

# **LM Wind Power A/S**

**Jupitervej 6  
6000 Kolding**

**CVR no 76 49 05 11**

**Annual report for the period  
1 January to 31 December 2016**

Adopted at the annual general  
meeting on 11 April 2017

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Peder Toft Nielsen  
Chairman

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## **Statement by Management on the annual report**

The Executive Board and Board of Directors have today considered and adopted the annual report of LM Wind Power A/S for the financial year 1 January - 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of Company and of the results of the Company operations for 2016.

We recommend the Annual Report to be adopted at the Annual General Meeting.

Kolding, 30 March 2017

### **Executive Board**

Marcus J. C. de Jong

Nicholas A. Smith

### **Board of Directors**

Søren Høffer  
*Chairman*

Marcus J. C. de Jong

Nicholas A. Smith

Thomas E. Lindharth  
*Staff Representative*

Niels Bjarne Hansen  
*Staff Representative*

# **Independent auditor's report**

To the shareholder of LM Wind Power A/S

## **Opinion**

We have audited the financial statements of LM Wind Power A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

## **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 are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Management's Responsibilities for the financial Statements**

Management is responsible for the preparation of 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 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 in preparing the Financial Statements unless Management either intends to liquidate the 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

## **Independent auditor's report**

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 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 in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

### **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.

## **Independent auditor's report**

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 during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of Management's Review.

Vejle, 30 March 2017

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
CVR-no. 33 77 12 31

Jens Otto Damgaard  
State Authorized Public Accountant

Per Jansen  
State Authorized Public Accountant

## Company details

### The Company

LM Wind Power A/S  
Jupitervej 6  
6000 Kolding

Tel: 79840000  
Fax: 79840001  
Website: [www.lmwindpower.com](http://www.lmwindpower.com)

CVR no.: 76 49 05 11  
Reporting period: 1 January - 31 December  
Domicile: Kolding

### Board of Directors

Søren Høffer, Chairman  
Marcus J. C. de Jong  
Nicholas A. Smith  
Thomas E. Lindharth, Staff Representative  
Niels Bjarne Hansen, Staff Representative

### Executive Board

Marcus J. C. de Jong  
Nicholas A. Smith

### Auditors

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Herredsvej 32  
7100 Vejle

## Financial highlights

5-year summary:

|   | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|-------------|-------------|-------------|
|   | TDKK        | TDKK        | TDKK        | TDKK        | TDKK        |
| <b>Key figures</b>  |             |             |             |             |             |
| Revenue   | 925.139     | 675.767     | 476.461     | 312.615     | 618.967     |
| Earnings Before Interest Taxes<br>Depreciation and Amortization | 256.165     | 218.726     | 159.160     | -57.942     | -91.746     |
| Net financials  | 326.399     | 270.985     | 121.708     | 51.268      | 156.272     |
| Profit/loss for the year  | 424.065     | 266.320     | 44.891      | -158.356    | 6.758       |
| Balance sheet total   | 4.106.845   | 2.609.218   | 3.460.632   | 3.149.012   | 3.183.386   |
| Investment in property, plant and<br>equipment                  | 180.946     | 19.697      | 184.938     | 82.640      | 90.540      |
| Equity  | 1.161.925   | 781.153     | 471.880     | 410.241     | 597.239     |
| <b>Financial ratios</b>   |             |             |             |             |             |
| EBIT margin   | 17,1%       | 17,5%       | -4,0%       | -50,5%      | -32,3%      |
| Solvency ratio  | 28,3%       | 29,9%       | 13,6%       | 13,0%       | 18,8%       |
| Return on equity  | 43,6%       | 42,5%       | 10,2%       | -31,4%      | 1,2%        |

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

In connection with changes to accounting policies, the comparative figures back to 2012 have not been restated. See the description under accounting policies.



## **Management's review**

### **Main activity**

LM Wind Power is the world's leading supplier of components for the wind turbine industry, with its main activity as the development, production and sale of blades to wind turbine industry.

### **Development in the year**

The Company's income statement for the year ended 31 December shows a profit of TDKK 424.065 (2015: TDKK 266.320), and the balance sheet at 31 December 2016 shows equity of TDKK 1.161.925 (2015: TDKK 781.153).

The result is in line with what the management's expectations for the company was at the beginning of the year.

### **Financial review**

No consolidated accounts have been compiled, as the company is a member of another group based within the EU.

With regard to evaluation of assets and liabilities, the financial performance and year-end result do not give rise to any conditions of significance not covered in the annual report in the opinion of the management.

### **Unusual events**

The Company's financial position at 31 December 2016 and the results of its operations for the financial year ended 31 December 2016 are not affected by any unusual matters.

### **Targets and expectations for the year ahead**

The result for 2017 is expected to be in line with the result in 2016.

### **Knowledge resources**

LM Wind Power is the only global blade manufacturer. We have reached this position by focusing on research, product development and top quality customer service.

To be able to continue to do so, it is essential that the company can recruit and retain highly qualified personnel, particularly within relevant engineering disciplines.

## **Management's review**

### **Research and development activities in and for reporting entity**

The underlying factors which drive the continued need for sustainable energy, such as generally rising global demands for energy plus environmental focus, are still present, and wind energy will remain an important element of efforts to deliver clean, competitive energy. LM Wind Power will invest in improving its competence within materials, aerodynamics, process optimization etc. to support existing and new customers.

### **Statutory report on corporate social responsibility**

#### **Policies on environment**

A description of the LM Wind Power group's social responsibilities is contained in the annual report for LM Group Holding A/S, which also includes the Group's policy about gender diversity.

#### **Statutory report on the underrepresented gender**

At the management level, LM Wind Power A/S still has a target to further promote gender diversity in its highest governance body, the Board of Directors. In 2016, this body consisted of the Chairman, who is a representative from our owners, Doughty Hanson, and three members who are also in the executive management team of LM Wind Power. They are all male.

The company has set a target to also have one female member of the Board of Directors by 2017. The Board did not progress towards this target in 2016 as generally, new members of the Board of Directors are not considered unless specifically requested by our owners and that has not been the case in 2016.

The company has established a Diversity Policy which reflects how we plan to ensure a more diverse employee mix at all levels of the company. This includes having a stronger focus on diversity aspects such as gender when designing and re-designing the organizational set up, structured career reviews of all salaried employees to ensure female talents are not overlooked, the establishment of a Diversity Committee to set clear targets for diversity and oversee progress for the short and long term.

The key focus in the short term, will be addressing imbalance at the top of the organization and explore how we match the aspirations of female employees already with us as well as those joining the company. This body reports to the Global HSE & Sustainability Council.

#### **Subsequent events**

No events have occurred after the balance sheet date which could significantly affect the group's and the parent company's financial position.

## **Accounting policies**

The annual report of LM Wind Power A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are consistent with those of last year.

The annual report for 2016 is presented in TDKK.

### **Recognition and measurement**

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortization of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

### **Translation policies**

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognized in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognized in financial income and expenses in the income statement.

## **Accounting policies**

Where foreign subsidiaries are recognised which are independent units, the income statement is converted into Danish kroner at the average conversion rate for the period. Balance sheet items are converted to Danish kroner using the rate of exchange in effect on the balance sheet date. Exchange rate adjustments arising from the conversion of foreign company equity at the start of the year and the difference when converting the income statement from average exchange rate to that on balance sheet date, are recognised directly in the equity.

### **Consolidated financial statements**

With reference to Section 112 of the Danish Financial Statements Act, no consolidated accounts are compiled for the sub-group LM Wind Power A/S, as LM Wind Power Holding A/S compiles consolidated accounts for the entire group.

### **Income statement**

#### **Revenue**

Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

#### **Other operating income**

Other operating income comprises items of a secondary nature relative to the company's activities, including gains on the sale of intangible assets and property, plant and equipment.

#### **Other operating costs**

Other operating expenses comprise items of a secondary nature relative to the company's activities, including losses on the sale of intangible assets and property, plant and equipment.

#### **Raw materials and consumables**

Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

#### **Other external costs**

Other external costs include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Other external costs also comprise research and development costs that do not qualify for capitalisation.

## **Accounting policies**

### **Staff costs**

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

### **Amortisation, depreciation and impairment losses**

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

### **Profit/loss from investments in subsidiaries**

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the company after full elimination of intra-group profits/losses.

### **Financial income and expenses**

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

### **Tax on profit/loss for the year**

The company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. Subsidiaries participate in the joint taxation arrangement from the time when they are included in the consolidated financial statements and until the time when they withdraw from the consolidation.

The company is subject to the Danish rules on compulsory joint taxation.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

## **Accounting policies**

### **Balance sheet**

#### **Intangible assets**

Intangible assets are measured at cost price less accumulated amortisation and impairment or recoverable amount where lower.

The impairment period for goodwill is determined by the management for the period in which the company has the benefit of goodwill acquired. Goodwill is impaired using the straight-line method over 20 years.

Development costs are measured at costs which include wages and other costs directly or indirectly attributed to development activities. Clearly defined and identifiable development projects in which the degree of technical utilization rate, sufficient resources and a potential market or potential use can be demonstrated, and when there is an intention to produce, sell or use the project, are recognised as intangible assets, providing the cost price can be reliably established, and if there is sufficient certainty that present value of future earnings can cover production, sales and administration costs, plus development costs.

Recognised development costs are amortized on a straight line basis after completion of the development work over the expected economic life from the time the asset is ready for use. The amortisation period is 3-6 years.

#### **Property, plant and equipment**

Property, plant and equipment are measured at cost price less accumulated amortisations and impairments.

Public subsidies for the financing of capital expenditure are not offset in the acquisition price of the asset, but are recognised on the balance sheet as a prepayment, and recognised over service life for the assets they can be referred to.

Depreciation on property, plant and equipment are made using the straight-line method over the expected life of the asset, which is determined as follows based on individual assessment:

|                        |  |
|------------------------|--|
| Buildings              | 25 years                                   |
| Leasehold improvements | over the lease period, max 5 years         |
| Extraction systems     | 25 years                                   |
| Moulds                 | over the expected service life 2 - 4 years |
| Other assets           | 0 - 10 years                               |

## **Accounting policies**

The cost price of moulds produced for the company's own use includes direct and indirect costs for materials, components, wages and subcontractors.

Leasing contracts in which the company bears all significant risks and rewards of ownership (financial leasing) are initially recognised in the balance sheet at the lower of fair value or present value of future minimum lease payments. When calculating present value, the internal interest rate for the leasing agreement is used as discount factor or an approximate value for the same. Financially-leased assets are recognised thereafter in the same way as the company's other fixed property, plant and equipment.

All other leasing contracts are recognised as operational leasing. Payments for operational leasing are recognised using the straight-line method in the income statement over the term of the lease.

### **Impairment of assets**

The book value of intangible and property, plant and equipment assets is evaluated annually to determine if there is any indication of impairment. If there is, assets recovery value is calculated.

Impairment of intangible and property, plant and equipment is charged in the income statement under the same entry as the related amortisations/depreciation.

### **Investments**

Investments in shares in subsidiaries and joint ventures are measured by using equity method less internal gains, plus goodwill. The goodwill is calculated when acquiring subsidiaries and joint ventures as the difference between the acquisition price and share in the equity method at the time of acquisition, calculated according to the accounting policies of the parent company. The balance amount is amortised using the straight-line method over 20 years.

Subsidiaries and joint ventures with negative equity value in the accounts are recognised at DKK 0. If the parent company has a legal or factual obligation to cover the company's deficit, a liability for this purpose is recognised to the extent the deficit does not exceed the parent company's receivables in the subsidiary and joint venture.

The share of the profit or loss from subsidiaries and joint ventures is recognised in a separate line in the income statement. Net revaluation of Investment of shares in subsidiaries and joint ventures is recognised under reserve according to the equity method under equity.

Other financial assets are valued at fair value.

## **Accounting policies**

### **Inventories**

Inventories are measured according to the FIFO method at cost price after the addition of indirect production costs, or at net realisation price if lower. Indirect production costs include indirect materials and wages, impairment and maintenance of production plant plus operation and costs for administration and management.

The cost price of goods for resale, raw materials and consumables covers all direct costs related to the purchase, including transport costs.

### **Receivables**

Receivables are measured at amortised cost price. Impairment is performed to account for the risk of loss based on individual assessment.

### **Provisions**

Warranty commitments covers obligations to repair blades delivered during their guarantee period. A general provision is made based on actual warranty costs and expected future costs. In addition, individual provisions are made to cover retrofit costs. No discounting of provisions is made for future warranty costs.

### **Income tax and deferred tax**

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

### **Derived financial instruments**

Interest rate swap, forward exchange contracts and other derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Negative fair values from derivative financial instruments are recognised under liabilities and positive fair values are recognised under assets.



## **Accounting policies**

Changes in fair value of interest swaps and other derived financial instruments included to secure future interest payments and acquisition and sales transactions are recognised directly in the equity. Earnings and costs concerning such hedging transactions are transferred from equity upon realisation of the item hedged and recognised in the same accounts entry as the item.

For derived financial instruments which do not fulfil the conditions for hedged instruments, the changes in fair value are recognised periodically into the income statement under financial items.

### **Borrowing and loans**

Liability to credit institutes is recognised at the date of borrowing as the net proceeds received less transaction costs paid. In subsequent periods, the liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

The capitalised remaining leasing obligation on financial leasing contracts is also recognised in financial liabilities.

Other liabilities are measured at amortised cost price, which usually corresponds to nominal value.

### **Deferred income**

Prepayments recognised under assets include costs paid related to the subsequent financial year. These typically comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred income recognised under liabilities covers payments received concerning income in subsequent years.

### **Cash flow statement**

With reference to section 86, subsection 4 of the Danish Financial Statements Act, no cash flow statement is compiled for LM Wind Power A/S, as LM Wind Power Holding A/S compiles a cash flow statement for the group.

## Accounting policies

### Financial Highlights

Definitions of financial ratios.

|                  |   |
|------------------|---|
| EBIT margin      | $\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$  |
| Solvency ratio   | $\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$        |
| Return on equity | $\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$ |

## Income statement 1 January - 31 December

|  | Note | 2016<br>TDKK   | 2015<br>TDKK   |
|--|------|----------------|----------------|
| <b>Revenue</b>   | 1    | <b>925.139</b> | <b>675.767</b> |
| Change in inventories of finished goods and work in progress                                     |      | 1.485          | 503            |
| Other operating income   |      | 81.919         | 54.336         |
| Raw materials and consumables  |      | -105.813       | -52.178        |
| Other external costs   |      | -401.894       | -254.011       |
| <b>Gross profit</b>  |      | <b>500.836</b> | <b>424.417</b> |
| Staff costs  | 2    | -244.671       | -205.691       |
| <b>Earnings Before Interest Taxes Depreciation and Amortization</b>                              |      | <b>256.165</b> | <b>218.726</b> |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | 3    | -90.656        | -93.674        |
| Other operating costs  |      | -7.497         | -6.661         |
| <b>Profit/loss before financial income and expenses</b>  |      | <b>158.012</b> | <b>118.391</b> |
| Income from investments in subsidiaries  |      | 234.866        | 174.724        |
| Financial income   | 4    | 308.537        | 293.485        |
| Financial costs  | 5    | -217.004       | -197.224       |
| <b>Profit/loss before tax</b>  |      | <b>484.411</b> | <b>389.376</b> |
| Tax on profit/loss for the year  | 6    | -60.346        | -123.056       |
| <b>Net profit/loss for the year</b>  |      | <b>424.065</b> | <b>266.320</b> |
| Reserve for net revaluation under the equity method  |      | -209.924       | 0              |
| Transfer for the year to other reserves  |      | 0              | 253.217        |
| Retained earnings  |      | 633.989        | 13.103         |
|  |      | <b>424.065</b> | <b>266.320</b> |

## Balance sheet 31 December

|  | <u>Note</u> | <u>2016</u><br>TDKK     | <u>2015</u><br>TDKK     |
|--|-------------|-------------------------|-------------------------|
| <b>Assets</b>                                    |             |                         |                         |
| Goodwill   |             | 37.713                  | 46.252                  |
| Completed development projects                   |             | 151.129                 | 200.749                 |
| Development projects in progress                 |             | <u>91.906</u>           | <u>31.171</u>           |
| <b>Intangible assets</b>                         | <b>7</b>    | <b><u>280.748</u></b>   | <b><u>278.172</u></b>   |
| Land and buildings                               |             | 21                      | 339                     |
| Leasehold improvements                           |             | 5.060                   | 12.222                  |
| Plant and machinery                              |             | 16.415                  | 21.271                  |
| Other fixtures and fittings, tools and equipment |             | 64.081                  | 5.441                   |
| Property, plant and equipment under construction |             | <u>99.073</u>           | <u>71.827</u>           |
| <b>Property, plant and equipment</b>             | <b>8</b>    | <b><u>184.650</u></b>   | <b><u>111.100</u></b>   |
| Investments in subsidiaries                      | 9           | 1.713.381               | 1.497.941               |
| Other securities                                 |             | <u>96</u>               | <u>92</u>               |
| <b>Investments</b>                               |             | <b><u>1.713.477</u></b> | <b><u>1.498.033</u></b> |
| <b>Fixed assets</b>                              |             | <b><u>2.178.875</u></b> | <b><u>1.887.305</u></b> |

## Balance sheet 31 December (Fortsat)

|                                  | <u>Note</u> | <u>2016</u><br>TDKK            | <u>2015</u><br>TDKK            |
|----------------------------------|-------------|--------------------------------|--------------------------------|
| <b>Assets</b>                    |             |                                |                                |
| Raw materials and consumables    |             | 11.049                         | 4.226                          |
| Work in progress                 |             | 6.328                          | 5.717                          |
| Finished goods                   |             | 1.654                          | 780                            |
| <b>Inventories</b>               |             | <b><u>19.031</u></b>           | <b><u>10.723</u></b>           |
| Trade receivables                |             | 16.821                         | 22.309                         |
| Receivables from group companies |             | 1.791.280                      | 591.531                        |
| Other receivables                |             | 15.196                         | 20.121                         |
| Accrued expenses                 |             | 7.900                          | 8.176                          |
| Deferred tax asset               | 11          | 77.741                         | 69.053                         |
| <b>Receivables</b>               |             | <b><u>1.908.938</u></b>        | <b><u>711.190</u></b>          |
| <b>Current assets</b>            |             | <b><u>1.927.970</u></b>        | <b><u>721.913</u></b>          |
| <b>Assets</b>                    |             | <b><u><u>4.106.845</u></u></b> | <b><u><u>2.609.218</u></u></b> |

## Balance sheet 31 December

|   | Note | 2016<br>TDKK     | 2015<br>TDKK     |
|---|------|------------------|------------------|
| <b>Liabilities and equity</b>                         |      |                  |                  |
| Share capital   |      | 10.000           | 10.000           |
| Reserve for net revaluation under the equity method   |      | 0                | 253.217          |
| Reserve for development expenditure                   |      | 66.754           | 0                |
| Retained earnings                                     |      | 1.085.171        | 517.936          |
| <b>Equity</b>   | 10   | <b>1.161.925</b> | <b>781.153</b>   |
| Provisions relating to investments in group companies |      | 72.946           | 0                |
| Other provisions                                      | 12   | 286.176          | 115.359          |
| <b>Provisions</b>                                     |      | <b>359.122</b>   | <b>115.359</b>   |
| Payables to group companies                           |      | 891.557          | 856.714          |
| <b>Long-term debt</b>                                 | 13   | <b>891.557</b>   | <b>856.714</b>   |
| Loans and borrowings                                  |      | 254.844          | 121.761          |
| Prepayments received from customers                   |      | 188.322          | 203.953          |
| Trade payables  |      | 67.299           | 80.769           |
| Payables to group companies                           |      | 605.656          | 51.579           |
| Corporation tax                                       |      | 52.658           | 41.515           |
| Other payables  |      | 73.989           | 65.512           |
| Deferred income                                       |      | 451.473          | 290.903          |
| <b>Short-term debt</b>                                |      | <b>1.694.241</b> | <b>855.992</b>   |
| <b>Debt</b>   |      | <b>2.585.798</b> | <b>1.712.706</b> |
| <b>Liabilities and equity</b>                         |      | <b>4.106.845</b> | <b>2.609.218</b> |
| Rental agreements and lease commitments               | 14   |                  |                  |
| Charges and securities                                | 15   |                  |                  |
| Related parties and ownership                         | 16   |                  |                  |

## Statement of Changes in Equity

|                                   | Share capital | Reserve for<br>net<br>revaluation<br>under the<br>equity<br>method | Reserve for<br>development<br>expenditure | Retained<br>earnings | Total            |
|-----------------------------------|---------------|--|---|----------------------|------------------|
| Equity at 1 January 2016          | 10.000        | 253.217  | 0   | 517.936              | 781.153          |
| Exchange adjustment, foreign      | 0             | -43.293  | 0   | 0                    | -43.293          |
| Transfers, reserves               | 0             | 0  | 66.754                                    | -66.754              | 0                |
| Net profit/loss for the year      | 0             | -209.924   | 0   | 633.989              | 424.065          |
| <b>Equity at 31 December 2016</b> | <b>10.000</b> | <b>0</b>   | <b>66.754</b>                             | <b>1.085.171</b>     | <b>1.161.925</b> |

## Notes to the annual report

|  | <u>2016</u><br>TDKK          | <u>2015</u><br>TDKK          |
|--|------------------------------|------------------------------|
| <b>1 Revenue</b>   |                              |                              |
| Europe   | 330.779                      | 161.379                      |
| Americas   | 256.856                      | 252.539                      |
| Asia   | <u>337.504</u>               | <u>261.849</u>               |
| <b>Total revenue</b>   | <b><u><u>925.139</u></u></b> | <b><u><u>675.767</u></u></b> |
| <p>The above turnover breakdown is taken from sales statistics which state the country where the invoice receiver is based. Consequently, this statistic does not take into account where blades are sent and their final erection site.</p> |                              |                              |
| <b>2 Staff costs</b>   |                              |                              |
| Wages and salaries   | 221.704                      | 184.451                      |
| Pensions   | 16.606                       | 15.299                       |
| Other social security costs  | <u>6.361</u>                 | <u>5.941</u>                 |
|  | <b><u><u>244.671</u></u></b> | <b><u><u>205.691</u></u></b> |
| <b>including remuneration to the Supervisory Boards</b>  | <b><u><u>55.000</u></u></b>  | <b><u><u>27.500</u></u></b>  |
| Average number of employees  | <u>399</u>                   | <u>373</u>                   |



## Notes to the annual report

|   | 2016<br>TDKK   | 2015<br>TDKK   |
|---|----------------|----------------|
| <b>3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment</b> |                |                |
| Depreciation intangible assets  | 63.251         | 57.991         |
| Depreciation tangible assets  | 27.405         | 35.683         |
|   | <b>90.656</b>  | <b>93.674</b>  |
| which breaks down as follows:   |                |                |
| Completed development projects  | 54.712         | 49.452         |
| Goodwill  | 8.539          | 8.539          |
| Buildings   | 33             | 42             |
| Plant and machinery   | 9.284          | 17.139         |
| Other fixtures and fittings, tools and equipment  | 7.283          | 6.975          |
| Leasehold improvements  | 10.805         | 11.527         |
|   | <b>90.656</b>  | <b>93.674</b>  |
| <b>4 Financial income</b>   |                |                |
| Interest received from group companies  | 246.100        | 177.292        |
| Other financial income  | 16             | 2.799          |
| Exchange adjustments  | 62.421         | 113.394        |
|   | <b>308.537</b> | <b>293.485</b> |
| <b>5 Financial costs</b>  | 2016<br>TDKK   | 2015<br>TDKK   |
| Financial expenses, group companies   | 172.351        | 161.265        |
| Other financial costs   | 459            | 349            |
| Exchange adjustments costs  | 44.194         | 35.610         |
|   | <b>217.004</b> | <b>197.224</b> |

## Notes to the annual report

### 6 Tax on profit/loss for the year

|   |               |                |
|---|---------------|----------------|
| Current tax for the year                    | 52.658        | 51.829         |
| Deferred tax for the year                   | -1.538        | 49.320         |
| Adjustment of tax concerning previous years | -32.280       | 4.655          |
| Withholding tax                             | 41.506        | 17.253         |
|   | <b>60.346</b> | <b>123.057</b> |

### 7 Intangible assets

|   | Goodwill             | Completed development projects | Development projects in progress |
|---|----------------------|--------------------------------|----------------------------------|
| Cost at 1 January 2016                                  | 172.199              | 643.584                        | 31.171                           |
| Corrections to prior year                               | 0                    | 4.897                          | 0                                |
| Additions for the year                                  | 0                    | 0                              | 119.541                          |
| Disposals for the year                                  | 0                    | -88.236                        | 0                                |
| Transfers for the year                                  | 0                    | 58.806                         | -58.806                          |
| Cost at 31 December 2016                                | <u>172.199</u>       | <u>619.051</u>                 | <u>91.906</u>                    |
| Impairment losses and amortisation at 1 January 2016    | 125.947              | 442.835                        | 0                                |
| Corrections to prior year                               | 0                    | 4.896                          | 0                                |
| Amortisation for the year                               | 8.539                | 54.712                         | 0                                |
| Impairment and amortisation of sold assets for the year | 0                    | -34.521                        | 0                                |
| Impairment losses and amortisation at 31 December 2016  | <u>134.486</u>       | <u>467.922</u>                 | <u>0</u>                         |
| <b>Carrying amount at 31 December 2016</b>              | <b><u>37.713</u></b> | <b><u>151.129</u></b>          | <b><u>91.906</u></b>             |

## Notes to the annual report

### 8 Tangible assets

|   | Land and<br>buildings | Leasehold<br>improvement<br>s | Plant and<br>machinery | Other<br>fixtures and<br>fittings, tools<br>and<br>equipment | Property,<br>plant and<br>equipment<br>under<br>construction |
|---|-----------------------|-------------------------------|------------------------|--|--|
| Cost at 1 January 2016                                    | 2.983                 | 61.086                        | 349.650                | 65.916   | 71.827   |
| Corrections to prior year                                 | 0                     | 1.794                         | -164.580               | -1.199   | 7.579  |
| Additions for the year                                    | 0                     | 3.645                         | 10.348                 | 67.064   | 99.889   |
| Disposals for the year                                    | -1.819                | 0                             | -61.025                | -158   | 0  |
| Transfers for the year                                    | 0                     | 0                             | 0                      | 0  | -80.222  |
| Cost at 31 December 2016                                  | <u>1.164</u>          | <u>66.525</u>                 | <u>134.393</u>         | <u>131.623</u>   | <u>99.073</u>  |
| Impairment losses and depreciation at<br>1 January 2016   | 2.643                 | 48.865                        | 328.379                | 60.475   | 0  |
| Corrections to prior year                                 | 0                     | 1.795                         | -165.721               | -58  | 0  |
| Depreciation for the year                                 | 33                    | 10.805                        | 9.284                  | 7.283  | 0  |
| Reversal of impairment and<br>depreciation of sold assets | -1.533                | 0                             | -53.964                | -158   | 0  |
| Impairment losses and depreciation at<br>31 December 2016 | <u>1.143</u>          | <u>61.465</u>                 | <u>117.978</u>         | <u>67.542</u>  | <u>0</u>   |
| <b>Carrying amount at 31 December<br/>2016</b>            | <b><u>21</u></b>      | <b><u>5.060</u></b>           | <b><u>16.415</u></b>   | <b><u>64.081</u></b>   | <b><u>99.073</u></b>   |

## Notes to the annual report

|   | <u>2016</u><br>TDKK            |
|---|--------------------------------|
| <b>9 Investments in subsidiaries</b>  |                                |
| Cost at 1 January 2016  | 1.244.724                      |
| Additions for the year  | 470.195                        |
| Disposals for the year  | 0                              |
| Transfers for the year  | <u>0</u>                       |
| Cost at 31 December 2016  | <u>1.714.919</u>               |
| Value adjustments at 1 January 2016   | 253.217                        |
| Exchange adjustments  | -43.293                        |
| Net effect from merger and acquisition  | 0                              |
| Net profit/loss for the year  | 127.857                        |
| Dividend to the Parent Company  | -35.336                        |
| Other adjustments   | -33.144                        |
| Amortisation of goodwill  | -12.416                        |
| Change in intercompany profit   | -56.769                        |
| Net change in equity investments with negative net asset value amortised over receivables | <u>-201.654</u>                |
| Value adjustments at 31 December 2016   | <u>-1.538</u>                  |
| <b>Carrying amount at 31 December 2016</b>  | <b><u><u>1.713.381</u></u></b> |
| Goodwill invested in the above booked value as at 31 December 2016                        | <u>240.985</u>                 |

## 10 Equity

The share capital consists of 10.000.000 shares of a nominal value of TDKK 1 and multiples of the same. The share capital is not divided into classes. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

## Notes to the annual report

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
|   | TDKK                 | TDKK                 |
| <b>11 Provision for deferred tax</b>                  |                      |                      |
| Provision for deferred tax at 1 January 2016          | 69.053               | 92.979               |
| Applied in the year                                   | 1.538                | -49.320              |
| Correction to prior year                              | 7.150                | 25.394               |
| <b>Provision for deferred tax at 31 December 2016</b> | <b><u>77.741</u></b> | <b><u>69.053</u></b> |
| <br>  |                      |                      |
| Intangible assets                                     | 56.135               | 49.092               |
| Fixed asset investments                               | -43.196              | -63.951              |
| Inventories   | 0                    | 165                  |
| Liabilities   | -25.889              | -11.411              |
| Miscellaneous   | -64.791              | -42.948              |
| Transferred to deferred tax asset                     | 77.741               | 69.053               |
|   | <b><u>0</u></b>      | <b><u>0</u></b>      |
| <br>  |                      |                      |
| <b>Deferred tax asset</b>                             |                      |                      |
| Calculated tax asset                                  | <u>77.741</u>        | <u>69.053</u>        |
| <b>Carrying amount</b>                                | <b><u>77.741</u></b> | <b><u>69.053</u></b> |

## Notes to the annual report

|  | <u>2016</u>           | <u>2015</u>           |
|--|-----------------------|-----------------------|
|  | TDKK                  | TDKK                  |
| <b>12 Other provisions</b>                     |                       |                       |
| Balance at beginning of year at 1 January 2016 | 115.359               | 98.576                |
| Addition in year                               | 195.484               | 50.445                |
| Applied in the year                            | <u>-24.667</u>        | <u>-33.662</u>        |
| <b>Balance at 31 December 2016</b>             | <b><u>286.176</u></b> | <b><u>115.359</u></b> |

A general warranty, which in the great majority of cases covers components defects, defective blades and functional errors is usually granted for two years from delivery of the product.

In addition to the general warranty provision, specific warranty provisions are made for the retrofitting of defective blades due to manufacturing errors. These specific provisions are reduced when used and increased if new specific errors occur that require specific provisions to be set up.

## 13 Long term debt

|                             | <u>Debt</u>           | <u>Debt</u>           | <u>Payment</u>  | <u>Debt</u>           |
|-----------------------------|-----------------------|-----------------------|-----------------|-----------------------|
|                             | at 1 January 2016     | at 31 December 2016   | within 1 year   | after 5 years         |
| Payables to group companies | <u>856.714</u>        | <u>891.557</u>        | <u>0</u>        | <u>891.557</u>        |
|                             | <b><u>856.714</u></b> | <b><u>891.557</u></b> | <b><u>0</u></b> | <b><u>891.557</u></b> |

## 14 Rental agreements and lease commitments

Operating lease commitments. Total future lease payments:

|                       |                      |                      |
|-----------------------|----------------------|----------------------|
| Within 1 year         | 25.138               | 24.168               |
| Between 1 and 5 years | 41.379               | 44.503               |
| After 5 years         | <u>10.060</u>        | <u>10.066</u>        |
|                       | <b><u>76.577</u></b> | <b><u>78.737</u></b> |

## Notes to the annual report

|  | <u>2016</u><br>TDKK   | <u>2015</u><br>TDKK   |
|--|-----------------------|-----------------------|
| <b>15 Charges and securities</b>   |                       |                       |
| The following pledges and securities were given for the bank debt of the company and its parent company: |                       |                       |
| All existing and future shares certificates in LM Wind Power Blades Inc.                                 | 305.000               | 272.000               |
| All existing and future shares certificates in LM WP Patent Holding A/S                                  | <u>441.000</u>        | <u>390.000</u>        |
|  | <u><b>746.000</b></u> | <u><b>662.000</b></u> |

## 16 Related parties and ownership

### Controlling interest

LM Wind Power Blades Spain S.A.

### Other related parties

Other related parties are the company's Management.

### Transactions

There have been no transactions with the Board of Directors, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

### Ownership

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

LM Wind Power Blades Spain S.A.

### Consolidated annual report

The Company is included in the group annual report of:

Ultimate:

LM Wind Power Holding A/S, Kolding, CVR no. 25 94 20 94

Immediate:

LM Group Holding A/S, Kolding, CVR no. 25 71 17 77