g. wind turbine and wind power plant configuration, including factors such as plant siting, site-specific wind conditions (i.e. low, medium, or high IEC wind), blade-swept area, wind turbine generator rating, and wind turbine hub height.

A wind turbine in operation saves CO<sub>2</sub> emissions. The CO<sub>2</sub> savings over the lifetime for the MW produced and shipped in 2017 were 317 million tonnes, an increase of 23 percent compared to 2016, due to a higher amount of MW produced and shipped in 2017.

### Life cycle assessment

In 2017, 99 percent of the MW delivered by Vestas was covered by a publicly available, full ISO 14040/44 Life Cycle Assessment (LCA). The LCA is used to identify and evaluate the environmental impact throughout the lifetime of a wind power plant. Based on the LCA, informed decisions are made to reduce overall environmental impacts.

### Carbon footprint

The target for reduction in product carbon footprint of 5 percent by 2020 – from a baseline of 6.9 grams CO<sub>2</sub> per kWh in 2015 – was met in 2017. Carbon footprint has been reduced by 7.1 percent<sup>4)</sup> on wind turbines on the 4 MW platform. This is primarily due to significantly increased energy production in all wind classes and optimised wind turbine design, leading to lower material requirement per kWh.

A new target has been defined, which is a reduction of carbon footprint by 10 percent by 2020 from a baseline of 6.60 grams CO<sub>2</sub> per kWh in 2017. The carbon footprint performance has been adjusted from the 2015 baseline, which shows a slight increase in the reported CO<sub>2</sub> emissions due to these accounting changes.

### Product waste

Vestas' target for product waste has been met and significantly exceeded, achieving an improvement of 12.5 percent, compared to a target of at least 3 percent versus a 2015 baseline. This is primarily driven by advanced blade design and construction, increasing wind turbine energy production without increasing product waste in all wind classes.

A new target for product waste is adjusted to reflect the same scope as carbon footprint, with a target of 7 percent reductions by 2020 versus a baseline of 0.178 grams waste per kWh in 2017. It should be noted that a calculation correction is made for product waste, where previously the annual energy production (AEP) was calculated for one year rather than the 20-year design life.<sup>5)</sup>

The majority of a Vestas turbine is recyclable. On the road to achieving 100 percent recyclability, the composite materials of the blades comprise the largest component yet to be made recyclable. To address this issue, Vestas continues to work in the DreamWind project (Designing Recyclable Advanced Materials for Wind Energy) that aims at developing new sustainable composite materials for blades.

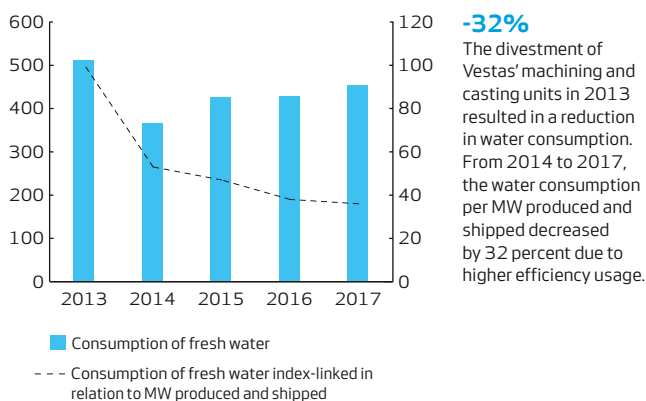
Furthermore, during wind turbine operation and maintenance, Vestas has developed new advanced repair services which include a comprehensive offering of up- and down-tower repair solutions for gearboxes, generators, minor components, and blades. This retains the maximum value of materials from an environmental and circular economic perspective. For example, Vestas' Life Cycle Assessment is used to determine the environmental benefits of repair, which shows up to 90 percent savings in material weight and up to 95 percent saving of carbon footprint for the repaired item.

### Environmental performance

For Vestas' activities in designing, manufacturing, installing, and servicing wind turbines, performance is reported in terms of inputs of resources and outputs of CO<sub>2</sub> emissions and waste. Increased production and service in 2017 compared to 2016 was not to the same degree reflected in the consumption of water and energy and emissions of CO<sub>2</sub> and waste, which increased relatively less than the increased production level due to improved efficiency.

### Consumption of fresh water

1,000 m<sup>3</sup> · Index

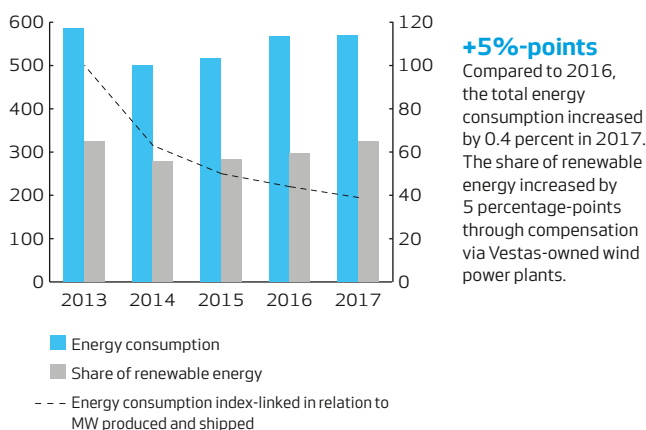


### Resource utilisation

In 2017, Vestas' total energy consumption increased by 0.4 percent. When index-linked to MW produced and shipped, Vestas' energy consumption decreased 11 percent compared to 2016.

### Energy consumption and share of renewable energy

1,000 MWh · Index



The target for Vestas' energy consumption is to reach a 60 percent share of renewable energy in 2020 from 55 percent in 2015. The non-renewable energy is used in equal share in Power solutions and Service. To reach the target, Vestas will improve energy efficiency, gradually transition to renewable energy, and compensate with renewable electricity from Vestas-owned wind power plants. With a combination of these options, the share of renewable energy in Vestas' total energy consumption increased from 52 percent in 2016 to 57 percent in 2017.

Vestas has defined a goal that 100 percent of electricity consumption in Vestas must come from renewable energy sources, subject to availability, which continued to be fulfilled in 2017. This was achieved partly by purchasing renewable electricity where available, and partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants. In 2017, Vestas joined the organisation RE100, whose members commit to 100 percent renewable electricity.

4) Results are based on the ISO LCA reports published in July 2017 for the V112-3.45 MW\* (IEC1a), V126-3.45 MW\* (IEC2a) and V136-3.45 MW\* (IEC3a).

5) AEP was calculated for 1 year rather than over the 20-year lifetime, giving a figure for grams waste per kWh as twenty times higher than should have been for the 2015 baseline.



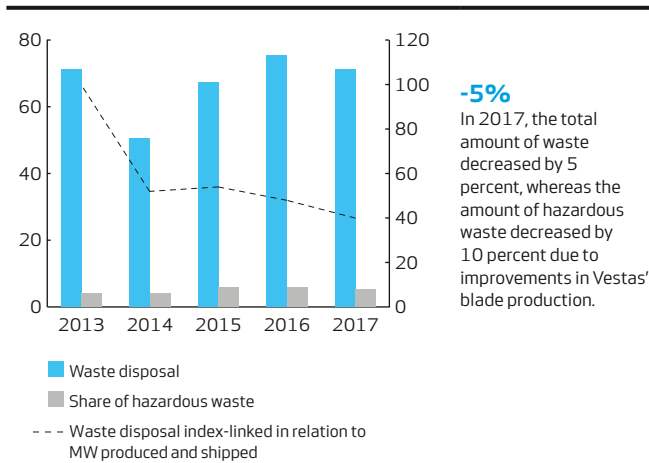
In 2017, water consumption increased by 6 percent compared to 2016, as production has started at the new blade factory in India. When index-linked to MW produced and shipped, water consumption decreased 6 percent compared to 2016.

### Emissions

In 2017, the amount of waste decreased by 5 percent compared to 2016. When index-linked to MW produced and shipped in 2016, Vestas decreased its amount of waste by 16 percent compared to 2017. In 2017, 55 percent of the total volume of waste was recycled. The share of recycled waste increased 6 percentage point compared to the year before due to dedicated efforts at the blade factories in the USA. In 2017, the share of hazardous waste was 5,274 tonnes compared to 5,930 tonnes in 2016.

### Waste disposal and share of hazardous waste

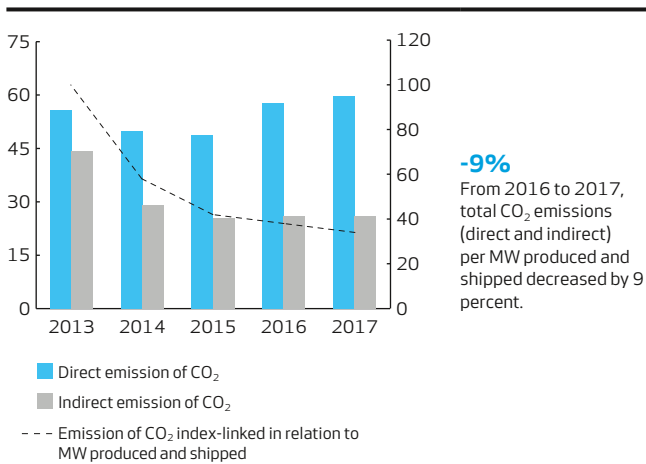
1,000 tonnes · Index



Vestas increased its direct CO<sub>2</sub> emissions by 3 percent in 2017, and the indirect CO<sub>2</sub> emissions remained stable. When index-linked to MW produced and shipped in 2017, Vestas decreased its CO<sub>2</sub> emissions by 9 percent compared to 2016.

### Direct and indirect CO<sub>2</sub> emissions

1,000 tonnes · Index



### Suppliers

Vestas works very closely with suppliers of components and raw materials to improve the sustainability of Vestas' products and operations. The risk management process spreads over the whole product life-cycle, starting from supplier selection. The expected conduct of its suppliers is deployed via the Business Partner Code of Conduct and is an integral part of purchase agreements. Vestas takes action to ensure that suppliers comply with its policies by screening significant suppliers on compliance with the Code of Conduct, environment, health and safety through the standards in a supplier assessment tool.

In 2017, monthly supplier scorecards have officially been rolled out to 129 key suppliers with significant focus on safety and other sustainability aspects. The supplier's scorecard performance is evaluated as part of the monthly performance dialogue meetings with suppliers as well as following up on the agreed development activities.

In 2017, 25 specific third-party Code of Conduct assessments have been executed. Additionally, 186 suppliers were assessed on site by Vestas in all regions. Of these, 116 were approved, 16 were rejected, and 54 are under approval.

### Accounting policies

Accounting policies for health & safety, employees, resource utilisation, waste disposal, CO<sub>2</sub> emissions, local community, and products are available on page 062.



# Enterprise Risk Management

## Enterprise Risk Management at Vestas

Being a multinational company and global leader in sustainable energy solutions, Vestas is exposed to a variety of risks in the daily business.

To create shareholder value and achieve its strategic objectives, Vestas must take risks and at the same time actively ensure that such risks are understood, monitored, and managed to ensure that they do not adversely impact the realisation of Vestas' strategic and financial targets.

In order to support decision making in the Group, Vestas has integrated a group-wide Enterprise Risk Management (ERM) framework. The ERM framework is a structured, consistent, and continuous approach to managing Vestas' risk exposure and covers all types of risks across the entire organisation. ERM is not only about identification, evaluation, and response to the individual risks, but also about communication and providing the necessary foundation for making decisions that are affected by combinations of risks.

### Enterprise Risk Management governance

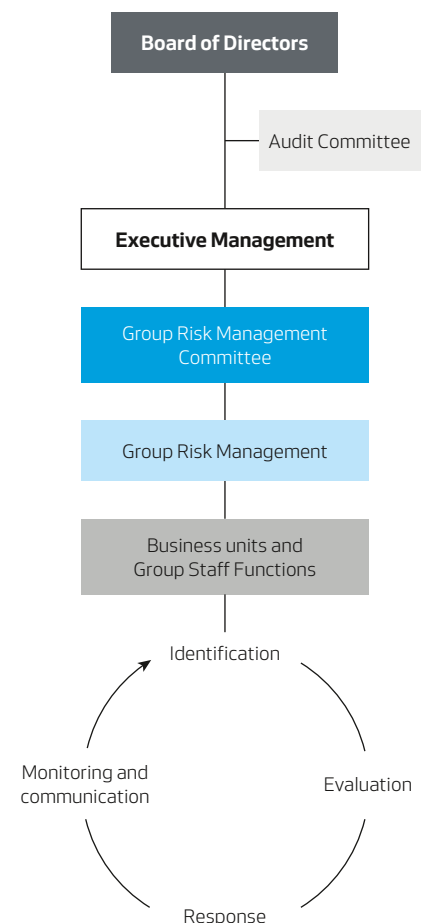
Risk management is the responsibility of everyone at Vestas and all parts of the organisation work with risk management as part of daily operation. According to the Vestas ERM framework the risk reporting is conducted on a quarterly basis. Relevant risks across all business units and Group functions are formally identified, assessed and reported to Group Risk Management using the Vestas Group risk criteria in line with the risk management framework.

Key risks are discussed in the Group Risk Management Committee and mitigation activities are evaluated for potential implementation. The Committee is chaired by Vestas' CFO and includes other senior management members from relevant parts of the business.

On a semi-annual basis, the Executive Management as well as the Board of Directors review the Group's key risks. These reviews are based on the ongoing work in the Group Risk Management Committee and focuses on the main risks of the Group.

Financial risks, including risks related to currency, interest rate, tax, credit, and commodity exposures are addressed in the notes to the Consolidated financial statements, see page 096.

## Risk management



## Main Group risks

The main risks of the Group are:

- Transition to auction-based markets
  - Risk connected with higher share of renewable energy
  - Cyber risks
  - Adapting to markets with greater complexity, hereunder sanctions and social performance
- 

### Transition to auction-based markets

#### Description

While renewable energy continues gaining in importance in the global energy mix, this is increasingly happening through competitive bidding and auctions and in some markets combined with demands for local content, which in turn is pressuring support levels down. This increased focus on cost of energy creates a pressure on the wind power industry in general to live up to the new dynamics of the competitive landscape.

#### Impact

Auction and tender systems differ from market to market and can, depending on their design, create uncertainties in relation to market size, timing of order intake, and profitability. While the intensity of competition in countries with market-based policies varies significantly based on individual market characteristics, a common feature is the relentless demand for lowering the cost of energy.

#### Mitigation

Vestas monitors the developments in the different markets and works closely with its customers to continuously adapt sales strategies and product offerings to meet the different auction criteria. With its strategic objective to lower the cost of energy faster than anyone in the wind power industry by offering high-performing products and services, Vestas is well prepared to live up to the new market dynamics.

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### Risk connected with higher share of renewable energy

#### Description

With the economics of wind and solar photovoltaic energy on par or even below the cost of fossil fuel based technologies in more and more markets, policy makers start looking at phasing out subsidies to make renewables fully compete in merchant power markets. In parallel, the increasing penetration of renewable energy in many markets is posing challenges to the current way power systems and markets are operated.

#### Impact

In markets with a high share of wind and solar in the energy mix, a further increase of renewables in the longer term will increasingly hinge on appropriate market design and the ability to expand the current cost focus to increase the value of the produced electricity and open up new revenue streams for Vestas' customers. On the other hand, operating in merchant power markets will significantly lower policy risks through reducing reliance on support systems. Merchant competition has furthermore the potential to open up larger market volumes as renewable energy is increasingly out-beating fossil energy on costs.

#### Mitigation

Vestas is proactively working on turning the forthcoming challenges into business opportunities. Vestas' advanced wind turbine design and hybrid projects for example allow not only increasing full load hours (thus increasing the market value of the produced electricity) but contribute to easing system integration by firming power production compared to classical wind turbines. Furthermore, Vestas engages with its partners to create the future market frameworks to enable its customers to successfully compete in merchant conditions – turning challenges into business opportunities.

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## Cyber risks

### Description

As many other corporations, Vestas' dependence on its commercial, technical, and operational IT infrastructure is significant and hence, Vestas is exposed to potential loss or harm related to this.

### Impact

Risks include economical theft and theft of intellectual property rights or personal data, which may result in monetary losses in the form of lost business opportunities or fines and penalties from authorities.

Malicious hacking activities can in addition harm the infrastructure and create physical loss of property and consequential difficulties for Vestas to meet its contractual obligations.

### Mitigation

Vestas works systematically to educate its organisation in methods to address exposure and is continuously working on improving the technical ability to protect against, detect and to respond to any attempts to enter its commercial, technical, and operational IT infrastructure.

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## Adapting to markets with greater complexity, hereunder sanctions and social performance

### Description

A number of the markets in which Vestas is exploring business opportunities have characteristics, that differ from the more mature markets in Europe and the USA. Some of the main differing areas and risks to be understood and addressed are:

- Security in relation to employees and subcontractors
- Corporate social responsibility in relation to local communities
- Corruption in the country or sector
- Sanctions and export control according to international law
- Protection of intellectual property rights

### Impact

The adverse impacts related to risks in complex markets are many and different but amongst others, adverse reputational impact or legal implications may occur if risks are not mitigated.

Risks related to intellectual property rights may amongst others lead to reductions in the competitive positioning of Vestas, whereas other risks may prevent Vestas from engaging in business relationships or undertaking projects.

### Mitigation

To prevent and mitigate potential risks within these areas, Vestas uses a stage gate-based process to systematically evaluate and adapt the project offering during the contracting, construction, and servicing phases of the projects.

At the Høvsøre test centre for wind turbines in Denmark, Vestas is testing the newest technology before it is released for sale. In December 2017, a prototype of the V116-2.1 MW™ turbine was installed here.



## Vestas on the **capital markets**

### The Vestas share

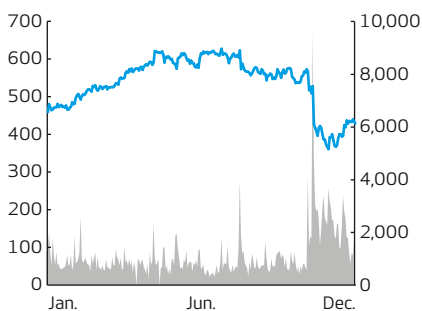
Since April 1998, Vestas has been listed on Nasdaq Copenhagen under securities code DK0010268606 (ticker symbol VWS), and was the second most traded share in 2017 with an average daily turnover of EUR 77.8m at the Copenhagen stock exchange.

Vestas Wind Systems A/S' total share capital amounts to DKK 215,496,947 and has one share class of 215,496,947 shares, which are 100 percent free float.

The share price ended the year at DKK 428.80, equal to a market capitalisation of DKK 92.4bn. During 2017, the price of the Vestas share decreased by 6.6 percent. This was below the general trend in Nasdaq Copenhagen's C20 cap index, which increased by 14 percent in 2017.

### Share price performance and turnover

DKK · Number in 1,000



#### EUR 77.8m

The Vestas share was the second most traded share in 2017 with an average daily turnover of EUR 77.8m at the Nasdaq Copenhagen stock exchange.

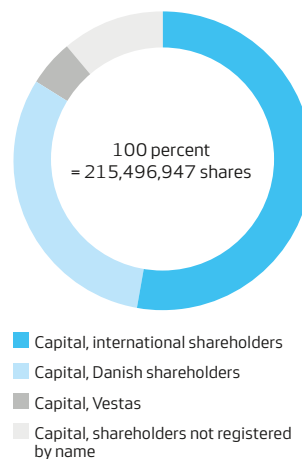
### Ownership

At the end of the year, the company had 150,019 shareholders registered by name (191,277,828 shares), including custodian banks – an increase of approx. 3 percent during 2017. In accordance with the Danish Companies Act, Vestas has reported a shareholding that exceeds 5 percent. The notification was disclosed in December 2017.

As at 31 December 2017, Vestas owned 11,843,929 treasury shares (2016: 7,770,888 shares), corresponding to 5.5 percent of the share capital, and represented a market value of DKK 5.1bn.

### Share capital distribution as at 31 December 2017

Percent



### Ownership

As at 31 December 2017, the international shareholders, Danish shareholders, and Vestas held 113 million (53 percent), 66 million shares (31 percent), and 12 million shares (5 percent) respectively – and capital not registered by name amounted to 24 million shares (11 percent).

## Management's ownership

As at 31 December 2017, members of Vestas' Board of Directors held a total of 49,658 Vestas shares (2016: 52,018 shares), and Vestas' Executive Management held 101,992 Vestas shares (2016: 140,569 shares). These shareholdings represented a combined market value of EUR 8.7m.

Furthermore, the members of the Executive Management are exposed to the Vestas share via Vestas' long-term incentive programme. For further information about the remuneration of the Executive Management, see Remuneration report, page 055.

## Corporate green bond

On 11 March 2015, Vestas issued a EUR 500m green bond to finance its general corporate purposes, ref. company announcement No. 11/2015 of 4 March 2015. The bond will mature on 11 March 2022 and the coupon of the bond is 2.75 percent. The bond is listed on the Luxembourg Stock Exchange's regulated market – ISIN code XS1197336263.

The green bond benefits from a second party opinion provided by certification institute DNV GL. The bond allows Vestas to diversify and optimise its funding structure.

## Financial management

Vestas' management continuously monitors to which extent the company's capital structure, including equity and other financial resources, are reasonable in consideration of the Group's operations and the stakeholders' interests, see Capital structure strategy, page 015.

## Authorisations granted to the Board of Directors

According to article 3 of the Articles of association, the Board of Directors of Vestas Wind Systems A/S is authorised to increase the company's share capital in one or more issues of new shares up to a nominal value of DKK 22,407,451 (22,407,451 shares). The authorisation is valid until 1 March 2019.

At the Annual General Meeting in 2017, the shareholders authorised the Board of Directors to let the company acquire treasury shares in the period until 31 December 2018 equal to 10 percent of the share capital at the time of the authorisation, provided that the nominal value of the company's total holding of treasury shares at no time exceeds 10 percent of the company's share capital at the time of the authorisation.

## Distribution to shareholders

The Board's general intention is to recommend a dividend of 25-30 percent of the year's net result after tax, which will be paid out following the approval by the annual general meeting. In addition, Vestas may from time to time supplement with share buy-back programmes. However, any distribution of cash to shareholders will always be decided with due consideration of capital structure targets and availability of excess cash. Determining the level of excess cash will always be based on the company's growth plans and liquidity requirements.

## Dividend

On 6 April 2017, the shareholders approved a dividend of DKK 9.71 per share to be paid out for the financial year 2016. This was equivalent to a dividend percentage of 30.0 percent measured against the net profit for the year.

For the financial year 2017, the Board of Directors proposes a dividend of DKK 9.23 (EUR 1.24) per share equivalent to 29.9 percent of the net result for the year after tax.

## Distribution to shareholders

	2017	2016
Dividend per share (DKK)	9.23*	9.71
Dividend per share (EUR)	1.24*	1.31
Dividend (EURm)**	267*	289
Payout ratio (%)	29.9*	30.0
Share buy-back (EURm)	694	401

\* Based on recommended dividend.

\*\* Based on issued shares as at 31 December.

## Share buy-back programmes 2017

On 8 February 2017 and on 17 August 2017, the Board of Directors initiated new share buyback programmes. The programmes were implemented in accordance with Article 5 of Regulation No. 596/2014 of the European Parliament and Council of 16 April 2014.

The main purpose of the share buy-back programmes was to adjust Vestas' capital structure and secondly to meet the obligations arising from share-based incentive programmes to employees of Vestas. They were completed on 4 May 2017 and 29 December 2017, respectively. In total, Vestas paid DKK 5.2bn for 10,503,515 shares.

## Share capital reduction

On 8 May 2017, the company reduced its share capital by a nominal value of DKK 6.0m. The capital reduction was carried out through the cancellation of 6,047,780 treasury shares in accordance with the resolution passed at the Annual General Meeting on 6 April 2017.

At Vestas' Annual General Meeting in 2018, a resolution will be proposed that 9,800,944 shares out of Vestas' holding of 11,843,929 treasury shares will be cancelled.

## Holding of treasury shares

Number	
Treasury shares as at 31 December 2016	7,770,888
Reduction of the share capital	(6,047,780)
Bought under the share buy-back programmes	+10,503,515
Exercised share options and performance shares	(382,694)
<b>Total holding of treasury shares as at 31 December 2017</b>	<b>11,843,929</b>

## Incentive schemes

Members of the Executive Management and other specified senior management level positions are eligible for participation in a share-based long-term incentive programme. The purpose of the share-based programme is alignment with shareholders' interests and to promote long-term performance and retention. For further information about the programme, see Remuneration report, page 055.

In May 2017, the Board of Directors authorised the Executive Management to distribute 310,000 restricted performance shares to the Executive Management and other specified senior management level positions in accordance with the general guidelines for incentive pay for employees of Vestas.

## Open dialogue with the capital market

Vestas aims to be visible and accessible to existing and potential shareholders and bond holders, the financial community, and other stakeholders with due consideration to legislative requirements and in order to promote transparency.

Vestas attaches great value to maintaining an open dialogue with its stakeholders, therefore the Executive Management and Investor Relations travel extensively to ensure that all investors with a major holding of Vestas shares and the financial community can meet with the company on a regular basis and other shareholders and potential investors also have access to the company's Management and Investor Relations. Furthermore, the Investor Relations team and members of the CSR team have participated in conferences with a focus on sustainability.

Being a listed company, Vestas must make every attempt to give all stakeholders a true and fair view of Vestas. Therefore, relevant information is disclosed in a manner which enables fast access and complete, correct and timely assessment of the information by the public. This has a high priority for the Board of Directors.

Vestas aims to continuously improve the communication with its shareholders to inform about Vestas' goals and to safeguard long-term shareholder interests. However, in order to optimise communication, it is necessary for Vestas to know the identity of its shareholders. Vestas therefore recommends that its shareholders have their Vestas shares registered by name in the company's register of shareholders.

## Financial calendar

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28 February 2018	Convening for the Annual General Meeting
3 April 2018	Annual General Meeting
4 May 2018	Disclosure of interim financial report first quarter 2018
15 August 2018	Disclosure of interim financial report second quarter 2018
7 November 2018	Disclosure of interim financial report third quarter 2018

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## Vestas' website

Vestas' corporate website, [vestas.com](http://vestas.com), provides comprehensive information about the Vestas Group and share related information such as company announcements, financial reports, overview of announced orders, share price, earnings call audiocasts, the financial calendar, etc.

## Analyst coverage

Vestas is currently covered by 24 sell-side equity analysts. A list of analysts covering Vestas can be found at [vestas.com/investor/share](http://vestas.com/investor/share).

For the more than 5,500 Vestas service technicians, safety always comes first.



The MHI Vestas Offshore joint venture's V164 nacelle assembly facility is located at the port of Lindø, Denmark.



# Corporate governance

Corporate governance refers to the entire system managing and supervising the company. This includes how the company is organised, its governance principles, monitoring mechanisms, and internal and external controls. The purpose of corporate governance is to support value creation and accountable management, and thus to contribute to the long-term success of companies.

Having an open and transparent corporate governance supports a company in being directed and monitored in a responsible manner – and in management focusing on creating value. Furthermore, it provides the market with timely, reliable, accurate, and up-to-date information – which fosters the confidence of investors, the financial markets, customers, business partners, employees, and the public in general.

## Management structure

The fundamental elements of Vestas Wind Systems A/S' corporate governance system are its two-tier management structure with a clear, transparent, and effective separation between the Board of Directors and the Executive Management's responsibilities and tasks in connection with the management of the company's affairs and no one serves as a member of both.

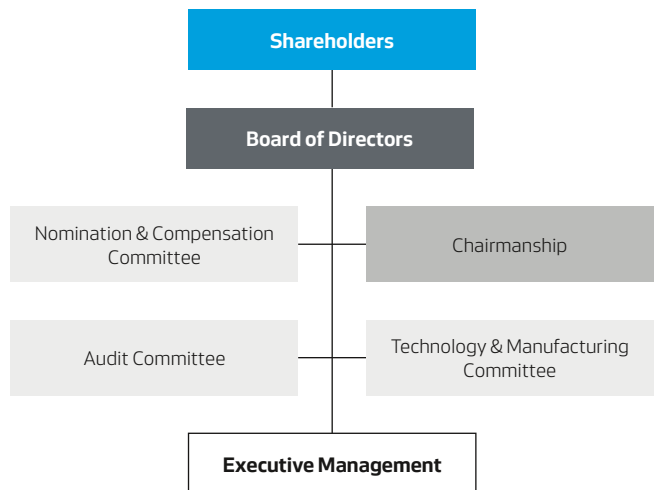
A list of various documents dealing with rules, regulations, and governing principles, that are followed by Vestas are available at [vestas.com/en/investor/corporate\\_governance#governanceprinciples](https://vestas.com/en/investor/corporate_governance#governanceprinciples).

## Shareholders

Shareholders have ultimate authority over the company and exercise their rights of co-administration and supervision at general meetings, which usually take place within the first four months of the business year.

All shareholders are entitled, in compliance with a few formal requirements, to have access, to submit proposals, attend, vote, and speak at general meetings, ref. articles 4 and 6 of the Articles of association.

## Vestas' management structure



## Shareholder rights

The right of a shareholder to attend a general meeting and to vote is determined by holding of shares at the record date. The record date is defined as one week before the general meeting. The number of shares held by each shareholder at the record date is calculated on the basis of registration of the shareholder's ownership in the register of shareholders (or notifications about ownership received by the company, but which has not yet been registered in Vestas' register of shareholders).

Shareholders, who wish to attend a general meeting, must notify Vestas of their attendance no later than three days before the general meeting in question.



Vestas has a single class of shares, and no shares carry any special rights. Each share carries one vote. Proposals put to the vote are adopted by a simple majority of votes, unless the Danish Companies Act or the Articles of association prescribe special rules regarding the adoption. Amendments to the Articles of association, dissolution, demerger, and merger, which under Danish law must be passed by the general meeting, can only be passed by a majority of no less than two-thirds of all votes cast and of the voting capital represented at the general meeting unless otherwise prescribed by the Danish Companies Act. For information on the share capital distribution of the Vestas share, see Vestas on the capital markets, page 045.

## Audit

Vestas' annual report is audited by an independent external audit firm elected annually by the shareholders at the annual general meeting. Retiring auditors are eligible for re-election.

The auditor is obligated to act in the interest of the shareholders, as well as the public. The Board of Directors and Executive Management grant the auditor access to make any investigations, they find necessary, and ensure that the auditor receives the information and the assistance needed for them to exercise their duties. The Board of Directors maintains a regular dialogue with the auditor, however, it is the responsibility of the Audit Committee to make arrangements for the necessary exchange of information.

The external auditor attends all meetings of the Audit Committee, as well as the meeting of the Board of Directors at which the annual report is adopted. In 2017, the auditor participated in one meeting with the Board of Directors and in seven meetings with the Audit Committee.

The contractual basis and thereby the scope of the auditor's work, including any non-audit related services, is agreed between the company's Board of Directors and the auditor based on a recommendation from the Audit Committee. The Executive Management and the auditor define the specific scope of the auditor's services, and the auditor's fee is agreed with the Board of Directors, see note 6.1 to the Consolidated financial statements, page 110.

For the Independent Auditor's Report and the Independent Auditor's Limited Assurance Report regarding this annual report, see pages 123 and 126.

## Appointment of the auditors

PricewaterhouseCoopers has been the auditor of Vestas since 1998.

The last public call to tender was made to all auditors for the audit of the 2009 consolidated financial statement, in line with the EU regulation 537/2014 of 16 April 2014. Based on the results of the tendering process, the Audit Committee recommended to the Board of Directors that it proposed PricewaterhouseCoopers for election in 2010. After completing the tendering process, PricewaterhouseCoopers can therefore be proposed for election at the annual general meeting as Vestas' auditor without further tendering processes up to and including the business year 2023.

In April 2017, the Annual General Meeting re-elected PricewaterhouseCoopers as Vestas' external auditor for the financial year 2017. Kim Füchsel has been the signing partner for the annual reports 2016 and 2017 and Kim Tromholt for the annual reports 2015, 2016, and 2017.

## Policy for audit services and non-audit services

One area of particular focus in corporate governance is the independence of the auditor. The Vestas Group's auditor can, within certain limits, be used for certain non-audit services and may be the preferable choice due to business knowledge, confidentiality, and cost considerations.

Vestas has a policy for non-audit services ensuring that the provision of non-audit services to the Group does not impair the auditor's independence or objectivity. The Audit Committee is responsible for the development and maintenance of this policy and monitors compliance.

During 2017, audit and non-audit services provided by the Group auditors globally totalled EUR 6m, of which 56 percent is audit related services – the ratios have been calculated in accordance with guidelines worked out by certain proxy advisors. Excluding significant projects considered one-off in nature, audit related services accounted for 61 percent of audit and non-audit services provided by the Group auditor globally.

## Internal audit

Once a year, the Audit Committee assesses the need for an internal audit function. The committee found that it was not necessary to establish an internal audit function in 2017.

## Board of Directors

Pursuant to the company's Articles of association, the company is managed by a Board of Directors composed of five to 10 members elected by the general meeting and a number of representatives elected by the employees.

## Composition of the Board

The Board of Directors currently consists of 12 members, of which eight are elected by the general meeting and four are elected by and among the employees. For further information about the members of the Board of Directors of Vestas Wind Systems A/S, see pages 054 and 060.

In 2017, the Annual General Meeting re-elected all members of the Board of Directors. After the Annual General Meeting, the Board of Directors held a statutory board meeting. At the meeting, Bert Nordberg was re-elected as Chairman of the Board and Lars Josefsson was re-elected as Deputy Chairman of the Board.

## Election of Board members

Board members elected by the general meeting may be recommended for election by the shareholders or by the Board of Directors, serve a one-year term, and may be re-elected.

When proposing candidates for Board membership, the Board of Directors seeks to ensure that it is possible for the general meeting to elect a continuing Board of Directors that:

- is able to act independently of special interests;
- represents a balance between continuity and renewal;
- matches the company's situation;
- is knowledgeable of the industry and has the business and financial competencies necessary to ensure that the Board of Directors can perform its duties in the best way possible; and,
- reflects the competencies and experience required in order to manage a company with shares registered for trade on a stock exchange and fulfils its obligations as a listed company.

When proposing new Board candidates, the Board of Directors pursues the goal of having several nationalities of both genders represented. In addition, the Board of Directors focuses on having a diverse age distribution, see the statutory report on gender distribution, page 051. However, these goals must not compromise the other recruitment criteria.

## The Board's responsibility

The Board of Directors is responsible for the overall operation of the Group and, through the independent oversight of management, accountable to shareholders for the performance of the business. They also deal with the overall and strategic management of the company, including:

- appointing the Executive Management;
- laying down guidelines for and exercising control of the work performed by the Executive Management;
- ensuring responsible organisation of the company's business;
- defining the company's business concept and strategy;
- ensuring satisfactory bookkeeping and financial reporting;
- ensuring the necessary procedures for risk management and internal controls; and

- ensuring that an adequate capital contingency programme is in place at all times.

In cooperation with the Executive Management, the Board of Directors establishes and approves overall policies, procedures and controls in key areas, not least in relation to the financial reporting. This requires a well-defined organisational structure, unambiguous reporting lines, authorisation and certification procedures, and adequate segregation of duties.

### Board committees

The purpose of Vestas' Board committees is to prepare decisions and recommendations for consideration and approval by the entire Board of Directors. The committees are not authorised to make independent decisions; instead they report and make recommendations to the entire Board of Directors.

Vestas has established three permanent Board committees and all members of the committees are elected by the Board of Directors from among its members. Information about the members of each committee, charters, and an overview of their activities in 2017 are available at [vestas.com/investor/corporate\\_governance](http://vestas.com/investor/corporate_governance).

### Duties of the board committees

**Audit Committee** – supports the Board of Directors in assessments and controls relating to auditing, accounting policies, systems of internal controls, financial reporting, procedures for handling complaints regarding accounting and auditing, the need for an internal audit function, and Vestas' ethics and anticorruption programmes.

**The Nomination & Compensation Committee** – supports the Board of Directors in evaluation of the performance and achievement of the Board of Directors and Executive Management and overall staff-related topics, including assessments of remuneration.

**The Technology & Manufacturing Committee** – assists the Board of Directors in assessing technological matters, IPR strategy, and product development plans. The committee also supports the Board in matters concerning production, monitors and evaluates the short- and long-term manufacturing footprint, evaluates sustainability performance, and gives support to forums such as Vestas' Product Portfolio Council, Product Value Chain Board, and Product Portfolio Board, which also handle prioritisation of and investments in innovation and concept development.

### Meeting attendance

	Members	Meetings
<b>Board of Directors</b> Seven of the nine meetings were attended by all members, whereas three members were excused from one meeting each.	12	9
<b>Audit Committee</b> Six of the seven meetings, were attended by all members, whereas one member was excused from one of the meetings.	3	7
<b>The Nomination &amp; Compensation Committee</b> All members attended the four meetings.	4	4
<b>The Technology &amp; Manufacturing Committee</b> All members attended the four meetings.	4	4

### Assessment of the work performed by the Board of Directors

Once a year, the Board of Directors evaluates its working methods and the results of its work, the skills of its members, including whether each Board member participates actively in board discussions and contributes with independent judgement.

In October and November 2017, the three Board committees evaluated their performance for 2017. The evaluations were conducted as an open dialogue among the members of the committees and facili-

tated internally by the chairmen. An evaluation form was made available to guide the members of the committees in their preparation and to make sure that all relevant issues were touched upon in connection with the evaluations. The assessment included an evaluation of: the working climate and cooperation, competence, board work, and role of the chairman. The self-assessment revealed a good collaboration in each of the committees and between the committees and the Executive Management.

The same procedure was used when the Board of Directors conducted its evaluation in November 2017. The evaluations did not result in any significant changes.

An evaluation report is prepared for the three committees and the Board of Directors – comprising the result of the assessments. These reports are used by the Nomination & Compensation Committee when they propose nomination of members to the Board of Directors and members of the Board Committees.

### Remuneration

The remuneration of the Board of Directors is approved each year at the annual general meeting. For further information, see Remuneration report, page 055.

### Executive Management

The Executive Management of Vestas Wind Systems A/S is appointed by the company's Board of Directors and among the members of the Executive Management they have appointed a Chief Executive Officer who is the manager of the day-to-day work of the Executive Management. Their remuneration is determined by the Board of Directors. The remuneration report for the financial year 2017 is available on page 058.

Moreover, the Board of Directors lays down the distribution of competences among the members of the Executive Management. Executive Management meets at least once a month and often more frequently.

In 2017, the Board of Directors has not made any changes to the composition of the Executive Management. For further information about the members of the Executive Management, see pages 054 and 061.

### The Executive Management's responsibilities

Executive Management is responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board of Directors. The Executive Management is also responsible for presenting proposals for the company's overall objectives, strategies, and action plans as well as proposals for the overall operating, investment, financing, and liquidity budgets to the Board of Directors. Furthermore, they monitor compliance with relevant legislation and other financial reporting regulations and provisions.

### Assessment of the work of the Executive Management

The Nomination & Compensation Committee has the responsibility of conducting an annual evaluation of the contributions and results of the individual members of the Executive Management – and the combined Executive Management; and the co-operation between the Board of Directors and the Executive Management.

The result of the assessment conducted in 2017 revealed good collaboration between the Board of Directors and Executive Management.

### Remuneration

For information about the remuneration of the Executive Management, see Remuneration report, page 055.

### Corporate governance principles

Corporate governance, defined as "the system used to manage and control a business", is to a wide extent reflected in the provisions concerning the Board of Directors set out in the Danish Companies Act.

### What is corporate governance for Vestas?

To the Board of Directors of Vestas Wind Systems A/S, corporate governance is not just a set of rules but a constant process. Consequently,

the Board of Directors continuously addresses the guidelines and processes for the overall management of the Vestas Group. This ensures that the management is at any time able to conduct its managerial tasks professionally and in due consideration of applicable law, practices, and recommendations.

### Clear guidelines provide a true and fair view

The evaluation of the guidelines and processes includes a review of the company's business model, strategy, business processes, goals, organisation, capital position, stakeholder relations and risks as well as exercise of the necessary control.

The Board of Directors finds that clear guidelines on how to manage and communicate at Vestas help provide a true and fair view of the Group to the world. A clear and well-considered management and communication strategy is of special importance in light of the challenges Vestas faces in a market characterised by fierce competition, expected consolidation, and ever-increasing quality requirements.

### Financial reporting risks

Based on Vestas' financial risk management policy, the Group Finance function prepares a description of the key risks relating to financial reporting and measures taken to control such risks.

Group Finance works actively with anchoring financial risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks relating to financial reporting.

As part of the financial risk assessment, the Board of Directors and Executive Management annually assess the risk of fraud and the measures to be taken to reduce and/or eliminate such risks, including assessing any possibility of the general management overriding controls and affecting the financial reporting. Read more about risk management on page 042.

### Control activities

Group Financial Compliance is responsible for the implementation, monitoring, and reporting of Vestas' global financial processes and the internal control framework. This helps to ensure a uniform design and structure of the Group's internal controls. The objective of the Group's control activities is to ensure financial compliance with the targets, policies, manuals, procedures, etc. defined by the Executive Management.

Furthermore, the activities must help ensure that any errors, deviations, and shortcomings are prevented, discovered, and rectified.

Vestas continuously adjusts and implements global financial processes and controls for all units and functions aimed at further mitigating the risk of incorrect financial reporting.

### Information and communication

Vestas' policies, adopted by the Board of Directors, lay down, among other things, overall requirements on financial reporting and external financial reporting in accordance with current legislation and applicable regulations.

The information systems are designed to identify, collect, and communicate relevant information, reports, etc. on an ongoing basis and on all levels to facilitate an effective, reliable workflow and the performance of controls. This is done in due consideration of the confidentiality required as a listed company.

### Statutory report on corporate governance

Pursuant to section 107b of the Danish Financial Statements Act and clause 4.3 of "Rules for Issuers of Shares – Nasdaq Copenhagen", listed companies shall give a statement on how they address the recommendations on corporate governance issued by the Danish Committee on Corporate Governance. The recommendations of the report specify that the circumstances of each company will govern the extent to which the recommendations are complied with or not, as the key issue is to create transparency in corporate governance matters.

Vestas' statutory report, which is part of the annual report, is available at [vestas.com/investor/corporate\\_governance#1statutoryreports](https://vestas.com/investor/corporate_governance#1statutoryreports). Vestas follows all recommendations of the Danish Corporate Governance recommendations except from three recommendations which Vestas partly complies with.

### Danish recommendation regarding corporate governance

Number

	2017	2016
Complies with the recommendation	44	43
Partly complies with the recommendation	3	4
Does not comply with the recommendation	0	0
<b>Number of recommendations</b>	<b>47</b>	<b>47</b>

### Statutory report on gender distribution

As required in section 99b of the Danish Financial Statements Act, Vestas has a policy to offer all employees equal opportunities and aims for a more equal distribution of gender among employees in leadership positions. But, Vestas does not compromise on qualifications and will continue to employ the most qualified candidate regardless of gender, political, religious, or personal orientation.

Vestas has a global organisation and the employee base is becoming more and more diverse. The management believes that having employees with many different skills, backgrounds, and experiences benefits the Group and equips Vestas to more effectively address the global challenges ahead.

In general, men are over-represented in Vestas. This is not unusual in the industry, which traditionally has more job roles attracting men than women. These are primarily technical and manufacturing roles such as engineers, technicians, and industrial workers.

### Follow-up and reporting

In January, Executive Management receives a report which describes the development of the share of women and men at the various management levels. If the share of either women or men at management level is below 40 percent, Executive Management evaluates the need for further actions.

Once a year, the Nomination and Compensation Committee discusses the status of diversity and the strategy for the diversity area in Vestas for the coming year – and the Board of Directors discusses the overall principles regarding diversity.

In the annual report, Vestas will report on the progress against the target setting in accordance with ref. section 99b of the Financial Statements Act.

### The Board of Directors of Vestas Wind Systems A/S

The Board of Directors believes that its members should be chosen for their overall competences, yet it also recognises the benefits of a diverse board in respect of culture, gender, and other factors.

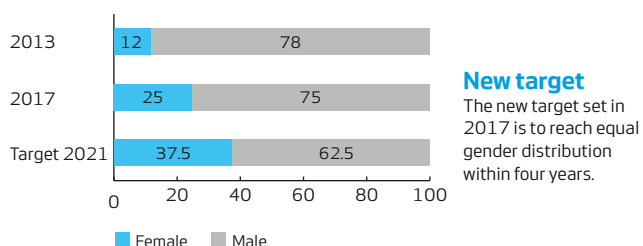
The Board of Directors pursues the goal of having members representing multiple nationalities as well as both genders. In addition, the Board of Directors focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

In compliance with legislation, Vestas has set a target for the under-represented gender in the Board of Directors. The target has been reached, as the number of the under-represented gender has increased in the period from one to two. Further information about the composition of the Board of Directors is available at [vestas.com/investor/corporate\\_governance](https://vestas.com/investor/corporate_governance).

Vestas will continue working on expanding the under-represented gender in the Board of Directors and has adjusted the target that is expected to be reached no later than end 2021. The target is to reach equal gender distribution<sup>1)</sup> among the members of the Board of Directors of Vestas Wind Systems A/S elected by the general meeting within four years.

### Development in gender distribution in the Board of Directors of Vestas Wind Systems A/S

Percent



### The Board of Directors of Vestas' subsidiaries

Among the Group's Danish subsidiaries, five companies are subject to the reporting requirement for the under-represented gender according to section 99b in the Danish Financial Statements Act.

The directors in the boards of the subsidiaries are appointed based on key positions in Vestas Wind Systems A/S, and the current constitution of the boards is therefore reflecting who is currently holding these positions within Vestas Wind Systems A/S.

In 2013, the five subsidiaries set a target to reach equal gender distribution no later than 31 December 2017. During the period, all five subsidiaries have reached the target – which means that all five subsidiaries have an equal gender distribution in their boards among the members elected by the general meeting. Therefore, a new target will not be set.

Vestas' policy on gender distribution The purpose of Vestas' gender distribution policy is to describe and support the on-going work at Vestas on increasing the number of the under-represented gender in management positions in Vestas and by that enhance a more equal distribution of the number of men and women.

In that respect, Vestas' strategic objectives also comprise that Vestas obtains a more equal distribution of men and women in management, and that the composition of managers reflects the distribution of women and men in the labour market in the longer run, however, always considering competencies when deciding who are the best qualified persons for the job.

### Processes

Each year a People Review process is carried out, where the majority of employees are being evaluated. In this process the employee's manager, the manager of the latter and colleagues and a representative from People & Culture participate. Based on the results, a profile description is worked out including a description of management capabilities and potential of the employee and the potential for promoting the employee. Based on the People Review evaluations, Vestas obtains a tool to support that recruitment of managers internally and promotions are carried out in consideration of Vestas' objectives to ensure everyone equal career opportunities.

Naturally, the distribution of men and women in management positions is considered in that connection. In continuation hereof, Vestas will not accept any kind of differential treatment and is therefore obliged to let qualifications be the only deciding factor in all aspects of employment, including recruitment, development, and promotion.

### Activities in 2017

In November 2017, the Nomination & Compensation Committee discussed the status of diversity and the strategy for the diversity area in Vestas for the coming year – and in November 2017, the Board of Directors discussed the overall principles regarding diversity.

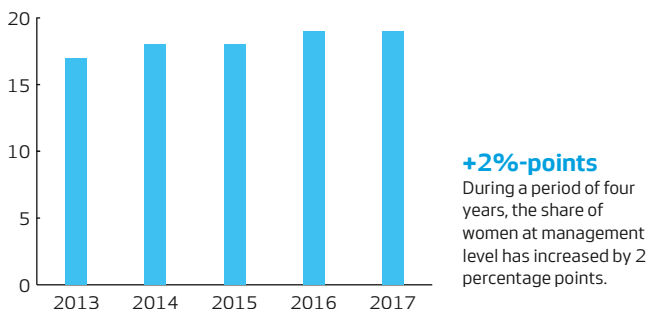
Vestas is working with several activities to ensure relevant diversity at management levels, such as:

- Assuring that both genders are represented in the search process – and in the last process of the selection of the new employee.
- Improve the terms for maternity and paternity to become more attractive to young professionals in Denmark.
- Exposing the engineering opportunities to women, including specific events for female engineering candidates.
- Hosted events for female engineering students at Vestas' technology centre.
- Participated in events aimed at female business students.

Vestas' initiatives related to gender focus on building a pipeline of female talents both outside and inside Vestas through the internal talent and development programmes, such as situational leadership training and leadership transition programmes. These programmes are offered to all leaders in Vestas, giving all equal opportunity.

### Women at management level

Percent



In 2017, the share of women at management level within Vestas was 19 percent, which means that from the implementation of the policy regarding gender distribution and until 2017 the share of women both in the Board of Directors and at management level has increased by 13 percentage points and 2 percentage points, respectively.

1) According to the Danish Business Authorities' definition, see Danish Business Authorities: Guidelines on target figures, policies and reporting on gender composition of management. March 2016.

Since 1979, Vestas' product portfolio has developed from a V10-30 kW turbine with a swept area of 78.5 m<sup>2</sup> to a V150-4.2 MW™ turbine with a swept area of 17,671 m<sup>2</sup>.



# Annual General Meeting 2018

The Annual General Meeting of Vestas Wind Systems A/S will be held on 3 April 2018 at 1:00 pm (CET) at the Concert Hall in Aarhus, Denmark.

## Time schedule for the Annual General Meeting 2018

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19 February 2018	Deadline for requesting a specific matter to be included on the agenda
28 February 2018	Convening notice
27 March 2018	Record date
28 March 2018	Deadline for notifying Vestas about attendance
28 March 2018	Deadline for voting by proxy
2 April 2018	Deadline for voting by correspondence
3 April 2018	Annual General Meeting 2018

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## Dividend

For the financial year 2017, the Board of Directors proposes a dividend of DKK 9.23 (EUR 1.24) per share be paid for 2017. This is equivalent to a dividend payout ratio of 29.9 percent measured against the net profit for the year.

## Appointment of auditors

The Board of Directors will propose that PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab is re-appointed as the company's auditor.

## Proposals from the Board of Directors

The Board of Directors expects to propose that:

- the share capital be reduced by 9,800,944 number of treasury shares. The proposal can only be adopted by a majority of not less than two thirds of all votes cast and of the share capital represented. The shares were acquired as part of the company's share buy-back programmes as disclosed in company announcements No. 04/2017 of 8 February 2017 – and No. 30/2017 of 17 August 2017.
- the existing authorisations in article 3 of the Articles of association which expire on 1 March 2019 will be renewed in order to authorise an issue equivalent to 10 percent of the share capital and for a period of five years. The proposal can only be adopted by a majority of not less than two thirds of all votes cast and of the share capital represented.
- the Board of Directors is granted an authorisation to allow the company, in the period until 31 December 2019, to acquire treasury shares up to an aggregate nominal value of 10 percent of the company's share capital at the time of the authorisation, provided that the company's total holding of treasury shares does not at any time exceed 10 percent of the company's share capital. The proposal can be adopted by a simple majority of votes.

## Members of the Board of Directors

	Born	Independent	Date of election	Expiry of election period	Share trading in 2017	Number of shares end 2017 <sup>1)</sup>
Mr Bert Nordberg	23/03/1956	Yes	March 2012 and re-elected for subsequent terms, most recently in 2017	2018	-5,000 -7,000 +8,000 +2,300 +2,300	14,600
Mr Lars Josefsson	31/05/1953	Yes	March 2012 and re-elected for subsequent terms, most recently in 2017	2018	+1,000	3,500
Mr Carsten Bjerg	12/11/1959	Yes	March 2011 and re-elected for subsequent terms, most recently in 2017	2018	0	4,019
Ms Eija Pitkänen	23/04/1961	Yes	March 2012 and re-elected for subsequent terms, most recently in 2017	2018	0	1,250
Mr Henrik Andersen	31/12/1967	Yes	March 2013 and re-elected for subsequent terms, most recently in 2017	2018	+2,000 +2,250 +1,000 +225 +225	12,700
Mr Henry Sténson	10/06/1955	Yes	March 2013 and re-elected for subsequent terms, most recently in 2017	2018	0	5,000
Mr Kim Hvid Thomsen	08/08/1963	-	May 1996 and re-elected for subsequent terms, most recently for 2016	2020	-100 -2,000	3,710
Ms Lykke Friis	27/10/1969	Yes	March 2014 and re-elected for subsequent terms, most recently for 2017	2018	0	2,245
Mr Michael Abildgaard Lisbjerg	17/09/1974	-	April 2008 and re-elected for subsequent terms, most recently for 2016	2020	0	834
Mr Peter Lindholst	25/02/1971	-	March 2016	2020	0	500
Ms Sussie Dvinge Agerbo	05/10/1970	-	November 2005 and re-elected for subsequent terms, most recently for 2016	2020	-2,500	800
Mr Torben Ballegaard	07/02/1951	Yes	March 2015 and re-elected in 2017	2018	-2,500 -2,500	500

## Members of the Executive Management

	Born	Position	Date of appointment	Share trading in 2017	Number of shares end 2017 <sup>1)</sup>
Mr Anders Runevad	16/03/1960	Group President & CEO	September 2013	+26,299 <sup>2)</sup> -14,728 220 <sup>3)</sup> -10,000 -5,000	8,313
Mr Anders Vedel	06/03/1957	Executive Vice President & CTO	February 2012	+12,906 <sup>2)</sup> +305 <sup>3)</sup> -3,500	26,782
Mr Jean-Marc Lechêne	29/10/1958	Executive Vice President & COO	July 2012	+12,906 <sup>2)</sup> -3,500 +0 <sup>3)</sup> -7,500 -7,500 -22,232 +22,232	22,382
Mr Juan Araluze	17/01/1963	Executive Vice President & CSO	February 2012	+12,906 <sup>2)</sup> +843 <sup>3)</sup> -5,000 -5,691 -31,250	38,768
Ms Marika Fredriksson	04/11/1963	Executive Vice President & CFO	May 2013	+12,906 <sup>2)</sup> -7,228 +69 <sup>3)</sup> -18,264	5,747

1) The mentioned number of shares includes both own and related parties' total shareholdings.

2) Granted performance shares in 2017 (DKK 0 per share).

3) Stated as a whole number.

# Remuneration report

Any management which defines an ambitious strategy – and sets short- and long-term targets – needs a dedicated management team with the right competences and visions to succeed.

In order to attract and retain a talented management it is important that an attractive compensation is granted while safeguarding the company's interests through long-term targets, which is in the interest of the shareholders.

With Vestas' strategy – Profitable Growth for Vestas, the Board of Directors has clearly shown in which direction it wants to take the company – and it is up to the Executive Management to execute on the strategy.

During the last four years, Vestas' Executive Management has managed to guide more than 23,000 employees through the turnaround and has executed on the Profitable Growth strategy, which the figures for the period shows.

It has been a challenge – and will also be a challenge in the future – but with the right composition of the Board of Directors, the right members of the Executive Management, and a committed group of employees, Vestas will perform for the benefit of the shareholders but also for the benefit of the environment.

The shareholders have approved overall guidelines for how the Board of Directors and the Executive Management of Vestas Wind Systems A/S should be compensated for their management of the Group. The guidelines are laid down in Vestas' remuneration policy and the general guidelines for incentive pay, which most recently was approved by the shareholders at the Annual General Meeting in 2016.

The remuneration policy and the general guidelines for incentive pay are available at [vestas.com/en/investor/corporate-governance#!corporate-documents](https://vestas.com/en/investor/corporate-governance#!corporate-documents).

## Remuneration policy

The remuneration policy for members of the Board of Directors and the Executive Management<sup>1)</sup> of Vestas Wind Systems A/S reflects the interests of the shareholders and the company, taking into consideration the assignments and the responsibility undertaken by such members. The remuneration policy promotes performance and aims at attracting and retaining talented executives while safeguarding the company's interests through long-term targets.

## General guidelines for incentive pay

Pursuant to section 139 of the Danish Companies Act, the Board of Directors is required to establish general guidelines for incentive pay before entering into incentive pay agreements with members of the company's Board of Directors and Executive Management.

The objective of the guidelines is to lay down the framework for the variable portion of the salary considering the company's short and long-term targets, and to ensure that the pay system does not lead to imprudence, unreasonable behaviour, or risk acceptance.

## Remuneration of the Board of Directors

Efforts are made to ensure that the remuneration of the Board of Directors matches the level in comparable companies, whilst also taking into consideration Board members' required competencies, efforts and the scope of the Board work, including the number of meetings. Board members elected by the employees receive the same remuneration as the Board members elected by the general meeting. On any takeover event, retiring Board members will not receive any compensation for their lost board remuneration and similar benefits.

1) Executive Management includes all the executives registered as executives with the Danish Business Authority.

2) Source: MAKE Consulting: Historical Wind Turbine OEM Market Share. March 2017.

## +64%

Revenue is one of the four elements in Vestas' guidance for the year. From 2013 to 2017 revenue increased from EUR 6bn to EUR 10bn – equal to 64 percent. In the same period, Vestas' market share increased by 2 percentage-points.<sup>2)</sup>

## +11%-points

Another guidance element is operating profit (EBIT). Since 2013, EBIT has increased from EUR 211m to EUR 1,230m – an EBIT margin increase of 11 percentage-points.

## Return to shareholders

Since 2013, Vestas has completed four share buy-back programmes – bought back 19,081,091 Vestas shares (DKK 9.2bn) – and cancelled 8,577,566 Vestas shares – and has paid out EUR 599m in dividend. Furthermore, at the Annual General Meeting 2018, the Board of Directors will propose cancellation of 9.8 million Vestas shares and a dividend payout of DKK 9.23 (EUR 1.24) per share.

## +21%

Vestas is generating significantly more cash flow from the underlying business. In 2013, Vestas reported a free cash flow of EUR 1,009m compared to EUR 1,218m in 2017 – an increase of 21 percent.

The remuneration of the Board members for the past year and the level for the current year is approved by the shareholders at the annual general meeting as two separate items.

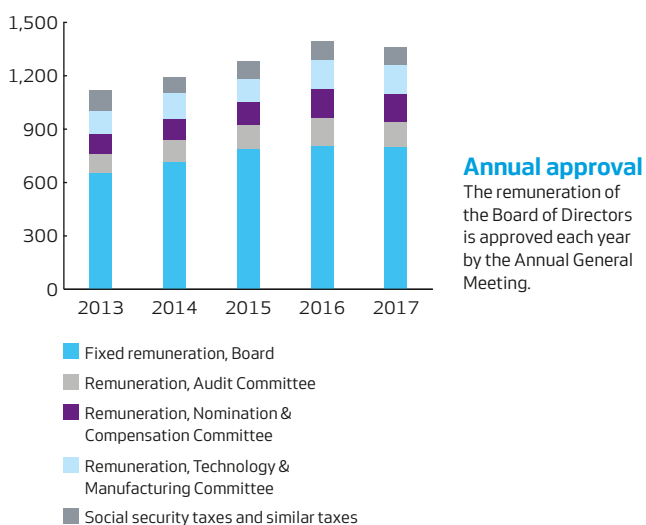
The remuneration of the Board of Directors consists of five elements: fixed remuneration, committee remuneration, remuneration of ad hoc tasks, social security taxes and similar taxes, and reimbursement of expenses.

The Board of Directors is not included in incentive programmes or covered by any Vestas pension scheme or a defined benefit pension scheme.

Each element of the remuneration of the Board of Directors and detailed information about the remuneration in 2017 is described in the Remuneration report 2017, see page 057.

## Remuneration of the Board of Directors

tEUR



## Remuneration of the Executive Management

The Board of Directors believes that a combination of fixed and performance-based pay to the Executive Management helps ensure that the company can attract and retain key employees. The Executive Management is paid partly through variable performance-based elements to motivate performance, align with short and long-term business targets, and to enable flexible remuneration costs.

All members of the Executive Management are employed under executive service contracts, and the Board of Directors sets the terms within the frames of the contracts.

The Nomination & Compensation Committee submits proposals concerning the remuneration of the Executive Management and ensures that the remuneration is in line with the conditions in comparable companies. The proposals are submitted for approval at a Board meeting.

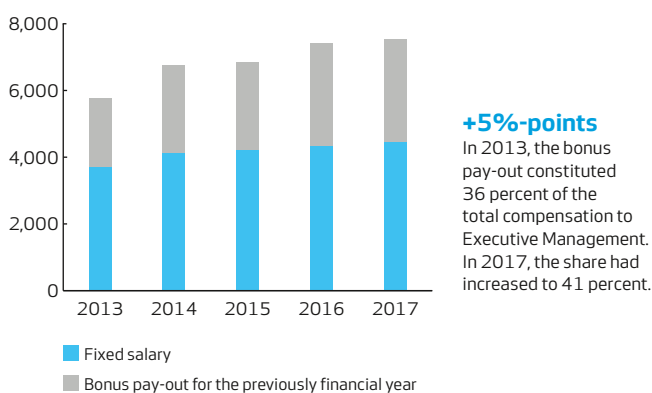
The remuneration of the Executive Management consists of four elements: fixed salary, cash bonus, share-based incentives, and personal benefits.

The Executive Management is not covered by Vestas' employer administered pension plan or a defined benefit pension scheme, nor do members of Executive Management receive remuneration for ad hoc tasks or receive any remuneration for directorships held in Vestas Wind Systems A/S' subsidiaries or its joint ventures.

Each element of the remuneration of the Executive Management and detailed information about the remuneration in 2017 is found in the Remuneration report 2017, see page 058.

## Remuneration of the Executive Management

tEUR



Besides the fixed salary and bonus pay-outs, the members of Executive Management have also been entitled to participation in the restricted performance share programmes for the years 2013-2017. They have been entitled to a target level of shares which has subsequently been performance adjusted, following the terms and conditions of the programmes. The total target number of shares for Executive Management was 108,336, 120,000, 120,000, 86,000, and 86,000 in the years 2013, 2014, 2015, 2016, and 2017, respectively. All the performance shares follow the same principles for vesting and are granted to the Executive Management with 50 percent after three years and 50 percent after five years.



# Remuneration report 2017

## Board of Directors

This report describes the remuneration of the Board of Directors in 2017.

The level of the remuneration in 2017 remain unchanged – EUR 1.26m – as pre-approved by the shareholders at the Annual General Meeting in 2017 – and will be presented for final approval at the Annual General Meeting in 2018.

According to Vestas' remuneration policy, the remuneration of Vestas Wind Systems A/S' Board of Directors comprises the following five elements.<sup>2)</sup>

### Fixed remuneration

Members of the Board of Directors receive a fixed cash payment (basic remuneration). The chairman receives triple basic remuneration and the deputy chairman receives double basic remuneration for their extended board duties.

### Committee remuneration

In addition to the basic remuneration, annual committee remuneration is paid to Board members who are also members of one of the Board Committees. The remuneration is determined as a base fee, and the committee chairman receives an additional remuneration of 80 per cent of the committee remuneration.

### Remuneration for ad hoc tasks

Individual Board members may take on specific ad hoc tasks outside their normal duties assigned by the Board of Directors. In each such case, the Board of Directors shall determine a fixed remuneration for the work carried out in relation to those tasks. The fixed remuneration will be presented for approval at the following Annual General Meeting.

### Social security taxes and similar taxes

In addition to the remuneration, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.

### Reimbursement of expenses

Actual expenses defrayed in connection with board and committee meetings are reimbursed.

## Remuneration for the financial year

	2017			2016		
	Basic remuneration (EUR)	Number of members	EUR	Basic remuneration (EUR)	Number of members	EUR
Fixed remuneration	53,773	12	806,596	53,619	12	804,282
Committee remuneration						
- Audit Committee	33,608	3	127,711	33,512	4	160,858
- Nomination & Compensation Committee	33,608	4	161,319	33,512	4	160,858
- Technology & Manufacturing Committee	33,608	4	161,319	33,512	4	160,858
<b>Remuneration to be approved at the annual general meeting</b>			1,256,945			<b>1,286,856</b>
Remuneration for ad hoc tasks			-			-
Social security taxes and similar taxes			99,259			106,263
Reimbursement of expenses			3,468			22,069
<b>Total</b>			<b>1,359,672</b>			<b>1,415,188</b>

2) According to the remuneration policy the members of the Board of Directors are not included in incentive programmes (share programmes, bonus pay, or similar plans) and is not covered by any Vestas pension scheme or a defined benefit pension scheme.

# Remuneration report 2017

## Executive Management

The Board of Directors believes that a combination of fixed and performance-based pay to the Executive Management helps ensure that the company can attract and retain key employees.

In 2017, the Executive Management has received a fixed salary of EUR 4.5m and EUR 3.1m in cash bonus for the financial year 2016, and 77,923 Vestas shares according to the share-based incentive programme 2014.

According to Vestas' remuneration policy, the remuneration of Vestas Wind Systems A/S' Executive Management comprises the following four elements.

### Fixed salary

The fixed salary is based on market level and is continuously reviewed by the Nomination & Compensation Committee against comparable positions.

### Cash bonus

Members of the Executive Management participate in a bonus scheme based on the results for the year. The bonus is paid out annually after adoption of the annual report for the relevant financial year; ref. the general guidelines for incentive pay.

The bonus pay-out-level is defined by a weighted target achievement and is capped at a certain percentage of the fixed salary with the target and maximum pay-out levels set at 50 percent and 75 percent of the annual base salary, respectively.

The bonus scheme is based on target achievement on a number of parameters, including financial key performance indicators (KPIs) like EBIT, as well as any other targets approved by the Board of Directors. No pay-out will be made if the target for EBIT is not met at the defined minimum acceptable performance level.

### Share-based incentives

The focus of the share-based programme is to retain and create long-term shareholder value.

The intention of the grants is to ensure value creation and fulfilment of the company's long-term goals, and the scheme contains elements of both short and long-term performance. The scheme is based on restricted performance shares. The programme is disclosed following the annual general meeting and will be conditional upon continued employment at the time of grant.

For any single financial year, the Executive Management may be granted restricted performance shares based on achievement of certain targets approved by the Board of Directors. The targets may be based on financial KPIs as well as the Group's market share as defined by the Board of Directors.

### Share-based incentive programme 2017

In May 2017, the Board of Directors announced that it had decided to continue the share-based incentive programme for all participants, including the Executive Management, and launch a new programme for 2017 based on the terms and conditions governing the restricted performance share programme for the year 2016, ref. Vestas' remuneration policy and general guidelines for incentive pay.

### Number of shares

The number of shares to be granted is based on a defined target level for each position. No payments for any grants are made by the participants. If all KPIs are reached on target level, a total of 310,000 shares will be granted from the programme with a total present value calculated based on the current share price amounting to EUR 24.5m (value at close of Nasdaq Copenhagen on 2 May, 2017). For 2017, the target number of shares for the Executive Management will be 86,000 shares in total.

The actual number of restricted performance shares available for distribution may range between 0 and 150 percent of the target level and is determined by Vestas' performance in the financial years 2017, 2018, and 2019. The maximum grant of shares under the programme in total is 465,000 shares based on full performance achievement.

### Time of grant

The shares are to be granted in 2020 and 2022.

### Share-based incentive programmes for the Executive Management

Total outstanding shares per year for vesting (performance adjusted until year 2017)

	2018	2019	2020	2021	2022
Share-based incentive programme 2013	84,374				
Share-based incentive programme 2014		79,124			
Share-based incentive programme 2015	79,080		79,080		
Share-based incentive programme 2016		50,829		50,829	
Share-based incentive programme 2017			43,000		43,000

### Key performance indicators

The KPIs for all three performance years are based on financial targets including Earnings per share, Return on Capital Employed, the market share of the Vestas Group, as well as commercial targets for relevant participants. All KPIs and targets are defined by the Board of Directors.

### Conditions

The restricted performance shares are governed by the specific terms and conditions of the programme and subject to mandatory law. If a participant chooses to leave Vestas before the time of grant, the participant's rights to receive shares will generally lapse.

### Adjustments to the programme

The number of shares available for grant and the calculation of the KPIs may be adjusted in the event of certain changes in Vestas' capital structure. In addition, calculation of the KPIs may be adjusted for certain non-operational events. Further, in the event of a change of control, merger, winding-up or demerger of Vestas, an accelerated grant may extraordinarily take place. In the event of certain transfers of activities or changes in ownership interests within the Vestas Group, adjustment, replacement of the programme and/or settlement in cash of the programme entirely or partly may also take place.

### Personal benefits

Members of the Executive Management have access to a number of work-related benefits, including company car, free telephony, broadband at home, and work-related newspapers and magazines.

### Remuneration of the Executive Management

EUR

	2017	2016
Fixed salary	4,466,736	4,338,163
Cash bonus for the previous year	3,085,366	3,082,664

Vestas' headquarter and main research and development centre is located in Aarhus, Denmark. The company is listed on the Nasdaq Copenhagen stock exchange and has by the end of 2017 147,912 Danish shareholders registered by name.



## Fiduciary positions

The members of the Board of Directors and the Executive Management have informed the company of the following competencies and fiduciary positions in Danish and foreign listed and non-listed companies, and organisations.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
<b>Bert Nordberg</b> Director	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors</li> <li>Chairman of the Nomination &amp; Compensation Committee</li> </ul>	Member of the boards of AB Electrolux <sup>1)</sup> (SE), Essity AB <sup>1)</sup> (SE), Saab Group AB <sup>1)</sup> (SE), and Svenska Cellulosa Aktiebolaget SCA <sup>1)</sup> (SE).		Special competence in restructuring, services and infrastructure business; several years of international business experience; development market knowledge.
<b>Lars Josefsson</b> Independent consultant	<ul style="list-style-type: none"> <li>Deputy Chairman of the Board of Directors</li> <li>Chairman of the Technology &amp; Manufacturing Committee</li> <li>Member of the Nomination &amp; Compensation Committee</li> </ul>	<p>Chairman of the boards of Driconeq AB (SE), Ouman Oy (FI), and TimeZynk AB (SE).</p> <p>Member of the board of Holmen AB<sup>1)</sup> (SE) and Metso Oyj<sup>1)</sup> (FI).</p>		In-depth knowledge of managing international companies including research and development, technology and production.
<b>Carsten Bjerg</b> Director	<ul style="list-style-type: none"> <li>Member of the Board of Directors</li> <li>Member of the Technology &amp; Manufacturing Committee</li> <li>Member of the Audit Committee</li> </ul>	<p>Chairman of the boards of Bogballe A/S (DK), Ellegaard A/S (DK), Guldager A/S (DK), and PCH Engineering A/S (DK).</p> <p>Deputy chairman of the boards of Højgaard Holding A/S<sup>1)</sup> (DK) and Rockwool International A/S<sup>1)</sup> (DK).</p> <p>Member of the boards of Agrometer A/S (DK) and MT Højgaard A/S (DK).</p>		In-depth knowledge of managing an international group including thorough knowledge of R&D, manufacturing, and strategic management.
<b>Eija Pitkänen</b> Sustainability, Ethics & Compliance Officer, Risk Officer, Telia	<ul style="list-style-type: none"> <li>Member of the Board of Directors</li> <li>Member of the Technology &amp; Manufacturing Committee</li> </ul>	Member of the board of Finnish Refugee Council (FI).		Extensive international experience in developing and executing global sustainability strategies as part of business in several international companies.
<b>Henrik Andersen</b> Group President & CEO of Hempel A/S	<ul style="list-style-type: none"> <li>Member of the Board of Directors</li> <li>Chairman of the Audit Committee<sup>2)</sup></li> <li>Member of the Nomination &amp; Compensation Committee</li> </ul>	Member of the board of Maj Invest Holding A/S (DK).	Member of the investment committee Maj Invest Equity 4 K/S (DK).	In-depth knowledge of accounting, finance and capital markets, international business experience including restructuring and strategic management of international companies.
<b>Henry Sténson</b> Executive Vice President of Group Communication & Sustainability Affairs, Volvo Group <sup>1)</sup>	<ul style="list-style-type: none"> <li>Member of the Board of Directors</li> </ul>	<p>Member of the advisory board of Braathens Regional Aviation (SE).</p> <p>Member of the board of Triboron International AB (SE).</p>		More than 20 years' experience from executive teams in global business and extensive experience from communications with media, capital markets and international public affairs. Furthermore, experience from industrial turnaround processes and crisis management.
<b>Kim Hvid Thomsen</b> HR Business Partner, People & Culture, Vestas Wind Systems A/S <sup>1)</sup>	<ul style="list-style-type: none"> <li>Member of the Board of Directors (elected by Group employees)</li> <li>Member of the Technology &amp; Manufacturing Committee</li> </ul>			In-depth knowledge of production processes and human resources, etc. of the Vestas Group.
<b>Lykke Friis</b> Prorector for Education, University of Copenhagen	<ul style="list-style-type: none"> <li>Member of the Board of Directors</li> <li>Member of the Nomination &amp; Compensation Committee</li> </ul>	Member of the boards of European Council of Foreign Relations (UK), Rockwool Foundation, and VELUX A/S (DK).	<p>Chairman of the Danish Foreign Policy Society (DK).</p> <p>President of the Danish Cancer Society (DK).</p> <p>Member of the Danish-German Chamber of Commerce (DK).</p>	In-depth knowledge of international energy policy and European Union regulation. Furthermore, experience from public affairs and managing research and development.

1) Company listed at a stock exchange.

2) Fulfills the demand for qualifications within financial accounting and meets the definition of independence of audit committee members as set out in the Danish Auditors Act.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
<b>Michael Abildgaard Lisbjerg</b> Senior Shop Steward and Skilled Worker, Production, Vestas Manufacturing A/S	· Member of the Board of Directors (elected by Group employees)	Deputy chairman of the boards of DM Skjern-Ringkøbing P/S (DK) and DMSR af 24. oktober 2016 ApS (DK).		In-depth knowledge of production processes and human resources, etc. of the Vestas Group.
<b>Peter Lindholst</b> Vice President, Concept Development, Power Solutions, Vestas Wind Systems A/S <sup>1)</sup>	· Member of the Board of Directors (elected by company employees)			In-depth knowledge of wind turbine design and innovation, and experience from Vestas in managing R&D activities in an international set-up.
<b>Sussie Dvinge Agerbo</b> Management Assistant, Power Solutions, Vestas Wind Systems A/S <sup>1)</sup>	· Member of the Board of Directors (elected by company employees)			In-depth knowledge of project management and organizational structures including human resources and staff development.
<b>Torben Ballegaard</b> Director	· Member of the Board of Directors · Member of the Audit Committee	Chairman of the boards of AS3 A/S (DK), Liquid Vanity ApS (DK), PulmoPharma ApS (DK), and SofaCompany A/S (DK).  Deputy chairman of the board of Egmont International Holding A/S including its subsidiaries (DK).	Chairman of the Foundation Capnova Invest Zealand (DK) and the Musikteatret-Holstebro Foundation (DK).  Deputy chairman of the Egmont Foundation (DK).  Member of the board of Centre for Advanced Technology Foundation (DK).	Experience from growth and continuous improvement of global and complex industrial organizations. Leadership development. Product and business innovation and strategic execution. International sales and marketing. Value adding board work, financial controlling, and interaction with capital markets.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust
<b>Anders Runevad</b>	· Group President & CEO	Deputy chairman of the board of MHI Vestas Offshore Wind A/S (DK). <sup>2)</sup>  Member of the board of Nilfisk Holding A/S (DK).	Member of The General Council of the Confederation of Danish Industries (DK) and The Industrial Policy Committee of the Confederation of Danish Industries (DK).
<b>Anders Vedel</b>	· Executive Vice President & CTO	Member of the boards of Hvide Sande Harbour (DK) and MHI Vestas Offshore Wind A/S (DK).	
<b>Jean-Marc Lechêne</b>	· Executive Vice President & COO	Member of the board of Norican A/S (DK).	
<b>Juan Araluze</b>	· Executive Vice President & CSO	Member of the board of MHI Vestas Offshore Wind A/S (DK).	
<b>Marika Fredriksson</b>	· Executive Vice President & CFO	Member of the boards of Sandvik AB <sup>1)</sup> (SE) and SSAB <sup>1)</sup> (SE).	Chairman of the audit committee of SSAB <sup>1)</sup> (SE).

1) Company listed at a stock exchange.

2) On 1 April 2018, Mr Anders Runevad will take up the fiduciary position as chairman of the board of MHI Vestas Offshore Wind A/S.

# Accounting policies

## social and environmental highlights

### Basis for preparation of the statement

#### General reporting standards

Vestas' reporting contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The below description of accounting policies of social and environmental performance refers to the social and environmental key figures and indicators presented on page 009 of the annual report.

All Vestas' wholly owned companies are covered by the report. Newly established companies are included from the time of production start and for acquired companies from the time when coming under Vestas' control. Companies are excluded from the reporting from the time when they leave Vestas' control.

#### Defining materiality

Vestas bases its materiality assessment on an analysis of significant economic, environmental, and social impacts of the Group's activities. The analysis is based on internal priorities as well as experience from dialogue with and direct involvement of customers, investors, policy makers, employees, and media. The result of the analysis is incorporated in Vestas' COP.

Vestas has previously selected a number of social and environmental key figures that are relevant to understand Vestas' development, results and financial position. These key figures have been maintained after the materiality assessment. The status of the key figures is monitored closely and for relevant key indicators specific targets have been defined.

#### Change in accounting policies

The same measurement and calculation methods are applied at all Vestas sites. A minor change from previous reporting periods is that only 100 percent renewable electricity is counted as renewable electricity.

### Social performance

#### Occupational health and safety

Occupational health & safety is measured for all activities under the organisational structure. Lost time injuries of all employees are stated on the basis of registration of incidents that have caused at least one workday of absence after the day of the injury. Total recordable injuries include Lost time injuries, Restricted work injuries, and Medical treatment injuries.

Injuries and working hours for external supervised employees are also included. The incidence of injuries is defined as the number of lost time injuries including fatalities per one million working hours. The number of working hours is measured on the basis of daily time cards registered in the payroll system for hourly-paid employees and prescribed working hours for salaried employees. For external supervised employees, the injuries are reported by Vestas, and working hours are reported by the external suppliers.

Absence due to illness does not include absence caused by lost time injuries, maternity leave, and child's illness leave. Absence due to illness is measured by means of registrations in the payroll system based on daily time cards for hourly-paid employees and absence records for salaried employees, respectively.

#### Employees

The number of employees is calculated as the number of full-time equivalents (FTEs) with a direct contract with Vestas. Employee information is determined on the basis of extracts from the company's ordinary registration systems with specification of nationality, gender and IPE level (Mercer's International Position Evaluation). Employee indicators are calculated based on head counts.

### Environmental performance

Energy consumption, water consumption, waste generation and CO<sub>2</sub> emission are reported on the basis of significance. All production facilities are included as well as larger offices, warehouses, and other facilities ensuring a comprehensive and sufficient statement of these environmental aspects.

#### Utilisation of resources

Electricity, gas, and district heating are measured on the basis of quantities consumed according to direct meter readings per site including related administration. Consumption of electricity comprises electricity purchased externally and consumption of production from own wind turbines. Oil for heating is stated on the basis of external purchases adjusted for inventories at the beginning and at the end of the period. Fuel for transport has been recognised on the basis of supplier statements. Electricity from renewable energy sources is calculated on the basis of supplier statements.

Renewable energy is energy generated from natural resources, which are all naturally replenished – such as wind, sunlight, water, and geothermal heat. Nuclear power is not considered to be renewable energy. Consumption of electricity from non-renewable sources purchased as a result of not being able to purchase renewable electricity at some locations, is in the Group statement balanced with renewable electricity produced by wind power plants owned by Vestas and sold to the local grid.

The consumption of water is stated as measured consumption of fresh water. Cooling water from streams, rivers, lakes, etc. that is solely used for cooling and released to the stream after use without further contamination than a higher temperature, is not included.

#### Waste disposal

Waste is stated on the basis of weight slips received from the waste recipients for deliveries affected in the accounting period, apart from a few types of waste and non-significant volumes which are estimated on the basis of subscription arrangement and load. Waste disposal is based on supplier statements.

#### Emissions of CO<sub>2</sub>

Direct emission of CO<sub>2</sub> is calculated on the basis of determined amounts of fuel for own transport and the direct consumption of oil and gas, with the usage of standard factors published by the UK Department for Environment, Food & Rural Affairs. Indirect emission of CO<sub>2</sub> is calculated on the basis of direct consumption of electricity and district heating, with the usage of national grid emissions factors published by International Energy Agency. Indirect CO<sub>2</sub> emissions from electricity consumption based on non-renewable sources is balanced out by CO<sub>2</sub> emission savings in the production and sale to the grid from Vestas owned wind turbines.

#### Local community

Environmental accidents are accidental releases of substance and chemicals which are considered by Vestas to have a significant impact on the environment. Breaches of internal inspection conditions are stated as the conditions for which measurements are required, and where measurements show breaches of stated conditions.

#### Products

CO<sub>2</sub> savings from the produced and shipped MW are calculated on the basis of a capacity factor of 30 per cent of the produced and shipped MW, an expected lifetime of 20 years of the produced and shipped MW, and the latest updated standard factor from the International Energy Agency of average CO<sub>2</sub> emission for electricity in the world, at present 536 grams of CO<sub>2</sub> per kWh.



During the construction phase, the wind power plant is built and connected to the grid. There is a huge number of tasks to be carried out by both the developer and Vestas to ensure this happens efficiently and effectively. The construction of the Had Kangan project in Thailand, consisting of 70 V110-1.8 MW turbines, took place in 2016.

## Consolidated financial statements

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## Income statement 1 January – 31 December

mEUR	Note	2017	2016
<b>Revenue</b>	1.1, 1.2	9,953	10,237
Production costs	1.3, 1.4, 2.2	(7,990)	(8,111)
<b>Gross profit</b>		<b>1,963</b>	<b>2,126</b>
Research and development costs	1.3, 1.4	(235)	(227)
Distribution costs	1.3, 1.4	(229)	(190)
Administration costs	1.3, 1.4	(269)	(288)
<b>Operating profit (EBIT)</b>		<b>1,230</b>	<b>1,421</b>
Income/(loss) from investments in joint ventures and associates	3.4	(40)	(101)
Financial income	4.3	45	56
Financial costs	4.3	(43)	(89)
<b>Profit before tax</b>		<b>1,192</b>	<b>1,287</b>
Income tax	5.1	(298)	(322)
<b>Profit for the year</b>		<b>894</b>	<b>965</b>
<b>Earnings per share (EPS)</b>	4.2		
Earnings per share (EUR)		4.23	4.41
Earnings per share (EUR), diluted		4.20	4.39



## Statement of comprehensive income 1 January - 31 December

mEUR	Note	2017	2016
<b>Profit for the year</b>		<b>894</b>	<b>965</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		(128)	8
Fair value adjustments of derivative financial instruments		174	(140)
Fair value adjustments of derivative financial instruments transferred to the income statement, production costs		(30)	9
Fair value adjustments of derivative financial instruments transferred to the income statement, financial costs	4.3	14	-
Exchange rate adjustments relating to joint ventures	3.4	(1)	(3)
Share of fair value adjustments of derivatives financial instruments of joint ventures	3.4	(2)	16
Share of fair value adjustments of derivative financial instruments transferred to the income statement of joint ventures	3.4	(14)	
Tax on fair value adjustments that may be subsequently reclassified to the income statement		(37)	33
<b>Other comprehensive income after tax</b>		<b>(24)</b>	<b>(77)</b>
<b>Total comprehensive income</b>		<b>870</b>	<b>888</b>

## Balance sheet 31 December

### Assets

mEUR	Note	2017	2016
Intangible assets	3.1, 3.3	901	828
Property, plant and equipment	3.2	1,247	1,329
Investments in joint ventures and associates	3.4	150	201
Other investments		30	26
Tax receivables	5.1	51	49
Deferred tax	5.2	218	208
Other receivables	2.5, 4.5	72	55
Marketable securities	4.5	196	190
<b>Total non-current assets</b>		<b>2,865</b>	<b>2,886</b>
Inventories	2.2	2,696	1,985
Trade receivables	2.3, 4.5	1,144	1,038
Construction contracts in progress	2.4, 4.5	82	19
Tax receivables	5.1	53	25
Other receivables	2.5, 4.5	371	322
Marketable securities	4.5	7	11
Cash and cash equivalents	4.4, 4.5	3,653	3,550
<b>Total current assets</b>		<b>8,006</b>	<b>6,950</b>
Non-current assets held for sale	6.6	-	95
<b>Total assets</b>		<b>10,871</b>	<b>9,931</b>

### Liabilities

mEUR	Note	2017	2016
Share capital	4.1	29	30
Other reserves		37	61
Retained earnings		3,046	3,099
<b>Total equity</b>		<b>3,112</b>	<b>3,190</b>
Provisions	3.5	483	457
Deferred tax	5.2	61	34
Financial debts	4.5, 4.6	497	496
Tax payables	5.1	166	37
Other liabilities	2.6, 4.5	19	90
<b>Total non-current liabilities</b>		<b>1,226</b>	<b>1,114</b>
Prepayments from customers		2,923	3,002
Construction contracts in progress	2.4	159	73
Trade payables	4.5	2,660	1,666
Provisions	3.5	148	131
Tax payables	5.1	108	191
Other liabilities	2.6, 4.5	535	564
<b>Total current liabilities</b>		<b>6,533</b>	<b>5,627</b>
<b>Total liabilities</b>		<b>7,759</b>	<b>6,741</b>
<b>Total equity and liabilities</b>		<b>10,871</b>	<b>9,931</b>

## Statement of changes in equity 1 January – 31 December

mEUR	Reserves					Retained earnings	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total 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 year	-	-	-	-	-	894	894
Other comprehensive income for the year	-	(128)	121	(17)	(24)	-	(24)
Total comprehensive income for the year	-	(128)	121	(17)	(24)	894	870
Transactions with owners:							
Reduction of share capital	(1)	-	-	-	-	1	-
Dividends distributed	-	-	-	-	-	(289)	(289)
Dividends distributed related to treasury shares	-	-	-	-	-	11	11
Acquisitions of treasury shares	-	-	-	-	-	(694)	(694)
Sale of treasury shares	-	-	-	-	-	1	1
Share-based payment	-	-	-	-	-	18	18
Tax on equity transactions	-	-	-	-	-	5	5
Total transactions with owners	(1)	-	-	-	-	(947)	(948)
<b>Equity as at 31 December 2017</b>	<b>29</b>	<b>(21)</b>	<b>60</b>	<b>(2)</b>	<b>37</b>	<b>3,046</b>	<b>3,112</b>

A dividend of DKK 9.23 (EUR 1.24) per share, corresponding to EUR 267m in total, is proposed for 2017. The proposed dividend is included in retained earnings. Dividends of EUR 278m, net of treasury shares, have been paid in 2017 relating to the financial year 2016.

Ref. to the parent company's statement of changes in equity on page 131 for information about which reserves are available for distribution. For proposed distribution of profit, ref. to note 4.1 and page 128 of the parent company's financial statements.

mEUR	Reserves					Retained earnings	Total
	Share capital	Translation reserve	Cash flow hedging reserve	Other reserves	Total reserves		
<b>Equity as at 1 January 2016</b>	<b>30</b>	<b>99</b>	<b>37</b>	<b>2</b>	<b>138</b>	<b>2,731</b>	<b>2,899</b>
Profit for the year	-	-	-	-	-	965	965
Other comprehensive income for the year	-	8	(98)	13	(77)	-	(77)
Total comprehensive income for the year	-	8	(98)	13	(77)	965	888
Transactions with owners:							
Dividends distributed	-	-	-	-	-	(205)	(205)
Dividends distributed related to treasury shares	-	-	-	-	-	4	4
Acquisitions of treasury shares	-	-	-	-	-	(419)	(419)
Sale of treasury shares	-	-	-	-	-	11	11
Share-based payment	-	-	-	-	-	12	12
Total transactions with owners	-	-	-	-	-	(597)	(597)
<b>Equity as at 31 December 2016</b>	<b>30</b>	<b>107</b>	<b>(61)</b>	<b>15</b>	<b>61</b>	<b>3,099</b>	<b>3,190</b>

Dividends of EUR 205m were paid in 2016 relating to the financial year 2015.

## Statement of cash flows 1 January – 31 December

mEUR	Note	2017	2016
Profit for the year		894	965
Adjustments for non-cash transactions	6.5	845	1,086
Financial interest received		17	25
Financial interest paid		(33)	(71)
Income tax paid	5.1	(262)	(212)
Cash flow from operating activities before change in net working capital		1,461	1,793
Change in net working capital	2.1	164	388
<b>Cash flow from operating activities</b>		<b>1,625</b>	<b>2,181</b>
Purchase of intangible assets	3.1	(223)	(202)
Purchase of property, plant and equipment	3.2	(268)	(287)
Disposal of property, plant and equipment		8	21
Disposal of non-current assets held for sale		99	-
Purchase of other financial assets		(8)	-
Acquisition of subsidiaries, net of cash		-	(83)
Additions of shares in joint ventures	3.4	(15)	(66)
<b>Cash flow from investing activities before marketable securities</b>		<b>(407)</b>	<b>(617)</b>
<b>Free cash flow before marketable securities</b>		<b>1,218</b>	<b>1,564</b>
Purchase of marketable securities		-	(200)
<b>Free cash flow</b>		<b>1,218</b>	<b>1,364</b>
Acquisition of treasury shares		(697)	(417)
Disposal of treasury shares		1	11
Dividends paid		(278)	(201)
Repayment of financial debts	4.5	-	(4)
<b>Cash flow from financing activities</b>		<b>(974)</b>	<b>(611)</b>
<b>Net increase in cash and cash equivalents</b>		<b>244</b>	<b>753</b>
Cash and cash equivalents as at 1 January		3,550	2,765
Exchange rate adjustments on cash and cash equivalents		(141)	32
<b>Cash and cash equivalents as at 31 December</b>	4.4	<b>3,653</b>	<b>3,550</b>

## Overview of notes

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## 1. Result for the year

### 1.1 Segment information

#### Reportable segments

Vestas operates in the two business segments, Power solutions and Service.

In 2017, the operating and reportable segment Projects 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.

Segments	Power solutions	Service
Primary activity	The Power solutions segment contains sale of wind power plants, wind turbines, etc.	The Service segment contains sale of service contracts, spare parts and related activities.

#### Group accounting policies

The reportable segments are determined based on the Group's management structures and the consequent reporting to the Chief Operating Decision Maker ("CODM"), which is defined as the Executive Management. The total external revenue is derived from the two operating and reportable segments and comprise sale of wind turbines and associated service activities, respectively Power solutions and Service. Certain income and costs relating to group functions, investing activities, tax, special items, etc. are managed on group level. These items are not included in the reportable segments, and therefore, presented as 'Not allocated'.

The measure of revenue, costs and EBIT included in the segment reporting are the same as those used in the consolidated financial statements. No segment information is provided to CODM on a regular basis for assets and liabilities and the measures below EBIT.

Income and costs included in profit for the year are allocated to the extent that they can be directly or indirectly attributed to the segments on a reliable basis. Costs allocated as either directly or indirectly attributable comprise production costs, research and development costs, distribution costs, and administration costs.

The income and costs allocated, including depreciation and amortisation, as indirectly attributable to the segments, are allocated by means of allocation keys determined on the basis of the utilisation of key resources in the segment.

## 1.1 Segment information (continued)

2017 mEUR	Power solutions	Service	Not allocated	Total Group
Revenue	8,431	1,522	-	9,953
<b>Total revenue</b>	<b>8,431</b>	<b>1,522</b>	<b>-</b>	<b>9,953</b>
<b>Total costs</b>	<b>(7,289)</b>	<b>(1,216)</b>	<b>(218)</b>	<b>(8,723)</b>
<b>Operating profit (EBIT)</b>	<b>1,142</b>	<b>306</b>	<b>(218)</b>	<b>1,230</b>
Income/(loss) from investments in joint ventures and associates, ref. note 3.4			(40)	(40)
Financial income			45	45
Financial costs			(43)	(43)
<b>Profit before tax</b>				<b>(1,192)</b>
Amortisation and depreciation included in total costs, ref. note 1.4	(335)	(33)	(30)	(398)
Investments in joint ventures and associates, ref. note 3.4				150

In 2017, impairment loss of EUR 23m has negatively impacted the Group's EBIT, of which the largest contributors is EUR 31m related to R&D activities. However, this was partially offset by reversal of EUR 8m under production facilities. Both the impairment and the reversal are impacting the Power solutions segment.

2016 mEUR	Power solutions	Service	Not allocated	Total Group
Revenue	8,928	1,309	-	10,237
<b>Total revenue</b>	<b>8,928</b>	<b>1,309</b>	<b>-</b>	<b>10,237</b>
<b>Total costs</b>	<b>(7,505)</b>	<b>(1,084)</b>	<b>(227)</b>	<b>(8,816)</b>
<b>Operating profit (EBIT)</b>	<b>1,423</b>	<b>225</b>	<b>(227)</b>	<b>1,421</b>
Loss from investments in joint ventures and associates, ref. note 3.4			(101)	(101)
Financial income			56	56
Financial costs			(89)	(89)
<b>Profit before tax</b>				<b>1,287</b>
Amortisation and depreciation included in total costs, ref. note 1.4	(320)	(28)	(29)	(377)
Investments in joint ventures and associates, ref. note 3.4				201

In 2016, impairment loss of EUR 28m has negatively impacted the Group's EBIT, of which the largest contributors are EUR 11m related to R&D activities and EUR 11m related to production equipment, both impacting the Power solutions segment. Furthermore, EUR 5m impairment loss from properties held for sale where impact is not allocated.

Write-down of inventory relating to development and construction activities in prior years of EUR 54m, has been recognised and consequently negatively impacted the Power solutions EBIT.

## 1.1 Segment information (continued)

### Revenue specified by country

mEUR	2017	2016
USA	2,968	3,882
Germany	1,691	1,447
Denmark	380	301
Other countries	4,914	4,607
<b>Total</b>	<b>9,953</b>	<b>10,237</b>

Revenue is broken down based on geographical supply point.

Revenue specified by country comprises all countries with revenue that accounts for more than 10 percent of the Group's total revenue and revenue in Denmark.

In 2017 and 2016, no single customer accounted for more than 10 percent of the Group's total revenue.

### Non-current assets specified by country<sup>1)</sup>

mEUR	2017	2016
Denmark	1,101	955
USA	455	545
Other countries	592	657
<b>Total</b>	<b>2,148</b>	<b>2,157</b>

1) Non-current assets are broken down geographically based on the physical location of the assets and comprise intangible assets and property, plant and equipment.

The non-current assets in all other countries did not individually exceed 10 percent of total non-current assets for the Group.



## 1.2 Revenue

### Group accounting policies

Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts.

Sale of individual wind turbines and small wind power plants based on standard solutions (supply-only and supply-and-installation projects) are recognised in the income statement, provided that risk has been transferred to the buyer in the reporting period, and provided that the income can be measured reliably and is expected to be received. Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised as the wind power plants are constructed based on the stage of completion of the individual contracts (turnkey projects). 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, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised as revenue over the term of the agreement as the services are provided. Spare parts sales are recognised in the income statement provided that risk has been transferred to the buyer in the reporting period, and provided that the income can be measured reliably and is expected to be received.

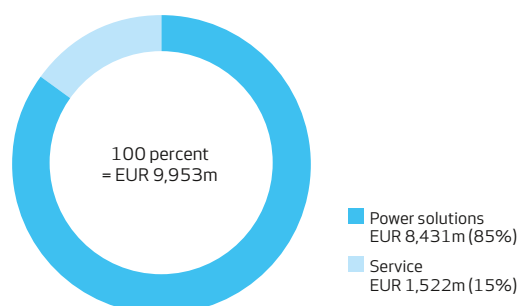
### Key accounting estimates and judgements

#### Recognition of contract elements

Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In particular Supply-only projects, which in certain situations, contains elements that in nature are associated with a high degree of estimations regarding timing of contribution margin as a result of future events. Provided that the wind power plants are customised to a high degree, revenue from projects in progress is recognised under the percentage-of-completion method, corresponding to the selling price of the assessed work performed based on the stage of completion (turnkey projects). Revenue from service contracts is also recognised under the percentage-of-completion method. Where projects do not qualify for recognition under the percentage-of-completion method, total revenue is, to the extent applicable, recognised based on an assessment of the point in time when the risk is transferred to the customer (supply-only and supply-and-installation projects).

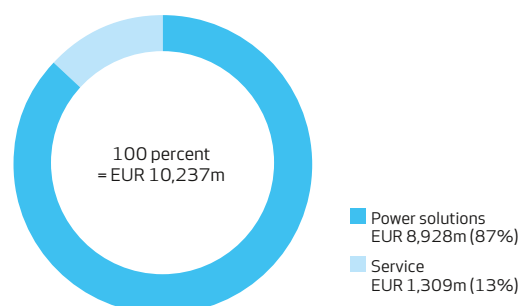
### Revenue 2017

mEUR · Percent



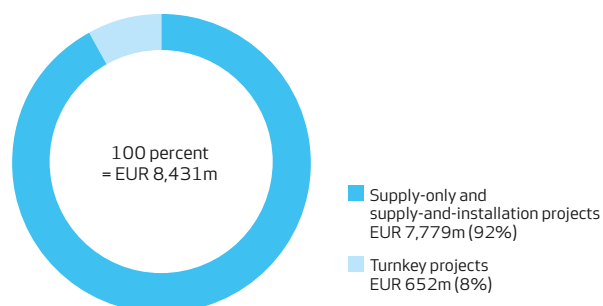
### Revenue 2016

mEUR · Percent



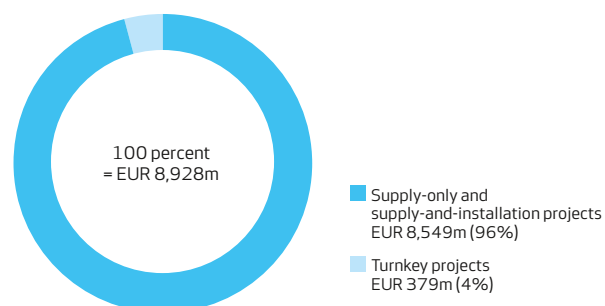
### Power solutions segment revenue 2017

mEUR · Percent



### Power solutions segment revenue 2016

mEUR · Percent



## 1.3 Costs

### Group accounting policies

#### Production costs

Production costs, including warranty costs, comprise the costs incurred to achieve revenue for the year. Costs comprise raw materials, consumables, direct labour costs, and indirect cost such as salaries, rental and lease cost as well as depreciation of production facilities.

Furthermore, provisions for losses on construction contracts are included in production costs.

#### Research and development costs

Research and development costs primarily comprise employee costs, internal and external costs related to innovation and new technologies, as well as amortisation, depreciation and impairment losses on capitalised development costs.

#### Distribution costs

Distribution costs comprise costs incurred for the sale and distribution of products, etc. sold during the year. Also included are costs relating to employees and depreciation.

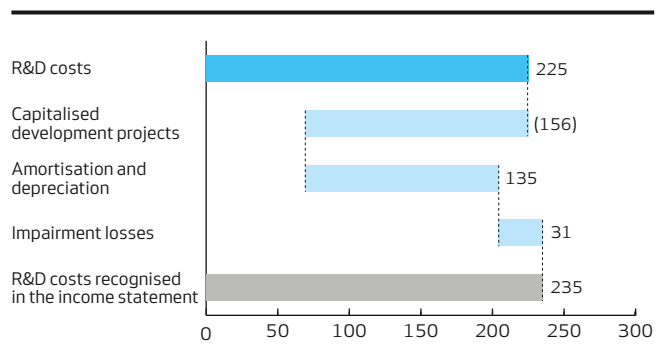
#### Administration costs

Administration costs comprise costs incurred during the year for management and administration of the Group, including costs for administrative staff, management, office premises, office cost, and depreciation.

### Research and development costs

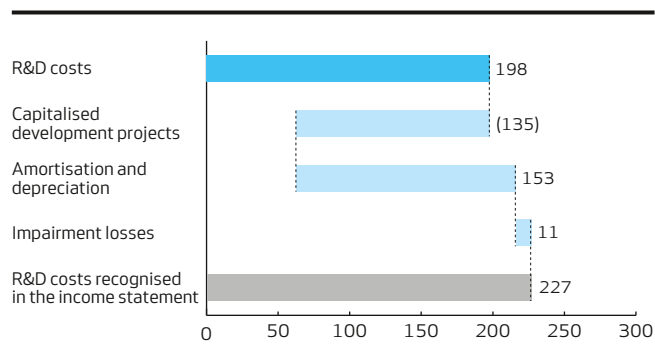
#### Research and development costs 2017

mEUR



#### Research and development costs 2016

mEUR



### Staff costs

mEUR

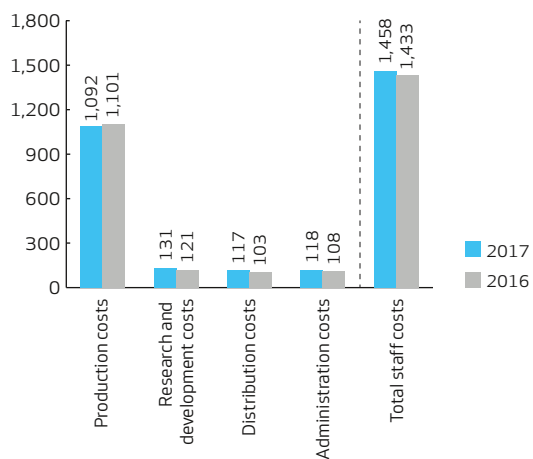
Staff costs are specified as follows:

	2017	2016
Wages and salaries, etc.	1,224	1,213
Share-based payment, ref. note 6.2	18	12
Pension schemes, defined contribution schemes	60	55
Other social security costs	156	153
	<b>1,458</b>	<b>1,433</b>
Average number of employees	22,504	21,625
Number of employees 31 December	23,303	21,824

### 1.3 Costs (continued)

#### Staff costs recognised in the income statement

mEUR



Key management personnel is defined as Executive Management, and disclosures are provided below.

mEUR	2017	2016
Attributable to:		
<b>Board of Directors</b>		
Board remuneration	1	1
	<b>1</b>	<b>1</b>
<b>Executive Management</b>		
Wages and bonus	8	7
Share-based payment	6	4
Social security costs	0	0
	<b>14</b>	<b>11</b>

Board of Directors and Executive Management are not covered by any pension schemes. In the event of change in control, members of the Executive Management do not receive any additional compensation.

## 1.4 Amortisation, depreciation and impairment

2017 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Total
Amortisation, intangible assets, ref. note 3.1	17	117	-	21	155
Depreciation, property, plant and equipment, ref. note 3.2	192	18	22	11	243
Impairment losses, intangible assets, ref. note 3.1	-	3	-	-	3
Impairment losses, property, plant and equipment, ref. note 3.2	-	28	-	-	28
Reversal of impairment losses, property, plant and equipment, ref. note 3.2	(8)	-	-	-	(8)
<b>Total</b>	<b>201</b>	<b>166</b>	<b>22</b>	<b>32</b>	<b>421</b>

2016 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Total
Amortisation, intangible assets, ref. note 3.1	12	130	-	20	162
Depreciation, property, plant and equipment, ref. note 3.2	152	23	21	19	215
Impairment losses, property, plant and equipment, ref. note 3.2	12	11	-	5	28
<b>Total</b>	<b>176</b>	<b>164</b>	<b>21</b>	<b>44</b>	<b>405</b>

## 1.5 Government grants

### Group accounting policies

Government grants comprise grants for investments, research and development projects, etc. Grants are recognised when there is reasonable certainty that they will be received.

Grants for investments and capitalised development projects are offset against the cost of the assets to which the grants relate. Other grants are recognised in development costs in the income statement so as to offset the cost for which they compensate.

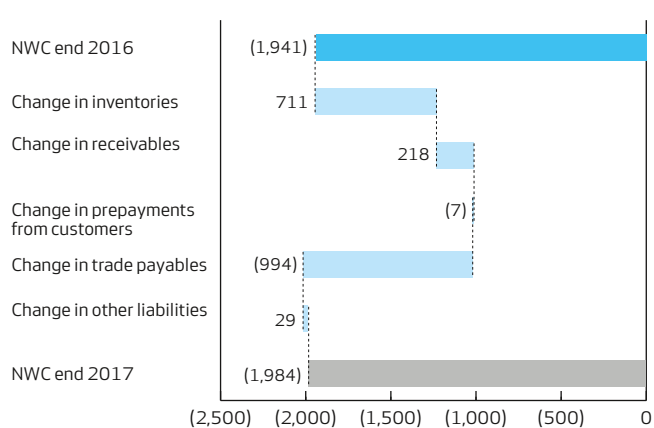
The Group has received government grants of which EUR 3m (2016: EUR 2m) has been offset against incurred cost and EUR 3m (2016: EUR 4m) against non-current assets.

## 2. Working capital

### 2.1 Change in net working capital

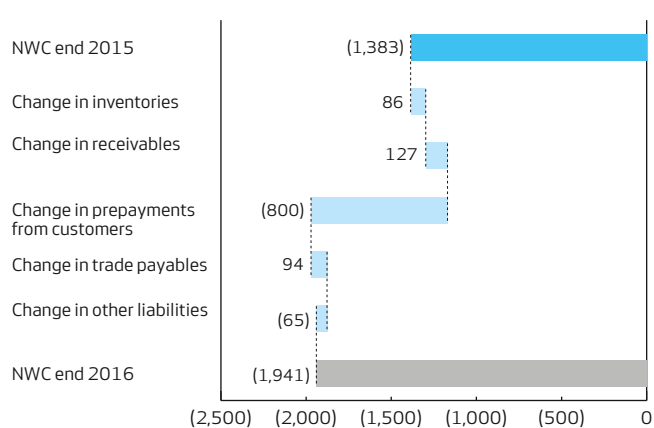
#### NWC change 2017

mEUR



#### NWC change 2016

mEUR



Included in the 2017 change in net working capital ('NWC') are non-cash adjustments and exchange rates adjustments with a total amount of EUR 121m (2016: EUR -170m). Consequently, the cash flow impact of change in NWC is EUR 164m (2016: EUR 388m).

## 2.2 Inventories

### Group accounting policies

Inventories are measured at the lower of cost, using the weighted average method, and net realisable value (NRV).

The cost of raw materials and service stock comprise purchase price of materials, consumables, duties, and transportation costs.

The cost of work in progress and finished goods comprises the cost of raw materials, consumables, direct labour, and indirect production costs. Indirect production costs comprise materials and labour costs as well as maintenance and depreciation of the machinery, factory buildings, and equipment used in the manufacturing process together with costs of factory administration and management.

The NRV of inventories is measured at sales price less costs of completion and selling costs. NRV is determined taking into account marketability, obsolescence, and development in the expected selling price.

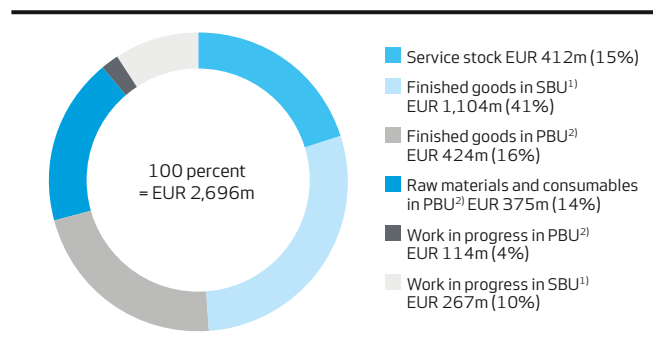
### Key accounting estimate

#### Estimate of net realisable value

The Group estimates the net realisable value at the amount at which inventories are expected to be sold. Inventories are written down to net realisable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. Estimates are used when accounting for or measuring inventory provisions, and these estimates depend upon subjective and complex judgements about certain circumstances, taking into account fluctuations in prices, excess quantities, condition of the inventory, nature of the inventory, and the estimated variable costs necessary to make the sale.

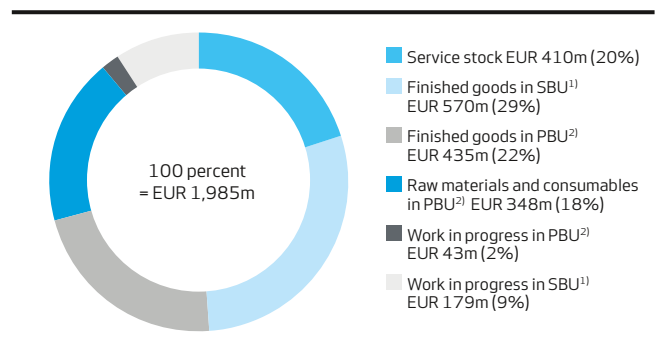
### Inventories 2017

mEUR and percent



### Inventories 2016

mEUR and percent



1) Sales business units ('SBU')

2) Production business units ('PBU')

mEUR	2017	2016
<b>Inventories consumed</b>		
Inventories consumed for the year, which are included in production costs	6,630	6,661
<b>Write down inventories</b>		
Write-downs of inventories in the year <sup>1)</sup>	24	68
Utilised write-downs in the year	(7)	(25)
Reversal of write-downs in the year <sup>2)</sup>	(2)	(6)

1) Includes write-down of EUR 0m (2016: EUR 54m) relating to development and construction activities in prior years.

2) The reversal of write-downs in the year are due to goods previously written down being used or sold at or above original cost.

## 2.3 Trade receivables

### Group accounting policies

Trade receivables are measured at amortised cost or net realisable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower.

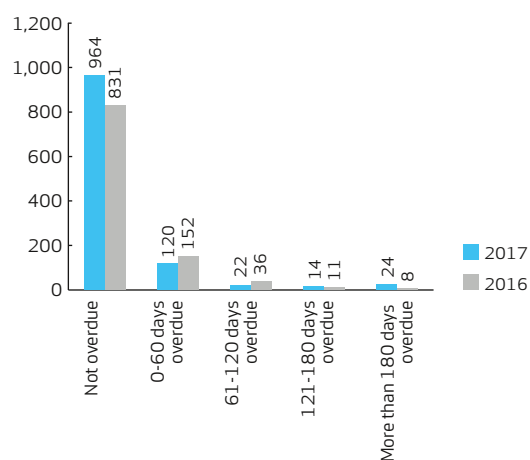
mEUR	2017	2016
Trade receivables	1,144	1,038
	<b>1,144</b>	<b>1,038</b>
Fair value of security received for trade receivables balances outstanding as at 31 December	396	347
Write-downs included in trade receivables, developed as follows:		
Write-downs as at 1 January	(15)	(15)
Write-downs realised	4	2
Write-downs in the year	(29)	(2)
<b>Write-downs as at 31 December</b>	<b>(40)</b>	<b>(15)</b>

All trade receivables are expected to be received within 12 months.

The total write-downs of trade receivables of EUR 40m as at 31 December 2017 (2016: EUR 15m) are based on an individual assessment of each receivable.

### The age distribution of receivables<sup>1)</sup>

mEUR



1) The age distribution of receivables is including write-downs.

## 2.4 Construction contracts in progress

### Group accounting policies

Construction contracts in progress comprise agreements to deliver wind power plants with a high degree of customisation (turnkey projects).

Construction contracts in progress are measured at the selling price of the work performed based on the stage of completion less progress billing and expected losses.

The stage of completion is measured by the proportion that the contract costs incurred to date bear to the estimated total contract costs. Where it is probable that total contract costs will exceed total revenue from a contract, the expected loss is recognised immediately as a cost and an obligation.

The value of self-constructed components is recognised as construction contracts in progress upon delivery of the components to the specific wind power plant's construction site.

Prepayments from customers are recognised as liabilities. Prepayments from customers recognised in liabilities are measured at cost and comprise prepayments received for wind power plants ordered but not yet delivered and service prepayments received in respect of service on wind turbines and wind power plants to be delivered.

A construction contract in progress for which the selling price of the work performed exceeds progress billings and expected losses is recognised as an asset. Construction contracts in progress for which interim billings and expected losses exceed the selling price are recognised as a liability.

Costs relating to sales work and the securing of contracts are recognised in the income statement as incurred.

mEUR	2017	2016
Sales value of construction contracts in progress	825	605
Progress billings	(902)	(659)
	<b>(77)</b>	<b>(54)</b>
Specified as follows:		
Construction contracts in progress (assets)	82	19
Construction contracts in progress (liabilities)	(159)	(73)
	<b>(77)</b>	<b>(54)</b>

All receivables relating to construction contracts in progress are expected to be received within 12 months.



## 2.5 Other receivables

### Group accounting policies

Other receivables are measured at amortised cost or net realisable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower.

Prepayments recognised as assets comprise prepaid expenses and are measured at cost.

### Key accounting judgement

#### Judgement of allowance for doubtful VAT receivables

Management makes allowance for doubtful VAT receivables in anticipation of estimated future receipt of payments. If certain circumstances result in lack of receipt of payments, an additional allowance could be required. When evaluating the adequacy of the allowance for doubtful VAT receivables, Management analyses the nature of the individual VAT receivables and takes into account any relevant historical information that is applicable to the certain circumstance.

mEUR	2017	2016
Prepayments	37	30
Supplier claims	11	4
VAT <sup>1)</sup>	138	130
Derivative financial instruments	116	51
Other receivables <sup>2)</sup>	141	162
	<b>443</b>	<b>377</b>
Specified as follows:		
0–1 years	371	322
> 1 year	72	55
	<b>443</b>	<b>377</b>

1) Includes write-downs of VAT receivables of EUR 78m as at 31 December 2017 (2016: EUR 100m).

2) Other receivables mainly comprise interest receivables, indirect taxes, financial receivables and government grants.

## 2.6 Other liabilities

### Group accounting policies

Other liabilities are measured at amortised cost.

Obligations relating to defined contribution plans, where the Group continuously makes fixed pension contributions to independent pension funds, are recognised in the income statement in the period to which they relate, and any contributions outstanding are recognised in the balance sheet in other liabilities.

mEUR	2017	2016
Staff costs	246	252
Taxes and duties	244	202
Derivative financial instruments	29	139
Other liabilities	35	61
	<b>554</b>	<b>654</b>
Specified as follows:		
0–1 year	535	564
> 1 year	19	90
	<b>554</b>	<b>654</b>

## 3. Other operating assets and liabilities

### 3.1 Intangible assets

#### Group accounting policies

##### Goodwill

Goodwill is initially recognised in the balance sheet as described under consolidated financial statements and business combinations, ref. note 7.1. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's operating segments; Power solutions and Service. Identification of operating segments is based on management structure and internal financial reporting.

The carrying amount of goodwill is tested at least annually for impairment, together with the other non-current assets of the operating segment to which goodwill has been allocated. If the recoverable amount is lower than the carrying amount of the operating segment, goodwill is written down to its lower recoverable amount in the income statement.

The recoverable amount is usually calculated as the net present value of expected future net cash flows from the operating segments to which the goodwill has been allocated. Alternatively, the recoverable amount is calculated as fair value less costs to sell. Impairment losses on goodwill are recognised in a separate line in the income statement, either in production costs, research and development costs, distribution costs or administration costs.

Impairment losses on goodwill are not reversed.

##### Development projects

Projects for the development and testing of new wind turbines that are clearly defined, identifiable, and for which technical feasibility, sufficient resources and a potential future market or application in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if cost can be measured reliably and sufficient certainty exists that future earnings or the net selling price can cover production costs, distribution costs, and administration costs as well as research and development costs. At Vestas this is underpinned by a gate process, where these judgements are made at specific gates. Other development costs are recognised in the income statement and incurred as research and development costs.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses. Development costs comprise salaries, amortisation, and other costs attributable to the Group's development activities.

Following completion of the development work, development projects are amortised on a straight-line basis over their estimated useful lives. The amortisation period is three to five years. The basis of amortisation is calculated net of any impairment losses.

The carrying amount of development projects in progress is tested for impairment at least annually, and where the carrying amount exceeds the net present value of the future net cash flows expected to be generated by the development project, the project is written down to its recoverable amount in the income statement. Finished development projects are tested for impairment if there is indication of impairment from the annual review.

Patents and licences included in development projects are measured at cost less accumulated amortisation and impairment losses. Patents and licences are amortised over the patent period or term of agreement, the life of the development project or the estimated useful life, whichever is shorter. The basis of amortisation is calculated net of any impairment losses.

##### Software

Acquired software licences and internally developed software is measured at cost less accumulated amortisation and impairment losses. Cost includes both direct internal and external costs. Software is amortised on a straight-line basis over three to five years. The basis of amortisation is calculated net of any impairment losses.

##### Other intangible assets

Customer relationship, knowhow and trademarks with a finite useful life acquired from third parties either separately or as part of the business combination are capitalised at cost and amortised over their remaining useful lives. Other intangible assets that are not Customer relationship, knowhow and trademarks are measured at cost less amortisation and impairment losses.

### 3.1 Intangible assets (continued)

2017 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost as at 1 January	412	1,410	263	64	85	2,234
Reclassification	-	(2)	-	10	10	18
Exchange rate adjustments	(5)	(2)	-	-	-	(7)
Additions	-	-	10	-	213	223
Disposals	-	-	(1)	-	-	(1)
Transfers	-	129	35	-	(164)	-
<b>Cost as at 31 December</b>	<b>407</b>	<b>1,535</b>	<b>307</b>	<b>74</b>	<b>144</b>	<b>2,467</b>
Amortisation and impairment losses as at 1 January	103	1,110	183	10	-	1,406
Reclassification	-	-	-	5	-	5
Exchange rate adjustments	-	(2)	-	-	-	(2)
Amortisation for the year	-	115	30	10	-	155
Reversal of amortisation of disposals in the year	-	-	(1)	-	-	(1)
Impairment losses for the year	-	3	-	-	-	3
<b>Amortisation and impairment losses as at 31 December</b>	<b>103</b>	<b>1,226</b>	<b>212</b>	<b>25</b>	<b>-</b>	<b>1,566</b>
<b>Carrying amount as at 31 December</b>	<b>304</b>	<b>309</b>	<b>95</b>	<b>49</b>	<b>144</b>	<b>901</b>
Internally generated assets included above	-	309	72	-	144	525
Amortisation period		2-5 years	3-5 years	3-7 years		
<hr/>						
2016 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost as at 1 January	354	1,239	221	20	93	1,927
Reclassification	-	-	-	8	(3)	5
Exchange rate adjustments	2	4	1	-	-	7
Additions	-	-	11	-	191	202
Additions from business combination	56	-	-	37	-	93
Transfers	-	167	30	(1)	(196)	-
<b>Cost as at 31 December</b>	<b>412</b>	<b>1,410</b>	<b>263</b>	<b>64</b>	<b>85</b>	<b>2,234</b>
Amortisation and impairment losses as at 1 January	102	978	160	-	-	1,240
Exchange rate adjustments	1	2	1	-	-	4
Amortisation for the year	-	130	22	10	-	162
<b>Amortisation and impairment losses as at 31 December</b>	<b>103</b>	<b>1,110</b>	<b>183</b>	<b>10</b>	<b>-</b>	<b>1,406</b>
<b>Carrying amount as at 31 December</b>	<b>309</b>	<b>300</b>	<b>80</b>	<b>54</b>	<b>85</b>	<b>828</b>
Internally generated assets included above	-	300	55	-	85	440
Amortisation period		3-5 years	3-5 years	3-7 years		

## 3.2 Property, plant and equipment

### Group accounting policies

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the cost of acquisition and costs directly related to the acquisition up until the time when the asset is ready for use. In the case of construction of own assets, cost comprises direct and indirect costs for materials, components, sub-suppliers, and labour. Estimated costs for dismantling and disposing of the asset and for re-establishment are added to cost to the extent that they are recognised as a provision. Where individual components of an item of property, plant and equipment have different useful lives, the cost of the item is broken down into separate components which are depreciated separately.

Subsequent costs, e.g. in connection with the replacement of components of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that the costs incurred will result in future economic benefits to the Group. The carrying amount of the replaced components is derecognised in the balance sheet and recognised as costs in the income statement. All other costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings (including installations).....	15–40 years
Plant and machinery.....	3–10 years
Other fixtures and fittings, tools and equipment.....	3–5 years
Land is not depreciated.	

The basis of depreciation is calculated taking into account the residual value of the asset less any impairment losses. The residual value is determined at the time of acquisition and is reassessed annually. Where the residual value exceeds the carrying amount of the asset, depreciation is discontinued.

The depreciation periods are determined based on estimates of the expected useful lives and future residual value of the assets. The estimates are based on historical experience. A reassessment is made once a year to ascertain that the depreciation basis reflects the expected life and future residual values of the assets.

If the depreciation period or the residual value has changed, the effect on depreciation is recognised prospectively as a change of accounting estimate.

Depreciation is recognised in the income statement as either production costs, research and development costs, distribution costs or administration costs to the extent that depreciation is not included in the cost of assets of own construction.

The carrying amounts of non-current assets are reviewed on an annual basis to determine whether there is any indication of impairment. If so, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the asset less estimated costs to sell and value in use.

Value in use is calculated as the net present value of expected future net cash flows from the asset or a group of assets.

An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.

Impairment losses are reversed only to the extent that the new carrying amount of the asset does not exceed the carrying amount of the asset after depreciation/amortisation had the asset not been impaired.

### 3.2 Property, plant and equipment (continued)

2017 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost as at 1 January	1,229	765	1,044	108	3,146
Reclassification	-	-	-	(10)	(10)
Exchange rate adjustments	(72)	(29)	(54)	(5)	(160)
Additions	20	49	85	114	268
Disposals	-	(48)	(53)	(4)	(105)
Transfers	34	65	31	(130)	-
<b>Cost as at 31 December</b>	<b>1,211</b>	<b>802</b>	<b>1,053</b>	<b>73</b>	<b>3,139</b>
Depreciation and impairment losses as at 1 January	462	532	823	-	1,817
Exchange rate adjustments	(21)	(22)	(44)	-	(87)
Depreciation for the year	46	92	105	-	243
Impairment losses for the year	28	-	-	-	28
Reversal of depreciation of disposals in the year	-	(48)	(53)	-	(101)
Reversal of impairment	(8)	-	-	-	(8)
<b>Depreciation and impairment losses as at 31 December</b>	<b>507</b>	<b>554</b>	<b>831</b>	<b>-</b>	<b>1,892</b>
<b>Carrying amount as at 31 December</b>	<b>704</b>	<b>248</b>	<b>222</b>	<b>73</b>	<b>1,247</b>
Depreciation period	15–40 years	3–10 years	3–5 years		

2016 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost as at 1 January	1,200	699	933	106	2,938
Reclassification	(8)	-	3	-	(5)
Exchange rate adjustments	(5)	(1)	9	6	9
Additions	69	35	93	107	304
Additions from business combination	-	-	3	-	3
Disposals	(42)	(12)	(27)	(14)	(95)
Transfers	23	44	30	(97)	-
Transfers to assets held for sale	(8)	-	-	-	(8)
<b>Cost as at 31 December</b>	<b>1,229</b>	<b>765</b>	<b>1,044</b>	<b>108</b>	<b>3,146</b>
Depreciation and impairment losses as at 1 January	437	480	742	-	1,659
Exchange rate adjustments	(2)	5	7	-	10
Depreciation for the year	54	70	91	-	215
Impairment losses for the year	8	18	2	-	28
Reversal of depreciation of disposals in the year	(40)	(12)	(27)	-	(79)
Transfers	21	(29)	8	-	-
Transfers to assets held for sale	(16)	-	-	-	(16)
<b>Depreciation and impairment losses as at 31 December</b>	<b>462</b>	<b>532</b>	<b>823</b>	<b>-</b>	<b>1,817</b>
<b>Carrying amount as at 31 December</b>	<b>767</b>	<b>233</b>	<b>221</b>	<b>108</b>	<b>1,329</b>
Depreciation period	15–40 years	3–10 years	3–5 years		

### 3.3 Impairment

#### Valuation of goodwill

As at 31 December 2017, Management performed the annual impairment test of the carrying amount of goodwill. No basis for impairment was found for 2017 (2016: EUR 0m). In the impairment tests, the carrying amount of the assets is compared to the discounted value of future expected cash flows.

The annual test of goodwill was performed on the two operating segments: Power solutions and Service, these being the lowest level of cash-generating units as defined by Management.

The main part of the carrying amount of goodwill in the Group arose in connection with the acquisition of NEG Micon A/S in 2004, and the goodwill is allocated to the Group's two operating segments Power solutions (EUR 180m) and Service (EUR 35m). In relation to the acquisition of UpWind Solutions, Inc. in 2015, the Group has recognised goodwill of EUR 33m, which is allocated to the Service segment. With the acquisition of Availon GmbH in 2016, the Group has recognised goodwill of EUR 56m, which is also allocated to the Service segment.

#### Assumptions underpinning impairment test of goodwill

Budgets and business plans for the next three years are based on the Group's investments in progress and contracted investments, and the risks relating to the key parameters have been assessed and incorporated in the expected future cash flows underpinning the impairment test of goodwill. In addition, the budgets and business plans are based on management's expectations of the current market conditions and future growth expectations. Projections for year four and onwards are based on general market expectations and risks. More specifically, the following main information is used in determining revenue, hence EBIT and capital expenditure:

Power solutions	Service
Power solutions order backlog of EUR 8.8bn as at 31 December 2017	Service order backlog of EUR 12.1bn as at 31 December 2017
Expectations on changing market environment, including future market prices and future development in cost reductions	Expectations on changing market environment, including future market prices and future development in cost reductions
Expectations on future orders received, among other things based on expected market share of the global market outlook	Expectations on continuing servicing the existing installed base of wind turbines as well as future service contracts received, among other things based on expected market share of the global market for all major wind turbine technologies
Expectations on continuing developments in mature and emerging markets	Capture full potential and accelerate profitable growth strategy from acquisition of UpWind Solution, Inc. and Availon GmbH
Expectations on support schemes in both mature and emerging markets	Growth supported by market developments and organic growth

#### Recoverable amount

The terminal value beyond the projections is determined taking into account general growth expectations for the segments in question. Long-term growth rate has been estimated at 2 percent.

The table below specifies the key parameters used in the impairment model:

	2017			2016		
	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)
Power solutions	10.0	2	180	9.2	2	180
Service	10.0	2	124	9.2	2	129

### 3.4 Investments in joint ventures and associates

#### Group accounting policies

Joint ventures are accounted for using the equity method. Under the equity method, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Timing in revenue recognition may be different between the Group and joint ventures where the Group recognises revenue when control of the wind turbines have been transferred to joint ventures but joint ventures does not recognise revenue until they have transferred the risk of the same wind turbines to the end customer. Such timing difference results in 50 percent of the Group's profit from wind turbines delivered being eliminated in the net result from joint ventures, until joint ventures has recognised their revenue. This timing difference may vary between quarters and year end, but will even-out over time.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The amounts recognised in the balance sheet are as follows:

mEUR	2017	2016
Investments in joint ventures	149	199
Investments associates	1	2
<b>Carrying amount as at 31 December</b>	<b>150</b>	<b>201</b>

The amounts recognised in the income statement are as follows:

mEUR	2017	2016
Joint ventures and associates	(40)	(101)
	<b>(40)</b>	<b>(101)</b>

#### Investments in joint ventures

The proportionate share of the results of investments accounted for using the equity method after tax and elimination of the proportionate share of intercompany profits/losses is recognised in the consolidated income statement.

mEUR	2017	2016
Cost as at 1 January	267	202
Additions	15	65
<b>Cost as at 31 December</b>	<b>282</b>	<b>267</b>
Value adjustments as at 1 January	(68)	22
Other adjustments	-	(2)
Share of loss	(40)	(101)
Share of other comprehensive income	(17)	13
Effect of exchange rate adjustment	(8)	-
<b>Value adjustments as at 31 December</b>	<b>(133)</b>	<b>(68)</b>
<b>Carrying amount as at 31 December</b>	<b>149</b>	<b>199</b>

### 3.4 Investments in joint ventures and associates (continued)

The joint ventures listed below have share capital consisting solely of ordinary shares, which is held directly by the Group.

Name of entity	Place of business	% of ownership	Measurement method
MHI Vestas Offshore Wind A/S	Aarhus, Denmark	50	Equity
Roaring Fork Wind, LLC	Delaware, US	50	Equity

#### MHI Vestas Offshore Wind A/S

In the Group's share of profit from the joint venture, income resulting from the sale of wind turbines to the joint venture is recognised in the Group's financial statements only to the extent that the joint venture has sold the wind turbines to unrelated parties. The share of loss from the joint venture on a standalone basis amounts to EUR 50m (2016: EUR 69m). MHI Vestas Offshore Wind is a private company and there is no quoted market prices available for its shares.

With reference to page 035, MVOW has through the 8 MW platform achieved solid order intake in a changing market environment with price pressure. With the increased activity level and strong order backlog, the expected performance continues to be in line with previous expected performance.

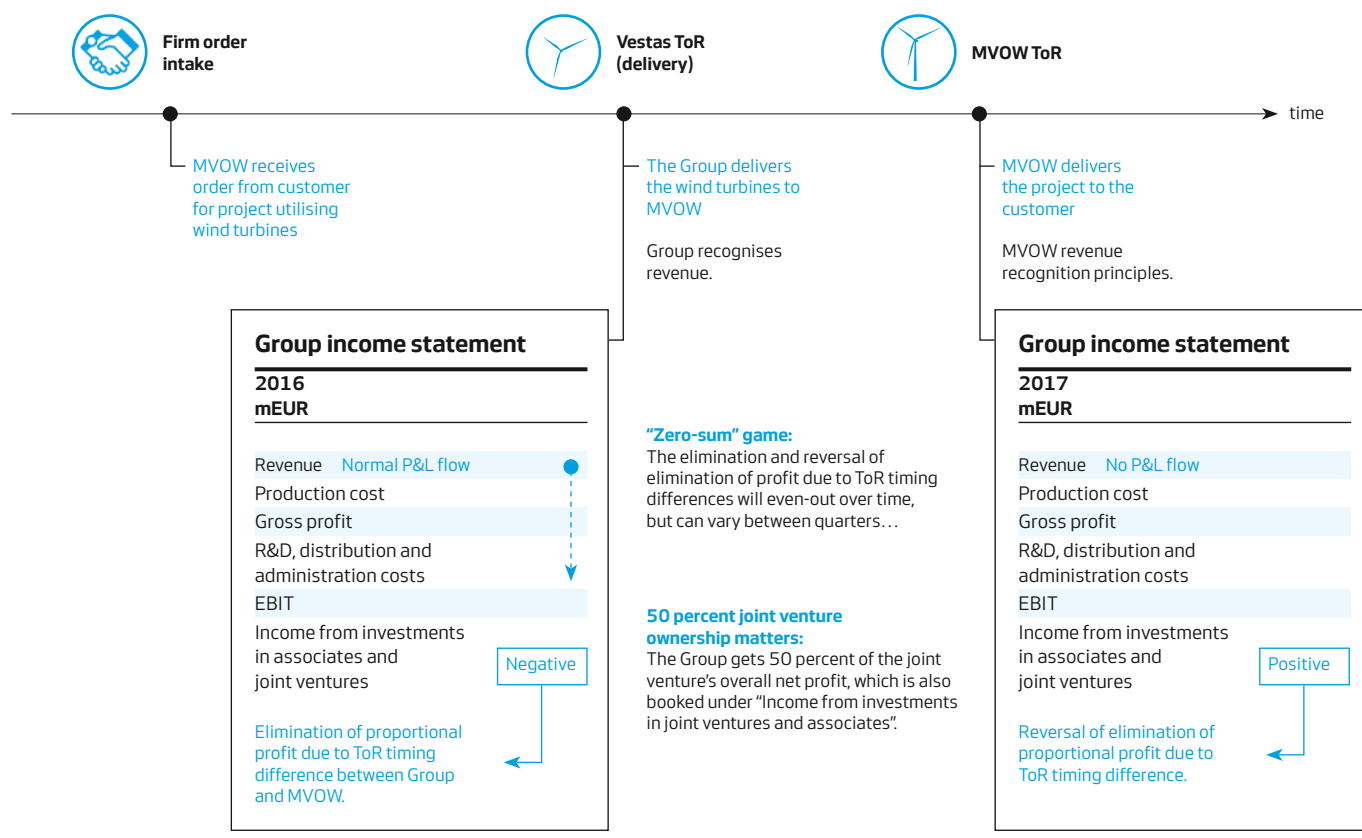
The carrying amount of the investment in MVOW mainly comprise the development project of the 8 MW platform. Any change to such future expectation on future performance may in nature result in impairment of the carrying amount of the investment in MVOW.

#### Roaring Fork Wind, LLC

The Group has through its wholly owned subsidiary Steelhead Wind 1, LLC a strategic co-development partnership with RES America Developments Inc. ('RES') forming the equally shared ownership in Roaring Fork Wind, LLC. The purpose of the partnership is development of wind power plants. In 2017, the Group has transferred additional EUR 1.5m in cash as capital. The share of profit/(loss) from the joint venture on a standalone basis amounts to EUR 0m (2016: EUR 0m). Roaring Fork Wind, is a private company and there is no quoted market prices available for its shares.

### Illustrative example of how income statement is impacted by MHI Vestas Offshore Wind A/S (MVOW)

Transfer of risk (ToR) timing differences between the Group and MVOW may result in fluctuations in income statement annually, which will even-out over time. The 50 percent ownership structure is what matters in the long-run.





### 3.4 Investments in joint ventures and associates (continued)

#### Commitments and contingent liabilities in respect of joint ventures

Ref. to note 3.6 Contingent assets and liabilities for significant commitments and/or contingent assets and liabilities relating to the Group's interest in the joint ventures.

#### Summarised financial information for joint ventures

Set out below are the summarised financial information for joint ventures which are accounted for using the equity method. The information below reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts).

#### Summarised balance sheet 31 December

mEUR	Roaring Fork Wind		MHI Vestas Offshore		Total	
	2017	2016	2017	2016	2017	2016
<b>Current</b>						
Cash and cash equivalents	1	4	114	113	115	117
Other current assets (excluding cash)	2	3	624	831	626	834
Total current assets	3	7	738	944	741	951
Other current liabilities (including trade and other payables and provisions)	(1)	(2)	(973)	(1,054)	(974)	(1,056)
Total current liabilities	(1)	(2)	(973)	(1,054)	(974)	(1,056)
<b>Non-current</b>						
Assets	97	85	477	457	574	542
Total non-current liabilities	-	-	(30)	-	(30)	-
<b>Net assets</b>	<b>99</b>	<b>90</b>	<b>212</b>	<b>347</b>	<b>311</b>	<b>437</b>

#### Summarised statement of comprehensive income 1 January - 31 December

mEUR	Roaring Fork Wind		MHI Vestas Offshore		Total	
	2017	2016	2017	2016	2017	2016
Revenue	-	-	1,151	141	1,151	141
Depreciation and amortisation	-	-	(85)	(78)	(85)	(78)
Interest income	-	-	-	-	-	-
Interest cost	-	-	-	(0)	-	(0)
Profit before tax	(0)	-	(98)	(138)	(98)	(138)
Income tax	-	-	(2)	(1)	(2)	(1)
Profit for the year	(0)	-	(100)	(139)	(100)	(139)
Other comprehensive income	-	-	(35)	26	(35)	26
<b>Total comprehensive income</b>	<b>(0)</b>	<b>-</b>	<b>(135)</b>	<b>(113)</b>	<b>(135)</b>	<b>(113)</b>

### 3.4 Investments in joint ventures and associates (continued)

#### Reconciliation of summarised financial information 1 January - 31 December

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures.

mEUR	Roaring Fork Wind		MHI Vestas Offshore		Total	
	2017	2016	2017	2016	2017	2016
Opening net assets 1 January	90	-	347	460	437	460
Capital increase	20	90	-	-	20	90
Loss for the period	-	-	(100)	(139)	(100)	(139)
Other comprehensive income	-	-	(35)	26	(35)	26
Effect of exchange rate adjustment	(11)	-	-	-	(11)	-
<b>Closing net assets</b>	<b>99</b>	<b>90</b>	<b>212</b>	<b>347</b>	<b>311</b>	<b>437</b>
Interest in joint venture	49	45	106	174	155	219
Elimination of internal profit on sale of wind turbines	-	-	(26)	(36)	(26)	(36)
Identifiable assets and other adjustments	23	20	(3)	(4)	20	16
<b>Carrying value</b>	<b>72</b>	<b>65</b>	<b>77</b>	<b>134</b>	<b>149</b>	<b>199</b>

### 3.5 Provisions

#### Group accounting policies

Provisions are recognised when as a consequence of a past event the Group has a legal or constructive obligation and it is probable that there will be an outflow of the group's financial resources to settle the obligation.

Provisions are measured at management's best estimate of the costs required to settle the obligation. Discounting is applied where relevant.

The Group accrues for the estimated cost of the warranty upon recognition of the sale of the product. The costs are estimated based on actual historical costs incurred and on estimated future costs related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

Restructuring costs are recognised as liabilities when a detailed, formal restructuring plan has been announced to those affected no later than the balance sheet date.

A provision for loss-making contracts is made where the expected benefits to the Group from the contract are lower than the unavoidable costs of meeting obligations under the contract. Expected losses on construction contracts in progress are, however, recognised in construction contracts in progress.

Provision for legal disputes are recognised where a legal or constructive obligation has been incurred as a result of past events and it is possible that there will be an outflow of resources that can be reliably estimated. In this case, the Group arrives at an estimate on the basis of an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities, ref. note 3.6.

#### Key accounting estimates

##### Provisions for warranties

The product warranties, which in the great majority of cases includes component defects, functional errors and any financial losses suffered by the customer in connection with unplanned suspension of operations, are usually granted for a two-year period from delivery of the wind turbine. In certain cases, a warranty of up to five years is granted. For the customer, the specific warranty period and the specific warranty terms are part of the basis of the individual contract.

Warranty provisions include only standard warranty, whereas services purchased in addition to the standard warranty are included in the service contracts.

In addition to the above, provisions are made for upgrades of wind turbines sold due to type faults, etc. Such provisions will also include wind turbines sold in prior years, but where type faults, etc. are identified later. Moreover, it should be emphasised that the complexity of some of the type faults, etc. identified may lead to adjustments of previous estimates, upwards as well as downwards, in the light of factual information about population size, costs of repair and the timing of such repairs.

It is estimated that 5-10 percent of the warranty provisions made for the year relate to adjustments of previous years' estimates of provisions for serial faults, etc. Included in this, is the cost of upgrades of wind turbines sold in previous year, commercial settlements and proactive upgrading as well as new information about the serial type faults in question.

Total warranty provisions of EUR 185m have been made in 2017 (2016: EUR 228m), corresponding to 1.9 percent (2016: 2.2 percent) of the Group's revenue.

Management assesses the likely outcome of pending and future negotiations with sub-suppliers for compensation. Compensation from sub-suppliers may be recognised only when it is virtually certain that we will receive compensation from the sub-suppliers.

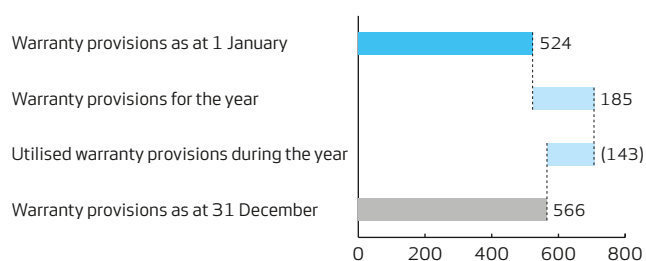
The carrying amount of warranty provisions was EUR 566m as at 31 December 2017 (2016: EUR 524m).

### 3.5 Provisions (continued)

mEUR	2017	2016
<b>Non-current provisions</b>		
Warranty provisions	434	414
Other provisions	49	43
	<b>483</b>	<b>457</b>
<b>Current provisions</b>		
Warranty provisions	132	110
Other provisions	16	21
	<b>148</b>	<b>131</b>
<b>Total provisions</b>	<b>631</b>	<b>588</b>

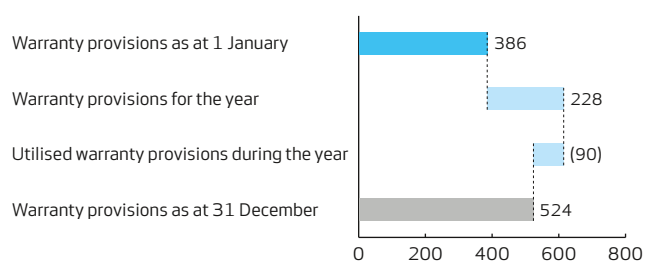
#### Warranty provisions 2017

mEUR



#### Warranty provisions 2016

mEUR



### 3.5 Provisions (continued)

mEUR	2017	2016
The warranty provisions are expected to be consumed as follows:		
0-1 year	132	110
>1 year	434	414
	<b>566</b>	<b>524</b>
In line with accounting policies, potential product warranties are recognised as warranty provisions when revenue from sale of wind turbines is recognised.		
<b>Product risks</b>		
Lack of reliability in several of Vestas' products has previously led to major warranty provisions. In recent years, Vestas has invested significant resources in improving the products and increasing their reliability to mitigate major warranty provisions. This work comprises design, production, installation, and continuous maintenance.		
The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, to increase the competitiveness of the products, and to improve customer earnings.		
<b>OTHER PROVISIONS</b>		
Other provisions as at 1 January	64	52
Exchange rate adjustments	(3)	0
Other provisions for the year	28	22
Utilised other provision during the year	(12)	(10)
Reversed of other provisions during the year	(12)	-
<b>Other provisions as at 31 December</b>	<b>65</b>	<b>64</b>
Other provisions consist of various types of provisions, including provisions for legal disputes and provisions for onerous service contracts.		
Other provisions are expected to be payable as follows:		
0-1 year	16	21
> 1 year	49	43
	<b>65</b>	<b>64</b>

### 3.6 Contingent assets and liabilities

mEUR	2017	2016
The Group provides guarantees and indemnity for bank and bonding facilities related to joint ventures	268	309

In addition, the Group provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries and joint ventures, and their warranty obligations to customers.

#### Contingent liabilities

On 31 July 2017, General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its U.S. Patents No. 7,629,705 and No. 6,921,985 (the "705 Patent" and the "985 Patent"). The 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 defense 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.

The Group is involved in some other litigation proceedings. However, it is Management's opinion that settlement or continuation of these proceedings will not have a material effect on the financial position of the Group.

Ref. note. 5.2 concerning contingent liabilities on transfer pricing.

#### Contingent assets

The Group has made supplier claims for faulty deliveries. However, it is management's opinion that settlement of these are not virtually certain, and therefore not recognised in the financial position of the Group, except for supplier claims accounted for as other receivables, ref. note 2.5.

## 4. Capital structure and financing items

### 4.1 Share capital

#### Group accounting policies

##### Treasury shares

Treasury shares are deducted from the share capital upon cancellation at their nominal value of DKK 1.00 per share. Differences between this amount and the amount paid to acquire or received for sale of treasury shares are deducted directly in equity.

##### Dividend

A proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (declaration date). The proposed dividend for the year is included in retained earnings.

For the financial year 2017, Vestas Wind Systems A/S proposes to distribute a dividend of DKK 9.23 (EUR 1.24) per share, corresponding to total EUR 267m. Dividends of EUR 278m, net of treasury shares, have been paid in 2017, relating to the financial year 2016.

#### Share capital

	2017	2016
The share capital comprises 215,496,947 shares of DKK 1.00	215,496,947	221,544,727
Number of shares as at 1 January	221,544,727	224,074,513
Cancellation	(6,047,780)	(2,529,786)
<b>Number of shares as at 31 December</b>	<b>215,496,947</b>	<b>221,544,727</b>
Shares outstanding	203,653,018	213,773,839
Treasury shares	11,843,929	7,770,888
<b>Number of shares as at 31 December</b>	<b>215,496,947</b>	<b>221,544,727</b>

In 2014 The share capital was increased by 20,370,410 shares of DKK 1.00. During 2016, there was reduction of share capital by DKK 2,529,786 nominally by cancelling 2,529,786 shares from Vestas' holding of treasury shares. During 2017 also, there was a reduction of share capital by DKK 6,047,780 nominally by cancelling 6,047,780 shares from Vestas' holding of treasury shares. Except for these three transactions, the share capital has not changed in the period 2013-2017.

All shares rank equally.

#### Treasury shares

	2017		2016	
	Number of shares / Nominal value (DKK)	Number of shares / Nominal value (DKK)	% of share capital	% of share capital
Treasury shares as at 1 January	7,770,888	5,170,588	3.6	2.3
Purchases	10,503,515	6,347,780	4.9	2.9
Cancellation	(6,047,780)	(2,529,786)	(2.8)	(0.6)
Sale of treasury shares	(382,694)	(1,217,694)	(0.2)	(1.1)
<b>Treasury shares as at 31 December</b>	<b>11,843,929</b>	<b>7,770,888</b>	<b>5.5</b>	<b>3.5</b>

Pursuant to authorisation granted to the Board of Directors by the Annual General Meeting on 30 March 2016, which 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 8 February 2017. It was completed on 4 May 2017.

Further, pursuant to authorisation granted to the Board of Directors by the Annual General Meeting on 6 April 2017, which authorised Vestas to acquire treasury shares at a nominal value not exceeding 1.0 per cent of the share capital at the time of authorisation, Vestas initiated a second share buy-back programme during 2017 on 17 August 2017. It was completed on 29 December 2017.

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

At Vestas Annual General Meeting on 3 April 2018, a resolution will be proposed that shares acquired, which are not used for hedging purposes of share-based incentive programmes, will be cancelled.

#### 4.1 Share capital (continued)

Vestas Wind Systems A/S has acquired treasury shares as follows:

	2017	2016
Average share price, purchases (DKK)	492	491
Average share price, sales (DKK)	58	455
Purchase amount (mEUR)	694	419
Sales amount (mEUR)	(1)	(11)

Treasury shares are acquired to cover grants/issues of shares under the Group's incentive programmes or as part of its capital structure strategy.

The share capital has been fully paid.

#### Net proposed cash distribution to shareholders

mEUR	2017	2016
Dividend <sup>1</sup>	253	278

1) Dividend excluding treasury shares.

#### 4.2 Earnings per share

	2017	2016
<b>Profit for the year (mEUR)</b>	<b>894</b>	<b>965</b>
Weighted average number of ordinary shares	217,612,018	222,360,341
Weighted average number of treasury shares	(6,124,347)	(3,849,409)
Weighted average number of ordinary shares outstanding	211,487,671	218,510,932
Dilutive effect of outstanding options and restricted performance shares	1,216,692	1,072,694
<b>Average number of shares outstanding including dilutive effect of options and restricted performance shares</b>	<b>212,704,363</b>	<b>219,583,626</b>
Earnings per share, EPS (EUR)	4.23	4.41
Earnings per shares, diluted, EPS-D (EUR)	4.20	4.39

For information about numbers of shares used for the calculation of earnings per share (EPS), ref. note 4.1.

### 4.3 Financial items

#### Group accounting policies

Financial items comprise interest income and costs, realised and unrealised foreign exchange gains and losses, gains and losses related to derivatives used to hedge assets and liabilities, and ineffective part of derivatives used to hedge future cash flows.

#### Financial income

mEUR	2017	2016
Interest income	14	25
Foreign exchange gains	20	-
Hedging instruments	9	29
Other financial income	2	2
	<b>45</b>	<b>56</b>

#### Financial costs

mEUR	2017	2016
Interest costs	15	26
Foreign exchange losses	-	48
Hedging instruments	14	-
Other financial costs	14	15
	<b>43</b>	<b>89</b>

### 4.4 Cash and cash equivalents

mEUR	2017	2016
Cash and cash equivalents without disposal restrictions	3,197	3,215
Cash and cash equivalents with disposal restrictions	456	335
<b>Cash and cash equivalents as at 31 December</b>	<b>3,653</b>	<b>3,550</b>

Cash and cash equivalents included in the Group's cash management comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Cash and cash equivalents with disposal restrictions are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents. Cash with disposal restrictions include cash pledged to guarantee providers as security for guarantee obligations in order to obtain lower commission rates and thereby obtain yield pick up on Vestas' cash holdings.

## 4.5 Financial risks

### The Group's policy for managing financial risks

Financial risks are an inherent part of the Group's operating activities and the Group is exposed to a number of financial risks. Financial risks are managed centrally and the overall objectives and policies for the Group's financial risk management are outlined in the Treasury Policy. The Treasury Policy is approved by the Board of Directors, and revised on a continuous basis to adapt to the changing financial risks and market situation. The Treasury Policy sets the limits for the various financial risks and includes policies for managing liquidity risks, credit risks, foreign currency risks, interest rate risks, and commodity risks.

It is the Group's policy only to hedge commercial exposures and not enter into any speculative transactions.

Information on financial and capital structure strategy, ref. page 015.

### Liquidity risks

The Group manages the liquidity risks according to the Treasury Policy. The Group ensures to have sufficient financial resources to service its financial obligations. The Group's financial resources are managed through a combination of cash on bank account and money market deposits, committed credit facilities, highly rated money market funds and marketable securities. The liquidity is managed and optimised centrally by using cash pools and in-house bank solutions.

The Group's main credit facility has been refinanced in June 2017. The facility now has a five-year duration with an option, at the lenders' discretion, to extend the maturity for up to two additional years. The facility consists of a EUR 1,150m revolving credit facility. The facility has a sublimit of EUR 550m for cash drawings, while the total of EUR 1,150m is available for guarantees. The revolving credit facility is subject to a change of control clause resulting in repayment of the credit facility in the event of change in control. The revolving credit facility is subject to covenants and no breaches has been encountered throughout the year.

In 2015, Vestas issued a green corporate eurobond with a nominal value of EUR 500m at a fixed interest rate of 2.75 percent. The green corporate eurobond will mature in 2022.

Considering the Group's strong liquidity position and available credit facilities, the Group's liquidity risk is assessed to be low. The available financial resources of the Group are shown below.

mEUR	2017	2016
Main credit facility	550	500
Other credit facilities	27	10
Marketable securities	203	201
Cash and cash equivalents	3,653	3,550
<b>Total available financial resources</b>	<b>4,433</b>	<b>4,261</b>



## 4.5 Financial risks (continued)

### Financial assets by maturity and category

2017 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	106	106	106	74	19	13
<b>Hedging instruments assets (hedge accounting)</b>	<b>106</b>	<b>106</b>	<b>106</b>	<b>74</b>	<b>19</b>	<b>13</b>
Fair value hedges	10	10	10	10	-	-
Marketable securities	203	203	264	9	40	215
<b>Fair value through profit or loss</b>	<b>213</b>	<b>213</b>	<b>274</b>	<b>19</b>	<b>40</b>	<b>215</b>
Trade receivables	1,144	1,144	1,144	1,144	-	-
Construction contracts in progress	82	82	82	82	-	-
Other receivables	290	290	290	185	40	65
Cash and cash equivalents	3,653	3,653	3,653	3,653	-	-
<b>Loans and receivables</b>	<b>5,169</b>	<b>5,169</b>	<b>5,169</b>	<b>5,064</b>	<b>40</b>	<b>65</b>
<b>Total financial assets</b>	<b>5,488</b>	<b>5,488</b>	<b>5,549</b>	<b>5,157</b>	<b>99</b>	<b>293</b>

2016 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	41	41	41	36	5	-
<b>Hedging instruments assets (hedge accounting)</b>	<b>41</b>	<b>41</b>	<b>41</b>	<b>36</b>	<b>5</b>	<b>-</b>
Fair value hedges	10	10	10	10	-	-
Marketable securities	201	201	262	13	61	188
<b>Fair value through profit or loss</b>	<b>211</b>	<b>211</b>	<b>272</b>	<b>23</b>	<b>61</b>	<b>188</b>
Trade receivables	1,038	1,038	1,038	1,038	-	-
Construction contracts in progress	19	19	19	19	-	-
Other receivables	296	296	296	246	15	35
Cash and cash equivalents	3,550	3,550	3,550	3,550	-	-
<b>Loans and receivables</b>	<b>4,903</b>	<b>4,903</b>	<b>4,903</b>	<b>4,853</b>	<b>15</b>	<b>35</b>
<b>Total financial assets</b>	<b>5,155</b>	<b>5,155</b>	<b>5,216</b>	<b>4,912</b>	<b>81</b>	<b>223</b>

## 4.5 Financial risks (continued)

### Financial liabilities by maturity and category

2017 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	27	27	27	16	6	5
<b>Hedging instruments liabilities (hedge accounting)</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>16</b>	<b>6</b>	<b>5</b>
Fair value hedges	2	2	2	2	-	-
<b>Fair value through profit or loss</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>
Green corporate eurobond	497	533	569	14	14	541
Trade payables	2,660	2,660	2,660	2,660	-	-
Other liabilities	524	524	524	517	4	3
Financial guarantee contracts*	-	268	-	-	-	-
<b>Financial liabilities measured at amortised cost</b>	<b>3,681</b>	<b>3,985</b>	<b>3,753</b>	<b>3,191</b>	<b>18</b>	<b>544</b>
<b>Total financial liabilities</b>	<b>3,710</b>	<b>4,014</b>	<b>3,782</b>	<b>3,209</b>	<b>24</b>	<b>549</b>
2016 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	120	120	120	41	25	54
<b>Hedging instruments liabilities (hedge accounting)</b>	<b>120</b>	<b>120</b>	<b>120</b>	<b>41</b>	<b>25</b>	<b>54</b>
Fair value hedges	19	19	19	19	-	-
<b>Fair value through profit or loss</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>-</b>	<b>-</b>
Green corporate eurobond	496	526	583	14	14	555
Trade payables	1,666	1,666	1,666	1,666	-	-
Other liabilities	515	515	515	504	5	6
Financial guarantee contracts*	-	309	-	-	-	-
<b>Financial liabilities measured at amortised cost</b>	<b>2,677</b>	<b>3,016</b>	<b>2,764</b>	<b>2,184</b>	<b>19</b>	<b>561</b>
<b>Total financial liabilities</b>	<b>2,816</b>	<b>3,155</b>	<b>2,903</b>	<b>2,244</b>	<b>44</b>	<b>615</b>

\*For additional information regarding issued financial guarantee contracts, ref. note 3.6.

## 4.5 Financial risks (continued)

### Credit risks

The Group ensures that the credit risks are managed according to the Treasury Policy. The Group is exposed to credit risks arising from especially cash and cash equivalents, including money market deposits and money market funds, investments in marketable securities, derivative financial instruments, and trade and other receivables. The Treasury Policy sets forth limits for the credit risk exposure based on the counterparty's credit rating for financial institution counterparties and mitigating actions for other counterparties.

Vestas has entered into netting agreements with all financial institution counterparties used for trading of derivative financial instruments, which mean that the Group's credit risk is limited to the net assets per counterparty.

Other counterparties mainly consist of companies within the energy sector. The credit risk is among other things dependent on the development within this sector.

In 2017, the Group has continued its investments in marketable securities that comprise highly liquid, mainly AAA-rated (minimum AA-rated) Danish mortgage and sovereign bonds.

As at 31 December 2017, the Group considers the maximum credit risk to financial institution counterparties to be EUR 3,972m (2016: EUR 3,759m). The total credit risk is considered to be EUR 5,495m (2016: 5,112m).

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December was mitigated by EUR 57m (2016: EUR 347m) received as security, ref. note 2.3. Historically, the Group has not incurred significant losses on trade receivables.

Considering the Group's management of credit risk exposure, the total credit risks are assessed to be low.

The overview below shows the Group's risk exposure for financial institutions based on the credit rating.

Percent	2017	2016
AAA	13	18
AA	25	18
A	57	56
BBB	3	6
BB	0	0
Other/Non-rated	2	2

## 4.5 Financial risks (continued)

### Foreign currency risks

The international business activities of the Group involve foreign currency risks, meaning that the Group's income statement, other comprehensive income, balance sheet and cash flows are exposed to foreign currency risks. The foreign currency exposure arises primarily from purchase and sale of goods and services outside the eurozone. The foreign currency risks are reduced by balancing the different currencies to the largest extent possible and by hedging the net exposure in each individual currency according to the Treasury Policy. Foreign currency risks are primarily hedged through foreign currency forward contracts.

The Group's objective when managing foreign currency risks is to reduce the short-term fluctuations in the income statement and to increase the predictability of the financial results. Foreign currency risks related to long-term investments are not hedged based on an overall risk, liquidity, and cost perspective.

The Group is to a large extent exposed to USD, due to the significant business activities in this region. The project nature of the business changes the foreign currency risk picture towards specific currencies from one year to another, depending on in which geographical areas the group has activity. Considering the international business activities and the Group's management of foreign currency risks exposure, the total foreign currency risk is assessed to be medium.

The sensitivity analysis shows the gain/(loss) on net profit for the year and other comprehensive income of a 1.0 percent increase in the specified currencies towards EUR. The analysis includes the impact from hedging instruments. The below analysis is based on the assumption that all other variables, interest rates in particular, remain constant.

2017 mEUR	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(35)	(116)
SEK	10%	(2)	(107)
NOK	10%	(0)	(99)
GBP	10%	(2)	(38)
CNY	10%	2	54
2016 mEUR	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(74)	29
SEK	10%	(6)	(38)
NOK	10%	(6)	(87)
GBP	10%	(4)	(29)
CAD	10%	14	(13)

## 4.5 Financial risks (continued)

### Interest rate risk

The Group ensures that the interest rate risk is managed according to the Treasury Policy. The Group is exposed to inverse interest rate risks on cash flows from interest-bearing short-term investments in cash and cash equivalents as well as from marketable securities with floating interest. The Group is also exposed to inverse interest rate risks on fair value of investments in marketable securities with fixed interest.

The Group has no outstanding interest-bearing debt with floating interest. The interest coupon on the Group's EUR 500m green corporate eurobond is fixed until maturity in 2022.

It is assessed that the Group's interest rate risk is low.

	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
<b>2017</b>					
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	497	Fixed	2.75	2.88	2022
<b>Total credit facilities</b>					

	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
<b>2016</b>					
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	496	Fixed	2.75	2.88	2022
<b>Total credit facilities</b>					

## 4.6 Derivative financial instruments

### Group accounting policies

On initial recognition derivative financial instruments are recognised in the balance sheet at fair value and subsequently re-measured at fair value.

In case of changes in fair values of derivative financial instruments designated as a cash flow hedge the effective part of any gain or loss is recognised in other comprehensive income. Any ineffective portions of the cash flow hedges are recognised in the income statement as financial items. Gains or losses on cash flow hedges are upon realisation transferred from the equity hedging reserve into the income statement in the same item as the hedged item.

Any changes in the fair values of derivative financial instruments designated as fair value hedges are recognised in the income statement as financial items.

Fair values of derivative financial instruments are calculated using valuation techniques which use observable market data such as exchange rates, interest rates, credit risks and volatilities. Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, Vestas does not presently have a legally enforceable right of set-off.

In some sales agreements, a foreign currency element is incorporated. In cases where the sales currency is not closely related to the functional currency nor a commonly used currency in the country in which the sales takes place, the foreign currency element is treated as an embedded financial derivative. The embedded financial derivative is designated as a cash flow hedge.

2017 mEUR	Contract amount	Net fair value	Expected recognition		
			2018	2019	After
Cash flow hedges	3,515	79	58	13	8
Fair value hedges	63	8	8	-	-
<b>Total derivative financial instruments</b>	<b>3,578</b>	<b>87</b>	<b>63</b>	<b>13</b>	<b>8</b>

2016 mEUR	Contract amount	Net fair value	Expected recognition		
			2017	2018	After
Cash flow hedges	1,882	(79)	(5)	(20)	(54)
Fair value hedges	360	(9)	(9)	-	-
<b>Total derivative financial instruments</b>	<b>2,242</b>	<b>(88)</b>	<b>(14)</b>	<b>(20)</b>	<b>(54)</b>

Fair value adjustment recognised as follows:	2017	2016
Income statement, gains/(losses)	9	(7)
Other comprehensive income, gains/(losses)	78	(81)
Other receivables, current	84	46
Other receivables, non-current	32	5
Other liabilities, current	18	60
Other liabilities, non-current	11	79

#### 4.6 Derivative financial instruments (continued)

##### Cash flow hedges

The following net outstanding forward exchange contracts and embedded derivatives of the Group as at 31 December are used and qualify as cash flow hedges:

2017 mEUR	Contract amount	Fair value
USD	1,162	39
SEK	97	13
NOK	1,074	6
GBP	992	6
BRL	133	6
Other	57	9
<b>Total cash flow hedges</b>	<b>3,515</b>	<b>79</b>

2016 mEUR	Contract amount	Fair value
USD	(293)	(7)
SEK	381	(1)
NOK	875	(79)
GBP	294	11
BRL	125	(8)
Other	500	5
<b>Total cash flow hedges</b>	<b>1,882</b>	<b>(79)</b>

mEUR	2017	2016
Cash flow hedge ineffectiveness recognised in the income statement, ref. note 4.3	(5)	29

Positive contract amounts represents a net sale of the respective currency.

The Group's cash flow hedges relate primarily to net cash flows outside euro-based countries, primarily in above currencies with equivalents in DKK and EUR.

No hedging contracts are subject to set-off agreements.

#### 4.6 Derivative financial instruments (continued)

##### Fair value hedges

The following net outstanding forward exchange contracts of the group as at 31 December are used as fair value hedging of assets and liabilities included in the balance sheet. All changes in fair values are recognised in the income statement.

2017 mEUR	Contract amount	Fair value
USD	518	8
GBP	(149)	0
CNH	(126)	0
CAD	(75)	0
AUD	(67)	0
Other	(38)	0
<b>Total fair value hedges</b>	<b>63</b>	<b>8</b>

2016 mEUR	Contract amount	Fair value
USD	969	(8)
GBP	40	(2)
CNH	(203)	(1)
CAD	(145)	1
AUD	(104)	(2)
Other	(197)	3
<b>Total fair value hedges</b>	<b>360</b>	<b>(9)</b>

mEUR	2017	2016
Gains/(losses) on fair value hedges recognised in the income statement	4	(46)



## 4.7 Fair value hierarchy

### Fair value hierarchy

Financial instruments measured at fair value are categorised into the following levels of the fair value hierarchy:

- Level 1: Observable market prices for identical instruments.
- Level 2: Valuation techniques primarily based on observable prices or traded prices for comparable instruments.
- Level 3: Valuation techniques primarily based on unobservable prices.

<b>2017</b> <b>mEUR</b>	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	116	-	116
Marketable securities	203	-	-	203
<b>Financial assets</b>	<b>203</b>	<b>116</b>	<b>0</b>	<b>319</b>
Green corporate eurobond	533	-	-	533
Derivative financial instruments	-	29	-	29
<b>Financial liabilities</b>	<b>533</b>	<b>29</b>	<b>-</b>	<b>562</b>
<hr/>				
<b>2016</b> <b>mEUR</b>	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	51	-	51
Marketable securities	201	-	-	201
<b>Financial assets</b>	<b>201</b>	<b>51</b>	<b>0</b>	<b>252</b>
Green corporate eurobond	526	-	-	523
Derivative financial instruments	-	139	-	139
<b>Financial liabilities</b>	<b>526</b>	<b>139</b>	<b>-</b>	<b>662</b>

Fair value of marketable securities and corporate eurobond are measured as level 1, as the fair value is set from the price observed in an active market.

Fair value of the derivative financial instruments is measured as level 2, as the fair value can be established directly based on exchange rates published and forward interest rates and prices specified at the balance sheet date.

The Group has a commitment in the USA to purchase Renewable Energy Certificates (RECs) in 2023 and 10 years beyond based on production of MW in this period at a fixed price. It has been assessed that the contract qualifies as a financial instrument. The fair value measurement is based on level 3 input. The maximum nominal commitment under the contract is estimated at EUR 42m (2016: EUR 48m). Currently RECs are trading at a higher price than the Group's agreed purchase price. Given the uncertainties underpinning the future market for selling RECs, Management has determined that the best evidence of fair value of the RECs is the transaction price. Consequently, the net fair value of the contract has been measured at EUR 0. Had the estimated market price of the RECs been EUR 19/MWh (2016: EUR 18/MWh) in average, the contract would have had a positive value of EUR 42m (2016: EUR 30m) as of 31 December 2017. Had the estimated market price of the RECs been EUR 0 (2016: EUR 0), the contract would have had a negative value of EUR 33m (2016: EUR 35m) as at 31 December 2017.

There have been no changes in fair values of recurring assets and there have been no transfers between levels in 2017.

## 5. Tax

### 5.1 Income tax

#### Group accounting policies

Tax for the year consists of current tax and deferred tax for the year including adjustments to previous years and changes in provision for uncertain tax positions. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax expense relating to items recognised in other comprehensive income is recognised in other comprehensive income.

Following developments in ongoing tax disputes primarily related to transfer pricing cases, uncertain tax positions are presented individually as part of deferred tax assets, non-current tax receivables and non-current tax payables.

Current tax liabilities and receivables are recognised in the balance sheet at the amounts calculated on the taxable income for the year adjusted for tax on taxable incomes for prior years and for taxes paid on account.

#### Key accounting estimates

##### Income taxes and uncertain tax position

The Group continuously wants to be a compliant corporate tax citizen in collaboration with Vestas' operations and stakeholders and to support shareholder interest and its reputation. To ensure compliance, national and international tax laws as well as the OECD Guidelines are acknowledged and followed throughout the world.

The Group is subject to income taxes around the world and therefore recognises that significant judgement is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities and provision for uncertain tax positions.

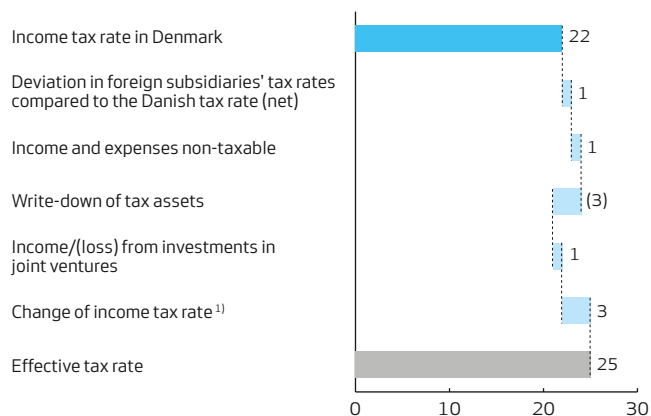
The global business implies that the Group may be subject to disputes on allocation of profits between different jurisdictions. Management judgement is applied to assess the expected outcome of such tax disputes which is provided for in provision for uncertain tax positions. Management believes that provisions made for uncertain tax positions not yet settled with local tax authorities at year end is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

mEUR	2017	2016
Current tax on profit for the year	248	371
Deferred tax on profit for the year	19	(44)
Tax on profit for the year	267	327
Change in income tax rate	33	1
Adjustments relating to previous years (net)	(2)	(6)
<b>Income tax for the year recognised in the income statement, expense</b>	<b>298</b>	<b>322</b>
Deferred tax on other comprehensive income for the year	37	(33)
<b>Tax recognised in other comprehensive income, expense/(income)</b>	<b>37</b>	<b>(33)</b>
Deferred tax on equity transactions	(5)	-
<b>Tax recognised in equity</b>	<b>(5)</b>	<b>-</b>
<b>Total income taxes for the year, expense</b>	<b>330</b>	<b>289</b>

## 5.1 Income tax (continued)

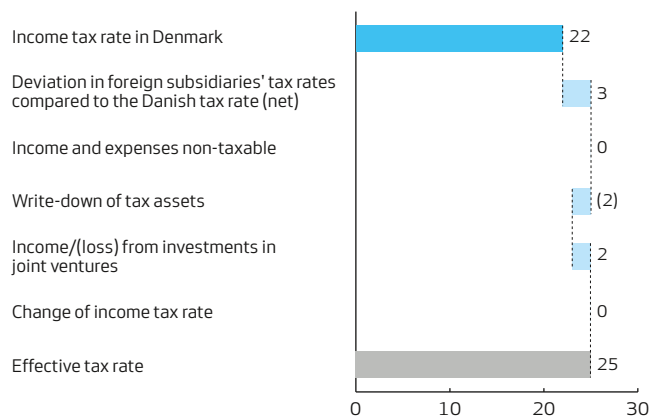
### Computation of effective tax rate 2017

percent



### Computation of effective tax rate 2016

percent



1) Change of income tax rate mainly relates to the reduction of tax rate in USA.

mEUR	2017	2016
Income tax as at 1 January, net assets	(154)	(22)
Exchange rate adjustments	(2)	2
Income tax for the year	(248)	(371)
Adjustments relating to previous years	-	40
Non-current income tax	(65)	(15)
Settlements against VAT receivables	37	-
Income tax paid in the year	262	212
<b>Income tax as at 31 December, net assets/(liabilities)</b>	<b>(170)</b>	<b>(154)</b>
Receivables specified as follows:		
0-1 year	53	25
> 1 year	51	49
<b>Income tax receivables</b>	<b>104</b>	<b>74</b>
Liabilities specified as follows:		
0-1 year	(108)	(191)
> 1 year	(166)	(37)
<b>Income tax liabilities</b>	<b>(274)</b>	<b>(228)</b>

## 5.2 Deferred tax

### Group accounting policies

Deferred tax is measured using the balance sheet liability method in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is, however, not recognised in respect of temporary differences on initial recognition of goodwill and other items, apart from business acquisitions, where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income. In cases where the computation of the tax base may be made according to different tax rules, deferred tax is measured on the basis of management's intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised in other non-current assets at the value at which the asset is expected to be realised, either by elimination of tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets are reviewed on an annual basis and are only recognised when it is probable that they will be utilised in future periods.

Adjustments are made to deferred tax to take account of the elimination of unrealised inter-company profits and losses.

Deferred tax is measured on the basis of the tax rules and tax rates of the respective countries that will be effective when the deferred tax is expected to crystallise as current tax based on the legislation at the balance sheet date. Changes to deferred tax due to changes to tax rates are recognised in the income statement except for items recognised directly in equity.

### Key accounting estimates

#### Valuation of deferred tax assets

The Group recognises deferred tax assets, including the tax value of tax loss carry-forwards, where Management assesses that the tax assets may be utilised in the foreseeable future for set-off against positive taxable income. The assessment is made on an annual basis and is based on the budgets and business plans for future years, including planned business initiatives. Key parameters are expected revenue and EBIT development considering expected allocation of future taxable income based on the transfer pricing policy in place. Due to the uncertainties relating to allocation of profits Management has limited the forecast period used to determine the utilisation to three years.

Of the total tax loss carry-forwards, EUR 18m (2016: EUR 43m) is expected to be realised within 12 months, and EUR 18m (2015: EUR 33m) is expected to be realised later than 12 months after the balance sheet date.

The assessment in 2017 resulted in the reversal of write-down of deferred tax assets by EUR 33m (2016: EUR 22m write-down) primarily due to the fact that the tax losses are expected to be utilised in the foreseeable future.

As at 31 December 2017, the value of recognised deferred tax assets amounted to EUR 218m (2016: EUR 208m), of which EUR 36m (2016: EUR 76m) relates to tax loss carry-forwards. The value of non-recognised tax assets totals EUR 102m (2016: EUR 250m), of which EUR 102m (2016: EUR 135m) relating to write-downs that are not expected to be utilised in the foreseeable future.

## 5.2 Deferred tax (continued)

mEUR	2017	2016
Deferred tax as at 1 January, net assets	174	129
Deferred tax on profit for the year	(19)	44
Adjustment relating to previous years	2	(34)
Changes in income tax rate	(33)	(1)
Transferred to non-current tax receivables/payables	65	15
Deferred tax on equity transactions	5	-
Acquisitions as part of business combinations	-	(12)
Tax on other comprehensive income	(37)	33
<b>Deferred tax as at 31 December, net assets</b>	<b>157</b>	<b>174</b>
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	36	76
Intangible assets	(1)	(96)
Property, plant and equipment	19	77
Current assets	175	268
Provisions	39	134
Uncertain tax position	-	(115)
Write-down of tax assets	(102)	(135)
Other <sup>1)</sup>	52	(1)
<b>Deferred tax assets</b>	<b>218</b>	<b>208</b>
Deferred tax provisions specified as follows:		
Intangible assets	104	19
Property, plant and equipment	(15)	11
Current assets	40	4
Provisions	(93)	-
Other	25	-
<b>Deferred tax provisions</b>	<b>61</b>	<b>34</b>

1) Other mainly relates to deferred revenue and share-based payment.

No provision is made for deferred tax regarding undistributed earnings in subsidiaries, as the Group controls the release of the obligation.

Deferred tax recognised on tax losses is mainly in jurisdictions where there are no expiry limits. Out of total tax losses recognised EUR 11m (2016: EUR 9m) are subject to expiry limits of which EUR 0m (2016: EUR 0m) is recognised in jurisdictions with subsequent losses. Following the Group transfer pricing policy these losses are expected to be utilised within the foreseeable future.

Of the total deferred tax relating to tax loss carry-forwards written down, EUR 0m (2016: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 0m (2016: EUR 0m).

As many other multinational businesses, the Group recognises the increased focus on the transfer pricing and the consequent allocation of profits to the relevant countries. Even though the Group's subsidiaries pay corporate tax in the countries in which they operate, the group is still part of a number of tax audits on different locations. Some of these disputes concern significant amounts and uncertainties. The Group believes that the provisions made for uncertain tax positions not yet settled with the local tax authorities is adequate. However, the actual obligation may differ and is subject to the result of the litigations and settlements with the relevant tax authorities.

## 6. Other disclosures

### 6.1 Audit fees

mEUR	2017	2016
Audit:		
PricewaterhouseCoopers	3	3
<b>Total audit</b>	<b>3</b>	<b>3</b>
Non-audit services: <sup>1)</sup>		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	2	2
Other services	1	1
<b>Total non-audit services</b>	<b>3</b>	<b>3</b>
<b>Total</b>	<b>6</b>	<b>6</b>

1) The following ratios have been calculated in accordance with guidelines provided by certain advisors to illustrate the level of non-audit services compared to audit related services provided by Vestas auditor. Non-audit services / (Audit fees + Assurance engagements + Tax compliance and preparation fees) is 44 percent (2016: 70 percent). Excluding significant one-time capital structure events is 39 percent (2016: 41 percent).

Vestas' auditors can be used, within certain parameters, for certain non-audit services and may often be the preferable choice due to business knowledge, confidentiality, and cost considerations. Vestas has a policy for non-audit services ensuring that the provision of non-audit services to the Group does not impair the auditors' independence or objectivity. The Audit Committee is responsible for the development and maintenance of this policy and monitors compliance.

Fee for other services than statutory audit services rendered by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PwC Denmark) to the Group amounts to EUR 2m and consists mainly of transfer pricing tax advisory services and other advisory services.

### 6.2 Management's incentive programmes

#### Group accounting policies

The Group operates a number of share-based compensation schemes (share options and restricted share programmes) under which it awards Vestas shares and share options to members of the Executive Management and certain key employees in Vestas Wind Systems A/S or its subsidiaries.

The value of the services received in exchange for the granting of options and issuance of shares is measured at the fair value of the options/shares.

Equity settled share options granted and restricted shares issued to employees are measured at fair value at the time of granting and are recognised in staff expenses in the income statement over the vesting period. The opposite entry is recognised directly in equity.

On initial recognition of the share options/restricted shares, the number of options/shares expected to vest is estimated. Subsequently, the estimate is revised so that the total expense recognised is based on the actual number of options granted and shares vested.

The fair value of the options granted is estimated using an option pricing model (Black-Scholes). In determining fair value, the terms and conditions relating to the share options granted are taken into account. The fair value of restricted shares is determined based on Vestas quoted share price at grant adjusted for expected dividend payout (based on historic dividend payout ratio).

#### Share option programme

A share option programme was established in 2006 and has since been expanded with new options granted year on year until 2012. Since 2012 there have not been awarded new share option programmes.

The members may exercise their options in specified periods and choose to purchase the company's shares at the determined strike price according to the terms of the programme. Exercise of the options can only occur in the periods during which executives are allowed to trade shares in accordance with the Group's internal rules, being within the four weeks following the company's announcement of the annual report and interim financial reports. The members of the scheme lose the right to the options if they terminate their employment before the end of the vesting period.

Options are allotted to members when the Board of Directors approves the final annual report relating to the year of grant.

## 6.2 Management's incentive programmes (continued)

For 2010 onwards, only the Executive Management, Presidents (former), and Group Senior Vice Presidents reporting directly to the Executive Management must for a period of three years after exercise of the options, hold shares in the company corresponding to 50 percent of the gains, after tax, they have earned on the options.

The share options were exercisable three years after the issue date and will expire after five years.

Options granted in 2009 (expansion of 2007 programme) and 2010 could be exercised in 2015 and options granted in 2011 and 2012 could be exercised in 2015-2016 and 2016-2017, respectively.

The options are valued on the date of grant, based on the Black-Scholes valuation model. The share prices and the exercise prices are based on the closing share prices obtained from Bloomberg Financial Markets on the day the options were granted. The risk free interest rate is estimated as the effective interest rate on a Danish government bond with the same economic life, in this case two, five, six, and seven-year bonds. The future volatility, which means fluctuations in the shares' total yield, is calculated based on historic weekly closing share prices for a period corresponding to time to maturity of the options.

	Executive Management pcs	Other executives pcs	Total pcs	Weighted average exercise price per option DKK
Number of share option programs				
<b>Outstanding as at 1 January 2017</b>	-	<b>216,590</b>	<b>216,590</b>	<b>58</b>
Exercised	-	(176,373)	(176,373)	58
Expired	-	(40,217)	(40,217)	58
Cancelled	-	-	-	-
<b>Outstanding as at 31 December 2017</b>	-	-	-	-
Number of exercisable options at 31 December 2017	-	0	0	0
<b>Outstanding as at 1 January 2016</b>	<b>85,159</b>	<b>1,070,029</b>	<b>1,155,188</b>	<b>90</b>
Exercised	(85,159)	(801,016)	(886,175)	92
Expired	-	(50,866)	(50,866)	181
Cancelled	-	(1,557)	(1,557)	58
<b>Outstanding as at 31 December 2016</b>	-	<b>216,590</b>	<b>216,590</b>	<b>58</b>
Number of exercisable options at 31 December 2016	-	216,590	216,590	58

The 2012 programme expired at the end of 2017 and since it was the last share option programme there are 0 options outstanding as at 31 December 2017. Average share price for the exercised share options in 2017 was DKK 510 (2016: DKK 455).

During 2017, 176,373 shares were exercised at an exercise price of DKK 58.

### Restricted performance share programme

In March 2013, the share-based incentive programme was revised and after this, the share-based incentive programme is based on restricted performance shares instead of share options which were used in previous programmes. The purpose of the restricted performance shares is to ensure common goals for management, certain key employees, and shareholders.

The number of shares available for grant may be adjusted in the event of changes in Vestas' capital structure. Further, in the event of a change of control, merger, winding-up or demerger of Vestas, an accelerated grant may extraordinarily take place. In the event of certain transfers of activities or changes in ownership interests within the Vestas Group, adjustment, replacement of the programme and/or settlement in cash of the programme entirely or partly may also take place.

In May 2017, the Board of Directors launched a new restricted performance share programme. The share-based incentive programme follows the structure of the previous programme from 2016 and will still be based on restricted performance shares. The programme has a performance period of three years and a performance measurement based on financial key performance indicators as well as the Vestas Group's market share as defined by the Board of Directors.

## 6.2 Management's incentive programmes (continued)

The terms and conditions governing the restricted performance share programme are as follows:

- Only participants employed by the Group at the time of announcement of the programme or later in the financial year are eligible for participation in the restricted performance share programme.
- The number of restricted performance shares available for distribution depends on Vestas' performance as per table below.
- Depending on the performance, the total number of shares to be granted will range between 0 percent and 150 percent of the target level and is determined by Vestas' performance in the financial year.

	2017	2016	2015	2014	2013
Year awarded:	May 2017	April 2016	April 2015	March 2014	March 2013
Performance year: <sup>1)</sup>	2017-2019	2016-2018	2015-2017	2014	2013
Vesting conditions (KPIs):	EPS, ROCE, Market share	EPS, ROCE Market share	EPS, ROCE, Market share	EBIT margin, Free cash flow, Business area specific KPIs	EBIT margin, Free cash flow, Business area specific KPIs
Vesting years:	2020/2022	2019/2021	2018/2020	2017/2019	2016/2018

1) Performance years defined as the Group's financial year.

In 2017, the total number of shares granted amounts to 304,010 shares with a fair value of EUR 24m (out of which 87,806 shares with a fair value of EUR 7m are grants to the Executive Management). The fair value calculated is based on share price of EUR 79.45 at measurement, close of Nasdaq Copenhagen on 2 May 2017.

	Executive Management pcs	Other executives pcs	Total pcs
<b>Number of restricted performance shares</b>			
<b>Outstanding as at 1 January 2017</b>	<b>488,474</b>	<b>1,047,837</b>	<b>1,536,311</b>
Adjusted <sup>1)</sup>	22,600	45,694	68,294
Awards issued	87,806	216,204	304,010
Exercised	(77,923)	(128,398)	(206,321)
Cancelled	-	(7,835)	(7,835)
<b>Outstanding as at 31 December 2017</b>	<b>520,957</b>	<b>1,173,502</b>	<b>1,694,459</b>
<b>Outstanding as at 1 January 2016</b>	<b>454,060</b>	<b>1,030,705</b>	<b>1,484,765</b>
Adjusted <sup>1)</sup>	19,015	49,209	68,224
Awards issued	97,467	236,608	334,075
Exercised	(82,068)	(249,451)	(331,519)
Cancelled	-	(19,234)	(19,234)
<b>Outstanding as at 31 December 2016</b>	<b>488,474</b>	<b>1,047,837</b>	<b>1,536,311</b>

1) Adjustments due to final calculation of entitlement based on performance in prior year. Allocation of performance shares for the 2015-2017, 2016-2018 and 2017-2019 performance programmes will be adjusted based on the level of target achievement in the measurement period.

An employee elected member of the Board of Directors, had 754 restricted shares outstanding as at 31 December 2017 (2016: 130).

Ref. note 1.3 for the total expense recognised in the income statement for share options and restricted performance shares granted to Executive Management and other executives.



### 6.3 Contractual obligations

mEUR	2017	2016
The minimum lease obligations relating to operating leases fall due:		
0–1 year	57	51
1–5 years	115	101
> 5 years	42	36
<b>Total</b>	<b>214</b>	<b>188</b>

Operating leases primarily comprise irrevocable operating leases regarding land, buildings, and vehicles. The main obligations relate to buildings and run for up to 15 years after the balance sheet date.

Costs recognised in the income statement relating to operating leases amount to EUR 52m in 2017 (2016: EUR 40m).

The Group has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2018 and future periods at a value of EUR 15m (2016: EUR 59m).

### 6.4 Related party transactions

Vestas Wind Systems A/S has no shareholders with controlling influence.

Related parties are considered to be the Board of Directors and the Executive Management of the Vestas Wind Systems A/S together with their immediate families. Related parties also include entities which are controlled or jointly controlled by the aforementioned individuals.

#### Transactions with the Board of Directors and Executive Management

Transactions with the Executive Management only consist of normal management remuneration, see note 1.3 to the consolidated financial statements, and the transactions mentioned below.

Transactions with the Board of Directors and Executive Management in the year comprise the following:

Anders Vedel has full and partly ownerships of wind turbines for which he has a service contract with the Group. These transactions take place at arm's length and in total amounted to EUR 0.3m in 2017 (2016: EUR 0.1m). The outstanding amount of purchases as at 31 December 2017 amounted to EUR 0.0m (2016 EUR 0.0m).

There have been no other transactions with members of the Board of Directors and the Executive Management during the year.

With the exception of the Board members elected by the employees, no members of the Board of Directors have been employed by the Group in 2017.

#### Transactions with joint venture

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

mEUR	2017	2016
<b>MHI Vestas Offshore Wind A/S</b>		
Revenue	294	353
Receivable as at 31 December	33	82
<b>Roaring Fork Wind, LLC</b>		
Prepayments received	16	80
Prepayments balance as at 31 December	86	80

#### Transactions with associates

Related parties also include associates over whom Vestas Wind Systems A/S has significant influence. No material transactions with associates have occurred.

## 6.5 Non-cash transactions

mEUR	2017	2016
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	421	405
Share of (profit)/loss from investments in joint ventures and associates	40	101
Warranty provisions in the year (net)	42	138
Other provisions in the year	1	12
Exchange rate adjustment	4	76
Financial income	(45)	(56)
Financial expenses	43	89
Income tax for the year	298	322
Cost of share-based payments	18	12
Gains from property, plant and equipment	(9)	(13)
Change in marketable securities	(2)	-
Non-cash settlements	37	-
Other adjustments for non-cash transactions	(3)	-
	<b>845</b>	<b>1,086</b>

## 6.6 Non-current assets held for sale

### Group accounting policies

Non-current assets (or disposal groups) are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are presented separately on the balance sheet. Immediately before the initial classification of the assets as held for sale, the carrying amounts of the assets are measured in accordance with their applicable accounting policy. Non-current assets held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are not depreciated.

### Properties

In the first quarter of 2017, the Group sold office buildings as a sale and leaseback agreement. The Group received EUR 99m in cash for the office buildings, and less cost to sell this was 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 for 10 years. The minimum lease obligations relating to the operating lease amounts to EUR 32m. The lease obligation is included in the total minimum lease obligation in note 6.3 Contractual obligations.

mEUR	2017	2016
Non-current assets classified as held for sale:		
Property, plant and equipment	-	95

## 6.7 Subsequent events

### Acquisition of Utopus

On 2 February 2018, the Group has entered into an agreement for the acquisition of Utopus Insights, Inc. ("Utopus"), ref. company announcement no. 2/2018. The acquisition significantly improves Vestas' existing market-leading capabilities for advanced analytics and integrated energy software solutions.

The acquisition price for Utopus is approx. EUR 80m on a debt and cash free basis.

The transaction is subject to closing conditions, including third-party approvals. Closing of the transaction is expected to take place during the first quarter of 2018. The Group expects to gain control at closing, and Utopus will be consolidated in the Group's financials from the time of closing.

## 6.8 Legal entities<sup>1)</sup>

Name and country	Ownership (%)
<b>Parent company</b>	
Vestas Wind Systems A/S, Denmark	-
<b>Production units</b>	
Vestas Nacelles America, Inc., USA	100
Vestas Towers America, Inc., USA	100
Vestas Blades America, Inc., USA	100
Vestas Manufacturing A/S, Denmark	100
Vestas Blades Deutschland GmbH, Germany	100
Vestas Blades Italia S.r.l., Italy	100
Vestas Wind Technology (China) Co. Ltd., China	100
Vestas Manufacturing Spain S.L.U., Spain	100
Vestas Control Systems Spain S.L.U., Spain	100
Vestas Nacelles Deutschland GmbH, Germany	100
Vestas Manufacturing RUS OOO, Russia	100
<b>Sales and service units</b>	
Vestas Americas A/S, Denmark	100
Vestas America Holding Inc., USA	100
Vestas - Wind 50, LLC, USA	100
Vestas - American Wind Technology Inc., USA	100
Vestas - Canadian Wind Technology Inc., USA	100
Vestas - Portland HQ LLC, USA	100
Vestas Upwind Solutions Inc., USA	100
Availon Inc., USA	100
Steelhead Americas, LLC, USA	100
Steelhead Wind 1 LLC, USA	100
Steelhead Wind 2 LLC, USA	100
Steelhead Wind 2a LLC, USA	100
Vestas Asia Pacific A/S, Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd., Singapore	100
Vestas - Australian Wind Technology Pty. Ltd., Australia	100
Vestas Korea Wind Technology Ltd., South Korea	100
Vestas New Zealand Wind Technology Ltd., New Zealand	100
Vestas Taiwan Ltd., Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd., China	100
Vestas Wind Technology India Pvt Limited, India	100
Vestas Wind Technology Japan Co. Ltd., Japan	100
Vestas Wind Technology Pakistan (Private) Limited, Pakistan	100
Vestas Wind Technology (Thailand) Ltd., Thailand	100
Vestas Wind Technology Vietnam LLC, Vietnam	100
Vestas Mongolia LLC, Mongolia	100
Vestas Central Europe A/S, Denmark	100
Vestas Deutschland GmbH, Germany	100
Vestas Services GmbH, Germany	100
Vestas Benelux B.V., The Netherlands	100
Vestas Österreich GmbH, Austria	100
Vestas Czech Republic s.r.o., Czech Republic	100
Vestas Hungary Kft., Hungary	100

Name and country	Ownership (%)
<b>Sales and service units, continued</b>	
Vestas Bulgaria EOOD, Bulgaria	100
Vestas CEU Romania S.R.L, Romania	100
Vestas Central Europe-Zagreb d.o.o, Croatia	100
Vestas Slovakia spol S.r.o., Slovakia	100
Vestas RUS LLC, Russia	100
Vestas Eastern Africa Ltd., Kenya	100
Vestas Southern Africa Pty. Ltd., South Africa	80
Vestas Ukraine LLC, Ukraine	100
Vestas Central Europe d.o.o. Beograd, Serbia	100
Vestas Belgium SA, Belgium	100
Vestas Georgia LLC, Georgia	100
Availon Holding GmbH, Germany	100
Availon GmbH, Germany	100
Vestas Mediterranean A/S, Denmark	100
Vestas Italia S.r.l., Italy	100
Vestas Hellas Wind Technology S.A., Greece	100
Vestas Eólica S.A., Spain	100
Vestas France SAS, France	100
Vestas (Portugal) - Serviços de Tecnologia Eólica Lda., Portugal	100
Vestas WTG Mexico S.A. de C.V., Mexico	100
Vestas Mexicana del Viento S.A. de C.V., Mexico	100
Vestas do Brasil Energia Eolica Ltda., Brazil	100
Vestas Argentina S.A., Argentina	100
Vestas Chile Turbinas Eólica Limitada Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A., Uruguay	100
Vestas MED (Cyprus) Ltd., Cyprus	100
Vestas Nicaragua SA, Nicaragua	100
Vestas CV Limitada, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L., Dominican Republic	100
Vestas Peru S.A.C., Peru	100
Vestas Middle East S.L.U., Spain	100
Vestas Costa Rica S.A., Costa Rica	100
Vestas Moroc SARLAV, Casablanca Morocco	100
Vestas Jamaica Wind Technology Ltd., Jamaica	100
Vestas Guatemala, Guatemala	100
Availon LDA Portugal, Portugal	100
Availon SRL, Italy	100
Availon Iberia S.L., Spain	100
Vestas Northern Europe A/S, Denmark	100
Vestas - Celtic Wind Technology Ltd., United Kingdom	100
Vestas Northern Europe AB, Sweden	100
Vestas Poland Sp.z.o.o., Poland	100
Vestas Ireland Ltd., Ireland	100
Vestas Norway AS, Norway	100
Vestas Finland Oy, Finland	100

1) Companies of immaterial significance have been left out of the overview.

## 6.8 Legal entities (continued)

<b>Name and country</b>	<b>Ownership (%)</b>
<b>Other subsidiaries</b>	
Vestas Wind Systems (China) Co. Ltd., China	100
Vestas Switzerland AG, Switzerland	100
Vestas Services Philippines Inc., Philippines	100
Vestas India Holding A/S, Denmark	100
Wind Power Invest A/S, Denmark	100
Vestas Technology (UK) Limited, United Kingdom	100
Vestas Technology R&D Singapore Pte. Ltd., Singapore	100
Vestas Technology R&D Chennai Pte. Ltd., India	100
Vestas Technology R&D (Beijing) Co. Ltd., China	100
Vestas Shared Service (Spain), S.L.U., Spain	100
Vestas Middle East A/S, Denmark	100
GREP Svenska AB, Sweden	100
Vestas BCP Philippines Inc., Philippines	100
Vestas Shared Service A/S	100
Wind 30 ApS, Denmark	100
Wind 31 ApS, Denmark	100
Abmede AB, Sweden	100
<b>Joint ventures</b>	
MHI Vestas Offshore Wind A/S, Denmark	50
Roaring Fork Wind, LLC, USA	50

## 7. Basis for preparation

### 7.1 General accounting policies

The annual report of Vestas Wind Systems A/S comprises the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries and separate financial statements of the parent company, Vestas Wind Systems A/S.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional Danish disclosure requirements for listed companies, cf. the Danish Statutory Order on Adoption of IFRS issued pursuant to the Danish Financial Statements Act.

#### Basis of preparation

The consolidated financial statements have been prepared under the historical cost method, except for the derivative financial instruments and marketable securities, which are measured at fair value and non-current assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

The accounting policies remain unchanged for the consolidated financial statements compared to 2016.

The consolidated financial statements are presented in million euro.

This note describes the general accounting policies. Other accounting policies are described in the separate notes to the consolidated financial statements.

#### Materiality in the financial reporting

For the preparation of the consolidated financial statements, the Group discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

A judgement is made of whether more detailed specifications are necessary in the presentation of the Group's assets, liabilities, financial position, and results. All judgements are made with due consideration of legislation and the consolidated financial statements as a whole presenting a true and fair view.

#### Consolidated financial statements

The consolidated financial statements comprise Vestas Wind Systems A/S (the parent company) and the subsidiaries over which Vestas Wind Systems A/S exercises control. Vestas Wind Systems A/S and its subsidiaries together are referred to as the Group.

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An overview of Group legal entities is provided on pages 115-116.

The consolidated financial statements are prepared from the financial statements of the parent company and subsidiaries by combining accounting items of a uniform nature, with subsequent elimination of intercompany income and expenses, shareholdings, intercompany balances and dividends as well as unrealised profits and losses on transactions between consolidated entities.

The consolidated financial statements are based on financial statements prepared under the accounting policies of the Group.

#### Business combinations

Newly acquired or newly founded subsidiaries are recognised from the date of obtaining control. Upon acquisition of subsidiaries, the acquisition method is applied.

Cost is stated as the fair value of the assets transferred, obligations undertaken and shares issued. Cost includes the fair value of any earn-outs.

Expenses related to the acquisition are recognised in the income statement in the period in which they are incurred. Identifiable assets, liabilities and contingent liabilities (net assets) relating to the entity acquired are recognised

at the fair value at the date of acquisition calculated in accordance with the Group accounting policies.

In connection with every acquisition, goodwill and a non-controlling interest (minority) are recognised according to one of the following methods:

- 1) Goodwill relating to the entity acquired comprises a positive difference, if any, between the total fair value of the entity acquired and the fair value of the total net assets for accounting purposes. The non-controlling interest is recognised at the share of the total fair value of the entity acquired (full goodwill).
- 2) Goodwill relating to the entity acquired comprises a positive difference, if any, between the cost and the fair value of the Group's share of the net assets for accounting purposes of the acquired enterprise at the date of acquisition. The non-controlling interest is recognised at the proportionate share of the net assets acquired (proportionate goodwill).

Goodwill is recognised in intangible assets. It is not amortised, but reviewed for impairment once a year and also if events or changes in circumstances indicate that the carrying value may be impaired. If impairment is established, the goodwill is written down to its lower recoverable amount.

Sold or liquidated entities are recognised up to the date of disposal. Any gain or loss compared to the carrying amount at the date of disposal is recognised in the income statement to the extent the control of the subsidiary is also transferred.

#### Translation policies

##### Functional currency and presentation currency

Assets, liabilities and transactions of each of the reporting entities of the Group are measured in the currency of the primary economic environment in which the entity operates (the functional currency). Transactions in currencies other than the functional currency are transactions in foreign currencies. The functional currency of the parent company is Danish kroner (DKK); however, due to the Group's international relations, the consolidated financial statements are presented in Euro (EUR).

##### Translation into presentation currency

The balance sheet is translated into the presentation currency at the EUR rate at the balance sheet date. In the income statement the transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transactions.

##### Translation of transactions and amounts

Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the dates of transaction. Exchange adjustments arising due to differences between the transaction date rates and the rates at the dates of payment are recognised as financial income or financial costs in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognised as financial income or financial costs in the income statement.

##### Translation of Group entities

On recognition in the consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency of the Group, income statements are translated at transaction date rates, and balance sheet items are translated at the exchange rates at the balance sheet date. The transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transaction. Exchange adjustments arising on the translation of the opening equity of foreign entities at exchange rates at the balance sheet date and on the translation of income statements from transaction date rates to exchange rates at the balance sheet date are recognised in other comprehensive income. Exchange adjustments of balances with foreign entities that are treated as

## 7.1 General accounting policies (continued)

part of the total net investment in the entity in question are recognised in other comprehensive income in the consolidated financial statements.

On recognition in the consolidated financial statements of investments accounted for using the equity method with functional currencies that differ from the presentation currency of the Group, the shares of results for the year are translated at average exchange rates, and the shares of equity including goodwill are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising on the translation of the share of the opening equity of foreign investments accounted for using the equity method at exchange rates at the balance sheet date and on the translation of the share of results for the year from average exchange rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

On full or partial disposal of foreign entities, resulting in a loss of control or on repayment of balances treated as part of the net investment, the share of the accumulated exchange adjustments recognised in other comprehensive income, is recognised in the income statement at the same time as any profit or loss on the disposal.

### Income statement

#### Special items

Special items comprise costs and income of a special or non-recurring nature in relation to the main activities of the Group. This includes costs related to significant organisational restructuring and adjustments to production capacity and the product programme. The costs include the write-down of tangible assets as well as provisions for reorganisations and any reversal/adjustments thereof.

#### Leases

For accounting purposes, lease contracts are classified as either finance or operating lease obligations.

A lease is classified as a finance lease when it transfers substantially all risks and rewards of the leased asset as if the asset had been owned. Other leases are classified as operating leases.

Finance lease assets are capitalised under property, plant and equipment and are depreciated over their expected useful lives. The corresponding finance lease obligations are recognised in liabilities. Operating lease expenses are recognised on a straight line basis in the income statement over the lease term.

#### Marketable securities

On initial recognition marketable securities are recognised in the balance sheet at fair value and subsequently re-measured at fair value through profit or loss. Any changes in the fair values of the marketable securities are recognised in the income statement as financial items.

### Equity

#### Translation reserve

The translation reserve in the consolidated financial statements comprises exchange rate adjustments arising on the translation of the financial statements of foreign entities from their functional currencies into the presentation currency of the Group (EUR).

Upon full or part realisation of the net investment in foreign entities, exchange adjustments are recognised in the income statement.

#### Cash flow hedging reserve

The cash flow hedging reserve in the consolidated financial statements comprises gains and losses on fair value adjustments of forward exchange contracts concerning future transactions as well as hedging in connection with commodities.

#### Cash flow statement

The cash flow statement shows the Group's cash flows for the year, broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year. Cash flows relating to acquired entities are recognised from the date of acquisition. Cash flows relating to entities disposed of are recognised until the date of disposal.

#### Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, provisions and changes in working capital, interest received and paid and income tax paid. Working capital comprises current assets less short-term debt, which does not include current bank loans.

#### Cash flows from investing activities

Cash flows from investing activities comprise cash flows from business acquisitions and disposals and from acquisitions and disposals of intangible assets, property, plant and equipment, purchase of marketable securities, as well as other non-current assets. The cash flow effect of business acquisitions and sales is shown separately. The establishment of finance leases is treated as non-cash transactions.

#### Cash flows from financing activities

Cash flows from financing activities comprise changes to the amount or composition of the Group's share capital and related expenses as well as the raising of loans, repayment of interest-bearing debt, acquisition and sale of treasury shares together with distribution of dividends to shareholders. Cash flows from finance lease assets are recognised as interest payments and repayments of debts.

## 7.2 Key accounting estimates and judgements

When preparing the consolidated financial statements of the Group, Management makes a number of accounting estimates and assumptions, which form the basis of recognition and measurement of the Group's assets and liabilities. The Group's accounting policies are described in detail in the notes to the consolidated financial statements.

### Critical judgements and estimates

The calculation of the carrying amounts of certain assets and liabilities requires judgements, estimates and assumptions relating to future events.

The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances, but that are inherently uncertain and unpredictable. The assumptions may be incom-

plete or inaccurate and unexpected events or circumstances may arise. Furthermore, the company is subject to risks and uncertainties which may result in actual amounts deviating from these estimates. Key risks of the Group have been described on pages 043-044 of the Management report, and in the individual notes to the consolidated financial statements.

It may be necessary to change estimates made previously due to changes in the assumptions on which the previous estimates were based or due to new knowledge or subsequent events.

The areas involving a high degree of judgement and estimation that are significant to the consolidated financial statements are described in more detail in the related notes.

Group accounting policies	Critical accounting judgements and estimates	Note	Page
Revenue	Recognition of contract elements	1.2	073
Provisions	Estimates for warranty provisions	3.5	090
Income tax	Assumptions included in income tax assessment and uncertain tax position	5.1	106
Deferred tax	Estimate of deferred tax assets valuation	5.2	108
Inventories	Estimates of net realisable value	2.2	078
Other receivables	Judgement of allowance for doubtful VAT receivables	2.5	081

## 7.3 Changes in accounting policies and disclosures

### Impact of new accounting standards

The Group has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2017 financial year, including:

- Annual Improvements to IFRSs 2014-2016 (effective date 1 January 2017)

None of these new or amended accounting standards and interpretations resulted in any changes to the accounting policies for the Group or had significant impact on recognition, measurement or disclosures in the consolidated financial statements in 2017. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

### New accounting standards not yet adopted

The IASB has issued a number of new accounting standards and interpretations with effective date after 31 December 2017. The Group will implement the following new accounting standards and interpretations when they become mandatory:

- IFRS 9, Financial Instruments (effective date 1 January 2018)
- 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 16, Leases (effective date 1 January 2019)

### IFRS 9, Financial Instruments

IFRS 9 will be implemented in our consolidated financial statements for the financial year beginning on 1 January 2018.

A new model for classification and measurement of financial assets and liabilities has been introduced. The new model will not drive significant changes for the Group.

Further to this a new impairment model has been introduced based on expected losses. The Group will not be impacted by the new expected credit loss model to a significant degree.

Moreover, a new hedge accounting model has been introduced which will align the way that the Group undertakes risk management activities with the hedge accounting qualification criteria. The changed hedge accounting model will not have significant impact to the consolidated financial statements.

However IFRS 9, Financial Instruments will require additional disclosures.

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

IFRS 15 will be implemented in our consolidated financial statements for the financial year beginning on 1 January 2018. The Group will apply 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. Consequently, 2017 comparative figures will be reported according to IAS 11/IAS 18 and will not be restated to reflect the numbers according to IFRS 15. Note disclosures will be available stating 2018 numbers according to both IFRS 15 and IAS 11/IAS 18, to provide comparability between 2017 and 2018 and to disclose the effect from the changed regulation.

Under current IAS 11/IAS 18 regulation, timing of revenue recognition is primarily dependent on the transfer of risks and rewards to the customer of the goods and services. Under IFRS 15 regulation, timing of revenue recognition is primarily dependent on the transfer of control to the customer for the relevant performance obligations in a contract.

IFRS 15 does not change the underlying principles of how the Group accounts for the main revenue streams. Total revenue of a contract will remain unchanged, however the timing of the revenue recognition will be deferred for supply-only and turnkey contracts.

IFRS 15 does not impact the cash flows for the Group.

The Group expects an impact the note disclosures, due to the IFRS 15 disclosure requirements.

We have finalised our estimate made on the transition impact and the opening equity will be impacted negatively by approx. EUR 60m as at 1 January 2018.

### IFRS 16, Leases

The Group is in the process of preparing for the implementation of IFRS 16, which becomes effective 1 January 2019. The Group is still in the process of making an assessment of the balance sheet impact of the standard. Based on the preliminary assessment made, the change in lease accounting requires capitalisation of operating lease contracts with an immaterial amount compared to the total assets.

The lease expenses will according to the new accounting regulation be split into two elements; depreciation and interest expenses as opposed to currently being recognised as operating expenses.

We expect to implement the standard based on the simplified transition method where the Group will not restate comparative information, but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.



## 7.4 Financial definitions

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### FINANCIAL HIGHLIGHTS

**Investments:** Investments equal 'Cash flow from investing activities'.

**Net invested capital:** Assets (excluding investments accounted for using the equity method, marketable securities and assets held for sale) less non-interest bearing debt including provisions.

**Net working capital (NWC):** Inventories, trade receivables, construction contracts in progress, other receivables minus trade and other payables, prepayments from customers and construction contracts in progress.

**Free cash flow:** Cash flow from operating activities less cash flow from investing activities.

**Free cash flow before marketable securities:** Cash flow from operating activities less cash flow from investing activities before marketable securities.

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### FINANCIAL RATIOS

**Gross margin (%):** Gross profit/loss as a percentage of revenue.

**EBITDA margin:** Operating profit before amortisation, depreciation and impairment as a percentage of revenue.

**EBIT margin:** Operating profit as a percentage of revenue.

**Net interest-bearing debt/EBITDA:** Net interest-bearing debt divided by operating profit amortization, depreciation and impairment.

**Return on invested capital (ROIC) (%):** Operating profit/loss (EBIT) after tax (effective tax rate) as a percentage of average net invested capital.

**Solvency ratio (%):** Equity at year-end divided by total assets.

**Return on equity (%):** Profit/loss after tax for the year divided by average equity.

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### SHARE RATIOS

**Earnings per share (EPS):** Profit/loss for the year divided by the average number of shares outstanding.

**Cash flow from operating activities per share:** Cash flows from operating activities divided by the average number of shares.

**Dividend per share:** Dividend multiplied by the nominal value of the share.

**Payout ratio:** Total dividend distribution divided by profit/loss for the year.

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### OTHER DEFINITIONS

**FTE:** Employees on the Group's payroll are counted and reported as Vestas employees.

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### TERMINOLOGY USED IN ACCOUNTING POLICIES

**IFRS:** International Financial Reporting Standards

**IASB:** International Accounting Standards Board

**IFRIC/SIC:** International Financial Reporting Interpretations Committee/Standing Interpretations Committee

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# Statements

## Management's statement

The Executive Management and Board of Directors have today considered and adopted the annual report of Vestas Wind Systems A/S for the financial year 2017.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of Vestas Wind Systems A/S have been prepared in accordance with the Danish Financial Statements Act. The management report is also prepared in accordance with the Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the financial position of the Group and the company as at 31 December 2017 and of the results of the Group and company's operations and consolidated cash flows for the financial year 1 January - 31 December 2017.

In our opinion, the management report includes a fair review of the development in the operations and financial circumstances of the Group and the company, of the results for the year and of the financial position of the Group and the company as well as a description of the most significant risks and elements of uncertainty facing the Group and the company.

In our opinion, the social and environmental statements have been prepared in accordance with the accounting policies applied. They give a fair review of the Group's social and environment performance.

We recommend that the Annual General Meeting approve the annual report.

Aarhus, 7 February 2018

### Executive Management

		
<b>Anders Runevad</b> Group President & CEO	<b>Marika Fredriksson</b> Executive Vice President & CFO	
		
<b>Anders Vedel</b> Executive Vice President & CTO	<b>Jean-Marc Lechêne</b> Executive Vice President & COO	<b>Juan Araluce</b> Executive Vice President & CSO

### Board of Directors

			
<b>Bert Nordberg</b> Chairman	<b>Lars Josefsson</b> Deputy chairman		
			
<b>Carsten Bjerg</b>	<b>Eija Pitkänen</b>	<b>Henrik Andersen</b>	<b>Henry Sténson</b>
			
<b>Torben Ballégaard Sørensen</b>	<b>Lykke Friis</b>	<b>Kim Hvid Thomsen</b>	<b>Michael Abildgaard Lisbjerg</b>
			
<b>Sussie Dvinge Agerbo</b>	<b>Peter Lindholst</b>		

## The independent auditor's report

To the Shareholders of Vestas Wind Systems A/S

### Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2017 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

### What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2017 comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

### Appointment

Following the admission of the shares of Vestas Wind Systems A/S for listing on Nasdaq Copenhagen, we were first appointed auditors of Vestas Wind Systems A/S on 5 May 1999. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 19 years including the financial year 2017.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<b>Revenue recognition</b> Recognition of the Group's revenue is complex due to several types of customer contracts utilised, including sale of wind turbines and power plants (supply-only, supply-and-installation and turnkey), service contracts and sale of spare parts.  We focused on this area as recognition of revenue involves significant judgement made by Management including, whether contracts contain deliverables which should be separated for revenue recognition purposes and the most appropriate revenue recognition methodology for each of those elements, determining the allocation of consideration on a fair value basis between components of multi-element contracts as noted above, assessing when transfer of risk has occurred regarding sale of wind turbines (supply-only and supply-and-installation) and sale of spare parts, and assessing the degree of completion of project and service contracts which are accounted for on a "percentage of completion" basis.  Refer to Note 1.2 and Note 2.4.	<p>We tested the relevant internal controls used to ensure the completeness, accuracy and timing of revenue recognized, including controls over the degree of completion of turnkey and service contracts at year-end.</p> <p>We read a sample of both project and service contracts to assess whether the revenue recognition methodology was relevant and consistent with accounting standards, and had been applied consistently. We focused on contract classification, allocation of income and cost to the individual parts of the contracts and timing of transfer of risk. Where a contract contained multiple elements, we considered Management's judgements as to whether there were elements that should be accounted for separately, and, in such cases, challenged the judgements made in the allocation of the consideration to each element.</p> <p>We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy to a sample of specific contracts and separable elements of contracts, and we obtained evidence to support them, including details of contractual agreements, delivery records, cash receipts and project plans. For the contracts selected, we inspected original signed contracts and agreed the revenue recognised to the underlying accounting records. We obtained a sample of Management's calculations of the degree of completion of turnkey and service contracts at year-end. We matched a sample of source data used in Management's calculation to supporting evidence, and evaluated the judgements applied. We also considered the historical outturns of judgements used in prior periods.</p> <p>We applied Computer Assisted Audit Techniques to establish, whether any revenue had been recognised where no corresponding accounts receivable or cash item had been recorded in the general ledger.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Tax risks</b></p> <p>The Group operates in a complex multinational tax environment and the Group is part in tax cases with domestic and foreign tax authorities.</p> <p>We focused on this area as the amounts involved are material and as the valuation of the provision and deferred tax assets is associated with a high degree of judgement.</p> <p>At 31 December 2017, the Group has recognised provisions in respect of uncertain tax positions.</p> <p>Furthermore, the Group has recognised write-downs on deferred tax assets.</p> <p>Refer to Note 5.1 and 5.2.</p>	<p>We evaluated relevant internal controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the provision for uncertain tax provisions and write-down of deferred tax assets.</p> <p>In understanding and evaluating Management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current estimates and developments in the tax environment.</p> <p>In addition, we used PwC local and international tax specialists to evaluate and challenge the adequacy of Management's key assumptions and read correspondence with tax authorities to assess Management's estimates.</p> <p>We evaluated the Group's model for valuation of deferred tax assets, including the forecasts used to estimate the expected future taxable income.</p>

<p><b>Warranty provisions</b></p> <p>The Group's product warranties primarily cover expected costs to repair or replace components with defects or functional errors and financial losses suffered by the Group's customers in connection with unplanned suspension of operations. Warranties are usually granted for a two-year period from delivery of the turbine, however, in certain cases, a warranty of up to five years is granted. Additionally, provisions are also made for turbines sold with serial errors.</p> <p>We focused on this area as the completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements.</p> <p>Refer to Note 3.5.</p>	<p>We tested the relevant internal controls regarding completeness of warranty provisions and how Management assesses valuation of provisions.</p> <p>We challenged the assumptions underlying the valuation of provisions by checking and corroborating the inputs used to calculate the provisions, including interviewing project managers, cost controllers and Management regarding individual cases. We assessed specific warranty provisions held for individual cases to evaluate whether the warranty provisions were sufficient to cover expected costs at year-end.</p> <p>Further, we assessed the level of historical warranty claims to assess whether the total warranty provisions held at year-end were sufficient to cover expected costs in light of known and expected cases and standard warranty periods provided.</p>
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<p><b>Inventory valuation</b></p> <p>The valuation of inventory across the Group is dependent on establishing appropriate valuation controls.</p> <p>We focused on this area as Management judgement is applied to estimate the appropriate write-down for obsolete inventories and the indirect production costs manually capitalised as inventory. These judgements are key elements in the valuation of inventories.</p> <p>Refer to Note 2.2.</p>	<p>We tested relevant internal controls that the Group uses to ensure proper valuation of inventory, including the procedures for write-down of obsolete inventory and the indirect production costs manually capitalised as inventory.</p> <p>We tested the adequacy of write-downs for excess and/or obsolete inventory by verifying future demand data, historical usage, historical accuracy of write-downs and Management's plans to utilise the inventory.</p> <p>We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy in relation to indirect production costs.</p>
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## Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether the Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and Parent Company Financial Statements and has been prepared in accordance with the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary

to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 7 February 2018

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

Company Reg. No.: 33771231

  
Kim Fuchsøl  
State Authorised  
Public Accountant  
mne9291

  
Kim Tromholt  
State Authorised  
Public Accountant  
mne33251

## Independent assurance report

To the Stakeholders of Vestas Wind Systems A/S

Vestas Wind Systems A/S engaged us to provide limited assurance on the consolidated social and environmental key figures and indicators for the year ended 31 December 2017.

### Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the consolidated social and environmental key figures and indicators as stated on page 009 in the 2017 Annual Report has not been prepared, in all material respects, in accordance with the accounting policies as stated on page 062 of the 2017 Vestas Wind Systems A/S Annual Report.

This conclusion is to be read in the context of what we say in the remainder of our report.

### What we are assuring

The scope of our work was limited to assurance over consolidated social and environmental key figures and indicators as stated on page 009 in the 2017 Vestas Wind Systems A/S Annual Report.

### Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

### Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

### Understanding reporting and measurement methodologies

Data and information need to be read and understood together with the accounting principles (page 062 of the 2017 Vestas Wind Systems A/S Annual Report), which Management is solely responsible

for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

### Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgement, we:

- Obtained an understanding of Vestas Wind Systems A/S' control environment and information systems relevant to quantification and reporting of social and environmental data, through inquiries;
- Made site visits in Denmark, India and Sweden to assess the completeness of social and environmental data sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their size and sites selected in prior periods. Our procedures included testing to underlying documentation as well as input data controls performed at these sites;
- Conducted interviews and show-me meetings with Group functions to assess consolidation processes, use of company-wide systems and controls performed at group level as well as test of social and environmental data prepared at Group level to underlying documentation;
- Conducted analytical review of the data and trend explanations submitted by all reporting entities for consolidation at Group level; and
- Evaluated internal and external documentation to determine whether information in the 2017 Social and Environmental Statement are supported by sufficient evidence.

### Management's responsibilities

Management of Vestas Wind Systems A/S is responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the consolidated social and environmental key figures and indicators that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting principles for preparing data; and
- Measuring and reporting the consolidated social and environmental key figures and indicators based on the accounting principles.

### Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the consolidated social and environmental key figures and indicators as stated on page 009 in the 2017 Annual Report are free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Stakeholders of Vestas Wind Systems A/S

Hellerup, 7 February 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

Company Reg. No.: 33771231



Kim Fuchsøl  
State Authorised  
Public Accountant  
mne9291



Kim Tromholt  
State Authorised  
Public Accountant  
mne33251

The Lost Production Factor (LPF) indicates the share of wind not harvested by the wind turbine blades. In 2017, the LPF was 1.6 percent across 23,100 wind turbines with performance guarantee, a decrease of 0.2 percentage-points from last year, confirming the steady improvement in wind turbine performance.



## Financial statements for **Vestas Wind Systems A/S**

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## Income statement 1 January – 31 December

mEUR	Note	2017	2016
<b>Revenue</b>	1.1	1,693	1,929
Production costs	1.2	(561)	(496)
<b>Gross profit</b>		<b>1,132</b>	<b>1,433</b>
Administration costs	1.2	(222)	(211)
<b>Operating profit (EBIT)</b>		<b>910</b>	<b>1,222</b>
Income/loss from investments in subsidiaries	3.3	150	73
Income/loss from investments in associates including joint venture	3.3	(40)	(101)
Financial income	4.1	162	113
Financial costs	4.1	(90)	(76)
<b>Profit before tax</b>		<b>1,092</b>	<b>1,231</b>
Income tax	5.1	(216)	(276)
<b>Profit for the year</b>		<b>876</b>	<b>955</b>
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		110	(28)
Retained earnings		499	694
Proposed dividends		267	289
<b>Profit for the year</b>		<b>876</b>	<b>955</b>



## Balance sheet 31 December - Assets

mEUR	Note	2017	2016
Intangible assets	3.1	619	479
Property, plant, and equipment	3.2	143	233
Investments in subsidiaries	3.3	2,322	2,173
Investments in associates including joint venture	3.3	78	135
Marketable securities		196	190
Other investments		4	2
Other receivables		47	2
Tax receivables		51	59
Deferred tax	5.2	-	20
<b>Total financial fixed assets</b>		<b>2,698</b>	<b>2,581</b>
<b>Total non-current assets</b>		<b>3,460</b>	<b>3,293</b>
Inventories	2.1	75	89
Receivables from subsidiaries		3,379	4,341
Receivable from joint venture		14	4
Other receivables		91	69
Prepayments	3.4	8	4
Joint tax contribution		-	4
<b>Total receivables</b>		<b>3,492</b>	<b>4,422</b>
Marketable securities		7	11
Cash and cash equivalents		2,864	3,333
<b>Total current assets</b>		<b>6,438</b>	<b>7,855</b>
<b>Total assets</b>		<b>9,898</b>	<b>11,148</b>

## Balance sheet 31 December - Equity and liabilities

mEUR	Note	2017	2016
Share capital		29	30
Reserve for net revaluation under the equity method		157	125
Reserve for capitalised development cost		267	187
Dividend		267	289
Retained earnings		2,219	2,400
<b>Total equity</b>		<b>2,939</b>	<b>3,031</b>
Warranty provisions	3.5	565	521
Deferred tax	5.2	33	-
<b>Total non-current provisions</b>		<b>598</b>	<b>521</b>
Other liabilities		2	-
Financial debt	4.3	497	496
<b>Total non-current debt</b>		<b>499</b>	<b>496</b>
<b>Total non-current liabilities</b>		<b>1,097</b>	<b>1,017</b>
Trade payables		156	105
Payables to subsidiaries		5,553	6,759
Other liabilities		99	162
Tax payables		54	74
<b>Total current liabilities</b>		<b>5,862</b>	<b>7,100</b>
<b>Total liabilities</b>		<b>6,959</b>	<b>8,117</b>
<b>Total equity and liabilities</b>		<b>9,898</b>	<b>11,148</b>
Contingent assets and liabilities	3.6		
Financial risks	4.2		
Audit fees	6.1		
Contractual obligations	6.2		
Related party transactions	6.3		
Subsequent events	6.4		
Ownership	6.5		
General accounting policies	7.1		

## Statement of changes in equity 1 January – 31 December

2017 mEUR	Share capital	Reserve under the equity method	Reserve for capitalised development cost	Dividend	Retained earnings	Total
<b>Equity as at 1 January</b>	<b>30</b>	<b>125</b>	<b>187</b>	<b>289</b>	<b>2,400</b>	<b>3,031</b>
Exchange rate adjustments relating to foreign entities	-	(126)	-	-	3	(123)
Fair value adjustments of derivative financial instruments	-	93	-	-	65	158
Tax on fair value adjustments of derivative financial instruments	-	(22)	-	-	(15)	(37)
Fair value adjustments of derivative financial instruments, joint venture	-	(17)	-	-	-	(17)
Paid dividend	-	-	-	(278)	-	(278)
Paid dividend related to treasury stock	-	-	-	(11)	11	-
Proposed dividend	-	-	-	253	(253)	-
Proposed dividend related to treasury stock	-	-	-	14	(14)	-
Capitalised development cost	-	-	155	-	(155)	-
Tax on capitalised development cost	-	-	(75)	-	75	-
Acquisition of treasury shares	-	-	-	-	(694)	(694)
Sale of treasury shares	-	-	-	-	1	1
Share-based payments	-	(6)	-	-	24	18
Tax on share-based payments	-	-	-	-	5	5
Capital decrease	(1)	-	-	-	-	(1)
Profit for the year	-	110	-	-	766	876
<b>Equity as at 31 December</b>	<b>29</b>	<b>157</b>	<b>267</b>	<b>267</b>	<b>2,219</b>	<b>2,939</b>

## 1. Result for the year

### 1.1 Revenue

Revenue in the parent company consists of sale of spare parts and royalty income from other Group companies.

### 1.2 Costs

mEUR	2017	2016
Staff costs are specified as follows:		
Wages and salaries, etc.	254	235
Pension schemes	15	13
Other social security costs	1	1
	<b>270</b>	<b>249</b>
For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company ref. note 1.3 to the consolidated financial statements. Pension schemes in the parent company consist solely of defined contribution plans and the company does therefore not carry the actuarial risk or the investment risk. For management incentive programmes, ref. note 6.2 to the consolidated financial statements.		
Average number of employees in Vestas Wind Systems A/S	2,166	2,046

## 2. Working capital

### 2.1 Inventories

mEUR	2017	2016
Raw materials and consumables	73	87
Work in progress	2	2
	<b>75</b>	<b>89</b>

Inventories relate to the spare parts activity.

### 3. Other operating assets and liabilities

#### 3.1 Intangible assets

2017 mEUR	Goodwill	Completed development projects	Software	Other intangi- ble assets	Development projects in progress	Total
Cost as at 1 January	19	1,404	255	8	85	1,771
Reclassification	-	4	-	-	2	6
Exchange rate adjustments	0	(2)	(3)	0	0	(5)
Additions	56	-	8	6	221	291
Transfers	-	129	35	-	(164)	-
<b>Cost as at 31 December</b>	<b>75</b>	<b>1,535</b>	<b>295</b>	<b>14</b>	<b>144</b>	<b>2,063</b>
Amortisation as at 1 January	12	1,104	175	1	-	1,292
Reclassification	-	6	-	-	-	6
Exchange rate adjustments	0	(2)	(1)	0	-	(3)
Amortisation for the year	1	115	29	1	-	146
Impairment loss	-	3	-	-	-	3
<b>Amortisation as at 31 December</b>	<b>13</b>	<b>1,226</b>	<b>203</b>	<b>2</b>	<b>-</b>	<b>1,444</b>
<b>Carrying amount as at 31 December</b>	<b>62</b>	<b>309</b>	<b>92</b>	<b>12</b>	<b>144</b>	<b>619</b>
Amortisation period	5-20 years	3-5 years	3-5 years	3-7 years		

The Company has purchased intellectual property rights amounting to EUR 62m from an entity in the Group.

Included in software are internally completed IT projects amounting to EUR 72m as at 31 December 2017 (2016: EUR 55m). For development projects in progress, ref. note 3.1 to the Consolidated financial statements.

#### Goodwill

Goodwill is included in the item "Goodwill" or in the item "Investments accounted for using the equity method" and is amortised over the estimated useful life determined on the basis of Management's experience with the individual business areas. Goodwill is amortised on a straight-line basis over the amortisation period, which is a maximum of 20 years, and is longest for entities acquired for strategic purposes with a long-term earnings profile.

### 3.2 Property, plant, and equipment

2017 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools, and equipment	Property, plant and equipment in progress	Total
Cost as at 1 January	400	83	118	5	606
Additions	1	10	14	2	27
Disposals	(150)	(3)	(5)	(3)	(161)
Transfers	-	3	-	(3)	0
<b>Cost as at 31 December</b>	<b>251</b>	<b>93</b>	<b>127</b>	<b>1</b>	<b>472</b>
Depreciation as at 1 January	221	57	95	-	373
Depreciation for the year	10	10	10	-	30
Reversed impairment	(8)	-	-	-	(8)
Depreciations on disposals for the year	(58)	(3)	(5)	-	(66)
<b>Depreciation as at 31 December</b>	<b>165</b>	<b>64</b>	<b>100</b>	<b>-</b>	<b>329</b>
<b>Carrying amount as at 31 December</b>	<b>86</b>	<b>29</b>	<b>27</b>	<b>1</b>	<b>143</b>
Depreciation period	15–40 years	3–10 years	3–5 years		

The Company has during the year sold its buildings at Hedeager 42 and 44, Aarhus.

### 3.3 Investments in subsidiaries and associates including joint venture

#### Accounting policies

Investments in subsidiaries and associates including joint venture are recognised and measured in the financial statements of the parent company under the equity method.

On acquisition of subsidiaries and associates including joint venture, the difference between cost of acquisition and net asset value of the entity acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the acquisition method) and allowing for the recognition of any restructuring provisions relating to the entity acquired. Any remaining positive differences in connection with the acquisition of subsidiaries and associates including joint venture are included in the items "Investments in subsidiaries" and "Investments in associates including joint venture". The items "Income/(loss) from investments in subsidiaries" and "income/(loss) from investments in associates including joint venture" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The items "Investments in subsidiaries" and "Investments in associates including joint venture" in the balance sheet includes the proportionate ownership share of the net asset value of the entities calculated under the accounting policies of the parent company with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of the positive differences (goodwill).

Subsidiaries and associates including joint venture with a negative net assets value are measured at EUR 0, and any receivables from these are written down by the parent company's share of the negative net asset value, if impaired. Any legal or constructive obligation of the parent company to cover the negative balance of the subsidiaries and associates including joint venture is recognised as provisions.

The total net revaluation of investments in subsidiaries and associates including joint venture is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity.

Gains and losses on disposals or winding up of subsidiaries and associates including joint venture are calculated as the difference between the sales value or cost of winding up and the carrying amount of the net assets at the date of acquisition including goodwill and expected loss of disposal or winding up. The gains or losses are included in the income statement.

### 3.3 Investments in subsidiaries and associates including joint venture (continued)

#### Investments in subsidiaries, joint venture, and associates

mEUR	2017	2016
Subsidiaries	2,322	2,173
Joint venture	77	134
Associates	1	1
<b>Carrying amount as at 31 December</b>	<b>2,400</b>	<b>2,308</b>

#### Income/(loss) from investments in subsidiaries, joint venture, and associates

mEUR	2017	2016
Subsidiaries	150	73
Joint venture	(40)	(101)
Associates	0	0
	<b>110</b>	<b>(28)</b>

#### Income/(loss) from subsidiaries

mEUR	2017	2016
Share of profit/loss in subsidiaries after tax	162	89
Amortisation of goodwill	(12)	(16)
	<b>150</b>	<b>73</b>

#### Income/(loss) from joint venture

mEUR	2017	2016
Share of profit/loss in joint venture after tax	(40)	(101)
	<b>(40)</b>	<b>(101)</b>

### 3.3 Investments in subsidiaries and associates including joint venture (continued)

#### Investments in subsidiaries

mEUR	2017	2016
Cost as at 1 January	1,980	1,746
Exchange rate adjustments	(4)	5
Additions	64	229
<b>Cost as at 31 December</b>	<b>2,040</b>	<b>1,980</b>
Value adjustments as at 1 January	193	190
Exchange rate adjustments	(126)	8
Disposal	-	(1)
Share of profit/loss for the year after tax	162	89
Changes in equity, share-based payment	(6)	(12)
Changes in equity, derivative financial instruments	71	(65)
Amortisation of goodwill	(12)	(16)
<b>Value adjustments as at 31 December</b>	<b>282</b>	<b>193</b>
<b>Carrying amount as at 31 December</b>	<b>2,322</b>	<b>2,173</b>
Remaining positive difference included in the above carrying amount as at 31 December	79	142

Ref. note 6.8 to the Consolidated financial statements for an overview of the legal entities within the Group.

#### Investments in joint venture

mEUR	2017	2016
Cost as at 1 January	202	202
<b>Cost as at 31 December</b>	<b>202</b>	<b>202</b>
Value adjustments as at 1 January	(68)	22
Other adjustments	-	(2)
Share of profit/loss for the year after tax	(40)	(101)
Changes in equity	(17)	13
<b>Value adjustments as at 31 December</b>	<b>(125)</b>	<b>(68)</b>
<b>Carrying amount as at 31 December</b>	<b>77</b>	<b>134</b>

Ref. note 6.8 to the Consolidated financial statements for an overview of the legal entities within the Group.



### 3.4 Prepayments

Prepayments comprise of prepaid software license, insurance, and rent.

### 3.5 Provisions

#### Warranty provisions

mEUR	2017	2016
Warranty provisions as at 1 January	521	381
Warranty provisions for the year	185	228
Used warranty provisions for the year	(141)	(88)
<b>Warranty provisions as at 31 December</b>	<b>565</b>	<b>521</b>
The warranty provisions are expected to be consumed as follows:		
0–1 year	132	110
> 1 year	433	411
	<b>565</b>	<b>521</b>

In line with accounting policies, potential product warranties is recognised as warranty provisions when revenue from sale of wind turbines is recognised. This may result in commercial constructive obligations beyond the specified legally binding warranty period for the wind turbine being recognised as a warranty obligation.

#### Product risks

Lack of reliability in several of Vestas' products has previously led to major warranty provisions. In recent years, Vestas has invested significant resources in improving the products and increasing their reliability. This work comprises design, production, installation, and continuous maintenance.

The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, to increase the competitiveness of the products, and to improve customer earnings.

### 3.6 Contingent assets and liabilities

mEUR	2017	2016
The company has provided guarantee and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	267	309

In addition, the company provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries, and their warranty obligations to customers. To secure guarantees issued by banks, the company has given securities in cash and cash equivalents with disposal restrictions, ref. note 4.4 to the Consolidated financial statements.

On 31 July 2017 General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its U.S. Patents No. 7,629,705 and No. 6,921,985 (the "705 Patent" and the "985 Patent"). The 705 Patent addresses Zero Voltage Ride Through technology. The 985 Patent addresses techniques to maintain functioning of the blade pitch system during low voltage events. Vestas answered and counterclaimed on December 15, 2017. 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 defense 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.

For pending lawsuits, ref. note 3.6 to the Consolidated financial statements. For disclosure of contingent assets, ref. note 3.6 to the Consolidated financial statements.

The company is jointly taxed with its Danish subsidiaries. As the administrative company for the subsidiaries included in the joint taxation, the company is liable for the tax obligations of the included subsidiaries.

## 4. Capital structure and financing items

### 4.1 Financial items

mEUR	2017	2016
<b>Financial income</b>		
Interest income	18	54
Interest income from subsidiaries	104	41
Exchange rate adjustments	36	-
Financial instruments	-	17
Other financial income	4	1
	<b>162</b>	<b>113</b>
<b>Financial costs</b>		
Interest costs	29	21
Interest costs to subsidiaries	31	18
Exchange rate adjustments	-	29
Financial instruments	22	-
Other financial costs	8	8
	<b>90</b>	<b>76</b>

### 4.2 Financial risks

For the use of derivative financial instruments and risks and capital management ref. note 4.5 to the consolidated financial statements.

### 4.3 Financial liabilities

#### Financial debts

mEUR	2017	2016
Green corporate eurobond	497	496
	<b>497</b>	<b>496</b>
Financial debts break down as follows:		
< 1 year	-	-
1-2 years	-	-
> 2 years	497	496
	<b>497</b>	<b>496</b>

## 5. Tax

### 5.1 Income tax

mEUR	2017	2016
Current tax on profit for the year	181	252
Deferred tax on profit for the year	36	25
Foreign taxes	2	(1)
Adjustment related to previous years	(3)	0
<b>Income tax for the year recognised in the income statement, (income)</b>	<b>216</b>	<b>276</b>
Deferred tax on equity	10	(12)
<b>Tax recognised in equity, expense/(income)</b>	<b>10</b>	<b>(12)</b>
<b>Total income taxes for the year, (income)</b>	<b>226</b>	<b>264</b>

### 5.2 Deferred tax

mEUR	2017	2016
Deferred tax as at 1 January, net assets	20	73
Deferred tax on profit for the year	(36)	(25)
Prepaid tax	-	(48)
Tax on entries in equity	(10)	12
Adjustment relating to previous years	(7)	8
<b>Deferred tax as at 31 December, net assets</b>	<b>(33)</b>	<b>20</b>

## 6. Other disclosures

### 6.1 Audit fees

mEUR	2017	2016
Audit:		
PricewaterhouseCoopers	1	1
<b>Total audit</b>	<b>1</b>	<b>1</b>
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	0
Tax assistance	1	1
Other services	1	1
<b>Total non-audit services</b>	<b>2</b>	<b>2</b>
<b>Total</b>	<b>3</b>	<b>3</b>

### 6.2 Contractual obligations

mEUR	2017	2016
The lease obligations relating to operating leases fall due:		
0–1 year	14	4
1–5 years	50	15
> 5 years	14	2

Operating leases comprise irrevocable operating leases regarding land, buildings, IT equipment, and cars. The main obligations relate to land and buildings. In addition, the company has a contractual commitment to pay on average EUR 4m annually until 2022 for the use of certain technology rights owned by a third party.

### 6.3 Related party transactions

All transactions with related parties have been carried out at arm's length principle. Ref. note 6.4 to the consolidated financial statement for the definition of related parties and concerning other transactions with related parties.

### 6.4 Subsequent events

Ref. note 6.7 Subsequent events in the Consolidated financial statements.

### 6.5 Ownership

The Company has registered the following shareholders with more than 5 percentage of share capital voting rights or nominal value:

- Vestas Wind Systems A/S, Hedeager 42, 8200 Aarhus N., Denmark

## 7. Basis of preparation

### 7.1 General accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (DK GAAP) applying to entities of reporting class D, as well as the requirements laid down by Nasdaq Copenhagen in respect of the financial reporting of companies listed on the stock exchange.

For adopted accounting policies see the notes to the consolidated financial statements. The denomination of the items in the parent company's financial statements complies with the requirements under DK GAAP.

The accounting policies applied are unchanged from those applied in the previous year.

#### **Development cost**

An amount equivalent to the capitalised development cost in the balance sheet incurred after 1 January 2016 is recognised in the category "Reserve for capitalised development cost" in the equity. The value of the reserve is reduced by the value of the depreciations.

#### **Cash flow statement**

Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. See the Consolidated Cash Flow Statement on page 068.

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

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