LM Wind Power A/S

Jupitervej 6, DK-6000 Kolding

Annual Report for 1 January - 31 December 2018

CVR No 76 49 05 11

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 2 /7 2019

Peder Toft Nielsen
Chairman of the General Meeting

Contents

Management's Statement

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 2018.

The Annual Report is 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 2018 of the Company and of the results of the Company operations for 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the result for the year and of the Company's financial position.

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

Kolding, 2 July 2019

Executive Board

Duncan Gee Berry
CEO

Board of Directors

Bjarne Sandager Nielsen Chairman	Duncan Gee Berry	Rodrigo Carneiro da Cunha Torres
Niels Bjarne Hansen Staff Representative	Thomas Engelstoft Lindharth 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 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility 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 that 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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company 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 the Management's review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the 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 the Management's review.

Aarhus, 2 July 2019
KPMG
Statsautoriseret Revisionspartnerselskab
CVR No 25 57 81 98

Henrik O. Larsen
State Authorised Public Accountant
mne15839

Michael Stenskrog
State Authorised Public Accountant
mne26819

Company Information

The Company	LM Wind Power A/S Jupitervej 6 DK-6000 Kolding Website: www.lmwindpower.com CVR No: 76 49 05 11 Financial period: 1 January - 31 December Incorporated: 30 October 1985 Municipality of reg. office: Kolding
Board of Directors	Bjarne Sandager Nielsen, Chairman Duncan Gee Berry Rodrigo Carneiro da Cunha Torres Niels Bjarne Hansen Thomas Engelstoft Lindharth
Executive Board	Duncan Gee Berry
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Bredskifte Allé 13 DK-8210 Aarhus V

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	1,984,773	1,494,416	1,183,664	675,767	476,461
Gross profit/loss	-184,498	160,854	759,361	424,416	346,023
Operating profit/loss	-570,858	-205,227	342,115	70,717	58,711
Net financials	-137,887	521,787	328,526	270,985	121,708
Net profit/loss for the year	-611,012	271,025	663,873	266,320	44,891
Balance sheet					
Balance sheet total	4,776,104	3,666,515	4,039,223	2,609,218	3,460,632
Equity	1,270,768	1,705,274	1,189,050	781,153	471,880
Investment in property, plant and equipment	44,266	30,222	180,946	19,697	171,614
Number of employees	481	451	399	366	404
Ratios					
Gross margin	-9.3%	10.8%	64.2%	62.8%	72.6%
Profit margin	-29.3%	-12.4%	35.2%	17.5%	-4.0%
Return on assets	-12.2%	-5.1%	10.3%	4.5%	-0.5%
Solvency ratio	26.6%	46.5%	29.4%	29.9%	13.6%
Return on equity	-41.1%	18.7%	67.4%	42.5%	10.2%

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 2017, a transition to the Danish Financial Statement's Act from IFRS was done. With reference to The Financial Statements Act section 101 part 3 the comparative figures for 2014 and 2015 have not been restated.

The 2017 figures have been restated as mentioned in note 20 Accounting Principles under the headline Correction of material misstatements.

In 2018 LM Wind Power A/S merged with LM Wind Power International Technology I ApS. Figures for 2018 has been updated accordingly to reflect the book-value method applied in measuring the intragroup merger. Comparative figures for 2014 - 2017 remain unchanged.

Management’s Review

Key activities

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 the wind turbine industry.

Development in the year

The income statement of the Company for 2018 shows a loss of TDKK 611,012, and at 31 December 2018 the balance sheet of the Company shows equity of TDKK 1,270,768.

In 2018 LM Wind Power A/S merged with LM Wind Power International Technology I ApS. The merger was accounted for applying the book-value method, without restatement of comparative figures.

Based on a new business model within the LM Group the remuneration of most of the factories has been aligned with the actual conduct of the parties and the function, asset and risk profile of the factories as contract manufacturers. This implies a transition of the transfer pricing model into a "New Principal Model" with LM Wind Power A/S operating as Principal and factories operating as contract manufacturers. As a result, LM Wind Power A/S has from 2018 changed its recognition and measurement of revenue and cost of sales from agent to principal.

The past year and follow-up on development expectations from last year

The group has as predicted expanded the activities in 2018 resulting in a significant increase in revenue. The company has not met last years expectations for the 2018 result, which was expected to profit in the size of DKK 450 million.

The result for 2018 is negatively impacted by impairment of subsidiaries TDKK 124.696, additional warranty provision of TDKK 446.884 and the remaining variance relating to operational activities.

Special risks - operating risks and financial risks

Operating risks

The Company and the group are subject to operating risks in form of risk of warranty claims. The risk is addressed constantly through the companys quality system and inspections of goods prior to delivery.

Foreign exchange risks

The company and the group are to some degree exposed towards foreign exchange risks, which are addressed through hedging if deemed necessary.

Targets and expectations for the year ahead

For 2019, Management expect a profit in the range of DKK 100 - 200 million.

Management's Review

Research and development

The company has research and development activities. Development activities in the group is undertaken by LM Wind Power A/S and is partially sold to intragroup entities holding the connected intellectual property rights.

External environment

Management finds that the company activities does not materially impact the external environment. As for the activities in the group we refer to the statement on corporate social responsibilities.

Intellectual capital resources

As part of the Company activities for the company and the group are to develop, produce and sell highly advanced blades to wind turbines, it is essential that the company can recruit and retain highly qualified personnel, particularly within relevant engineering disciplines.

Statement of corporate social responsibility

The statutory statement of corporate social responsibility is available at:https://www.lmwindpower.com/en/sustainability/reporting

Statement on gender composition

The statutory statement on gender composition is available at:https://www.lmwindpower.com/en/sustainability/reporting

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report is subject to uncertainty relating to the connected estimate in the recognition and measurement of warranty provisions as well as ongoing tax inquiries. For further information on the nature of the estimates, refer to note 13 to the financial statements.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Revenue	1	**1,984,773**	**1,494,416**
Other operating income		16,880	19,623
Expenses for raw materials and consumables		-811,346	-266,563
Other external expenses		-1,374,805	-1,086,622
Gross profit/loss		**-184,498**	**160,854**
Staff expenses	2	-290,697	-278,028
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-78,783	-68,430
Other operating expenses		-27,097	0
Profit/loss before financial income and expenses		**-581,075**	**-185,604**
Result from investments in subsidiaries	4	-124,696	62,686
Financial income	5	28,638	702,063
Financial expenses	6	-41,829	-242,962
Profit/loss before tax		**-718,962**	**336,183**
Tax on profit/loss for the year	7	107,950	-65,158
Net profit/loss for the year		**-611,012**	**271,025**

Balance Sheet 31 December

Assets

	Note	2018	2017
		TDKK	TDKK
Completed development projects		195,238	0
Software		41,613	49,975
Goodwill		17,056	0
Development projects in progress		33,450	0
Intangible assets	8	**287,357**	**49,975**
Land and buildings		350	0
Plant and machinery		32,645	18,482
Other fixtures and fittings, tools and equipment		3,558	1,969
Leasehold improvements		6,893	7,733
Property, plant and equipment in progress		23,837	40,880
Property, plant and equipment	9	**67,283**	**69,064**
Investments in subsidiaries	10	1,703,372	1,685,258
Fixed asset investments		**1,703,372**	**1,685,258**
Fixed assets		**2,058,012**	**1,804,297**
Raw materials and consumables		13,515	13,024
Work in progress		359,143	104,776
Finished goods and goods for resale		7,228	2,063
Inventories		**379,886**	**119,863**
Trade receivables		153,464	17,127
Receivables from group enterprises		1,892,429	1,553,570
Other receivables		50,083	14,844
Deferred tax asset	11	225,872	124,667
Prepayments	12	12,402	10,323
Receivables		**2,334,250**	**1,720,531**
Cash at bank and in hand		**3,956**	**21,824**
Currents assets		**2,718,092**	**1,862,218**
Assets		**4,776,104**	**3,666,515**

Balance Sheet 31 December

Liabilities and equity

	Note	2018	2017
		TDKK	TDKK
Share capital		10,000	10,000
Reserve for development costs		150,790	0
Retained earnings		1,109,978	1,695,274
Equity		**1,270,768**	**1,705,274**
Other provisions	13	1,012,242	550,866
Provisions		**1,012,242**	**550,866**
Prepayments received from customers		85,162	193,844
Trade payables		97,971	71,517
Payables to group enterprises		970,486	459,617
Corporation tax		10,538	27,639
Other payables		163,369	85,198
Deferred income	14	1,165,568	572,560
Short-term debt		**2,493,094**	**1,410,375**
Debt		**2,493,094**	**1,410,375**
Liabilities and equity		**4,776,104**	**3,666,515**
Derivative financial instruments	15		
Distribution of profit	16		
Contingent liabilities and other financial obligation	17		
Related parties	18		
Fee to auditors appointed at the general meeting	19		
Accounting Policies	20		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	10,000	0	1,881,987	1,891,987
Net effect from merger and acquisition under the book value method	0	102,104	-154,654	-52,550
Net effect of correction of material misstatements	0	0	-186,713	-186,713
Adjusted equity at 1 January	10,000	102,104	1,540,620	1,652,724
Contribution from group	0	0	229,056	229,056
Development costs for the year	0	48,686	-48,686	0
Net profit/loss for the year	0	0	-611,012	-611,012
Equity at 31 December	**10,000**	**150,790**	**1,109,978**	**1,270,768**

Notes to the Financial Statements

		2018	2017
		TDKK	TDKK

1 Revenue

As the major part of the revenue originates from sale of moulds and services to subsidiaries as well as royalty received from subsidiaries with no major variation in the sales patern or markets, no segment information is given with reference to the Danish Financial Statements Act section 96 paragraph 1.

Geographical segments

	2018 TDKK	2017 TDKK
Revenue, Denmark	133,173	361,380
Revenue, exports	1,851,600	1,133,036
	1,984,773	**1,494,416**

2 Staff expenses

	2018 TDKK	2017 TDKK
Wages and salaries	263,444	259,869
Pensions	20,294	13,443
Other social security expenses	6,959	4,716
	290,697	**278,028**
Including remuneration to the Executive Board and Board of Directors of:		
Executive Board	2,085	1,254
Board of Directors	55	55
	2,140	**1,309**
Average number of employees	**481**	**451**

3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2018 TDKK	2017 TDKK
Amortisation of intangible assets	55,301	15,778
Depreciation of property, plant and equipment	10,859	52,652
Impairment of intangible assets	12,623	0
	78,783	**68,430**

Notes to the Financial Statements

		2018	2017
		TDKK	TDKK
4	**Result from investments in subsidiaries**		
	Impairment	-124,696	-27,775
	Dividend	0	90,461
		-124,696	**62,686**
5	**Financial income**		
	Interest received from group enterprises	3,058	57,082
	Other financial income	25,580	644,981
		28,638	**702,063**
6	**Financial expenses**		
	Interest paid to group enterprises	1,854	8,804
	Other financial expenses	39,975	234,158
		41,829	**242,962**
7	**Tax on profit/loss for the year**		
	Current tax for the year	41,104	77,516
	Deferred tax for the year	-113,324	-37,556
	Adjustment of current tax concerning previous years	-35,730	25,198
		-107,950	**65,158**

Notes to the Financial Statements

8 Intangible assets

	Completed development projects	Software	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	0	101,379	0	0
Net effect from merger and acquisition	475,233	0	142,338	31,542
Additions for the year	10,538	5,088	0	64,021
Disposals for the year	-53,599	0	0	-93
Transfers for the year	62,020	0	0	-62,020
Cost at 31 December	494,192	106,467	142,338	33,450
Impairment losses and amortisation at 1 January	0	51,404	0	0
Net effect from merger and acquisition	305,137	0	118,224	0
Impairment losses for the year	12,623	0	0	0
Amortisation for the year	34,793	13,450	7,058	0
Reversal of amortisation of disposals for the year	-53,599	0	0	0
Impairment losses and amortisation at 31 December	298,954	64,854	125,282	0
Carrying amount at 31 December	**195,238**	**41,613**	**17,056**	**33,450**

Development projects relate to the development of new versions of Wind Turbine Blades.
Development projects in progress are expected to be completed within 12 month.
Future income from use of the developed technology is assessed to exceed the development costs.

Notes to the Financial Statements

9 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1,143	185,837	32,014	71,396	40,880
Additions for the year	362	21,637	2,866	1,256	18,145
Disposals for the year	0	-35,188	0	0	0
Transfers for the year	0	35,188	0	0	-35,188
Cost at 31 December	1,505	207,474	34,880	72,652	23,837
Impairment losses and depreciation at 1 January	1,143	167,355	30,045	63,663	0
Depreciation for the year	12	7,474	1,277	2,096	0
Impairment losses and depreciation at 31 December	1,155	174,829	31,322	65,759	0
Carrying amount at 31 December	**350**	**32,645**	**3,558**	**6,893**	**23,837**

Notes to the Financial Statements

		2018	2017
		TDKK	TDKK
10	**Investments in subsidiaries**		
	Cost at 1 January	1,714,649	1,714,919
	Net effect from merger and acquisition	-218,833	0
	Additions for the year	361,643	481,787
	Disposals for the year	0	-482,057
	Cost at 31 December	1,857,459	1,714,649
	Value adjustments at 1 January	-29,391	-48,317
	Disposals for the year	0	46,701
	Revaluations for the year, net	-124,696	-27,775
	Value adjustments at 31 December	-154,087	-29,391
	Carrying amount at 31 December	**1,703,372**	**1,685,258**

Notes to the Financial Statements

10 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
LM WP Patent Holding A/S (2018)	Denmark	100%	739,922	-52,257
LM Wind Power International Technology II ApS (*) (2018)	Denmark	100%	159,462	-15,722
LM Wind Power Blades (Qinhuangdao) Co., Ltd. (2017) (*)	China	100%	504,745	75,015
LM Wind Power Blades (Tianjin) Co., Ltd. (2017) (*)	China	100%	196,686	12,252
LM Wind Power Blades Technology (Tianjin) Co., Ltd. (2017) (*)	China	100%	-28,619	-28,241
LM (China) Holding Company Ltd. (2017)	China	100%	-30,328	-29,928
LM Wind Power Blades (Jiangsu) Co., Ltd. (2017) (*)	China	100%	43,628	28,058
LM Wind Power Services (Deutschland) GmbH (2016)	Germany	100%	35,239	-2,373
LM Wind Power Blades (India) Private Ltd. (2018)	India	100%	379,451	22,287
LM Wind Power R&D (Holland) B.V. (**)	Netherlands	100%	0	0
LM Wind Power Blades (France) S.A (2017)	France	100%	-480	-173
LM Wind Power do Brasil S.A. (2016)	Brazil	100%	-248,926	81,286
LM Wind Power Blades (Poland) Sp. z o.o. (2017)	Poland	100%	443,329	6,047
LM Wind Power Blades (Canada) Inc. (**)	Canada	100%	0	0
4305825 Canada Inc. (**)	Canada	100%	0	0
LM Wind Power Blades Turkey Sanayi ve Ticaret Anonim Sirketi (**)	Turkey	100%	0	0
LM Wind Power Blades (Fujian) Co., Ltd. (*) (**)	China	100%	0	0

All foreign subsidiaries are recognised and measured as separate entities.

Year figures in brackets indicate the year for the most recent annual report.

Subsidaries marked with a * are indirectly owned by LM Wind Power A/S.

For subsidiaries marked with ** there are no published annual reports.

Notes to the Financial Statements

11 Deferred tax asset

	2018	2017
	TDKK	TDKK
Deferred tax asset at 1 January	124,667	56,897
Amounts recognised in the income statement for the year	113,324	67,770
Change due to merger and movement from payable corporation tax*	-12,119	0
Deferred tax asset at 31 December	**225,872**	**124,667**

*The change in the financial year relates to change due to merger TDKK -42,086 and movement from payable corporation tax TDKK 29,967.

The deferred tax asset relates to timing variances mainly related to carrying forward losses, fixed assets and provisions. The company is expecting positive taxable income and is expecting to realize the deferred tax asset within one to three years.

12 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums and subscriptions.

13 Other provisions

TDKK 888,094 of other provisions relate to warranty provision and TDKK 124,148 relate to ongoing tax inquiries.
As for the warranty provision, the Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods. Based on previous experience in respect of the level of repairs and returns, other provisions have been recognised for expected warranty claims. The increase in 2018 is mainly due to a change in the transfer pricing model with additional warranty costs booked at the principal LM Wind Power A/S
As for the ongoing tax inquiry provision, Management has made an assessment of the outcome and provided for this.

Balance at beginning of year	550,866	525,551
Provision in year	646,657	101,914
Used in year	-185,281	-76,599
	1,012,242	**550,866**

The provisions are expected to mature as follows:		
Within 1 year	222,023	177,793
Between 1 and 5 years	790,219	373,073
	1,012,242	**550,866**

Notes to the Financial Statements

14 Deferred income

Deferred income consists of payments in respect of income in subsequent years.

15 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been entered. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	2018 TDKK	2017 TDKK
Assets	24,964	376
Liabilities	39,666	1,182

Forward contracts have been entered in order to hedge the FX exposures of LM Wind Power A/S. LM Wind Power A/S is exposed to EUR, USD and CNH. On the supply side, LM Wind Power A/S is hedging EUR, USD and CNH disbursements, both to internal and external suppliers. On the collection side, the hedges are for collections from customers. The hedges are placed on a quarterly basis for a rolling 12 months period.

16 Distribution of profit

Retained earnings	-611,012	271,025
	-611,012	**271,025**

17 Contingent liabilities and other financial obligation

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	27,003	31,090
Between 1 and 5 years	35,069	37,470
After 5 years	0	5,055
	62,072	**73,615**

Notes to the Financial Statements

17 Contingent liabilities and other financial obligation (continued)

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. GE Global Holdings ApS is the management company of the joint taxation. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

As at 31 December 2018, the Company had issued guarantees against customers for a total of DKK 117 million and against customers in subsidiaries for a total of DKK 175 million. In addition, the Company issued guarantees for LM Brazil for a total of DKK 33 million jointly with LM Group Holding A/S and other LM entities.

The company has ongoing tax inquiries that may lead to future cash outflows. Management has assessed the outcome and provided for this as part of other provisions.

In 2017 the company transferred its intellectual property rights to one new and one existing subsidiary. The existing subsidiary then transferred the rights to two new subsidiaries and sold one of the subsidiaries to another subsidiary of General Eletric Company. In conjunction with the transfer, the entities entered into a mutual agreement where LM Wind Power A/S is committed to provide development services for the new entities, and the new entities are committed to hold the intellectual property rights available for the LM Wind Power A/S. This agreement cannot be terminated before 30 April 2020. In 2018 LM Wind Power A/S merged with LM Wind Power International Technology I ApS, hence the contractual obligation remains with the two remaining entities.

18 Related parties

	Basis
Controlling interest	
LM Wind Power Blades (Spain) S.A.	Holds 100% of the capital

Transactions

During the year, the Company had the following transactions with group entities:

Sale of goods to group enterprises amounts to TDKK 641,261.

Sale of services to group enterprises amounts to TDKK 687,216.

Purchase of goods from group enterprises amounts to TDKK 901,081.

Purchase of services from group enterprises amounts to TDKK 432,896.

Group contribution from parent entity amounts to TDKK 229,056.

Write down on receivables and investments in group enterprises amounts to TDKK 124,696 in 2018, and accumulated TDKK 161,696 as of 31 December 2018.

Please refer to note 2 for reference to remuneration to Management, and note 5 and 6 for reference to disclosure of financial income and financial expenses to group entities.

For reference to balances with group entities, please refer to the balance sheet.

Notes to the Financial Statements

18 Related parties (continued)

Consolidated Financial Statements

The Company is included in the Group Anual Report of the Parent Company

Name	Place of registered office
General Electric Company	Boston, MA 02210, USA

The Group Annual Report of General Electric Company may be obtained at the following address:

General Electric Company, 41 Farnsworth Street, Boston, Massachusetts, 02210, USA.
General Electric Company prepares consolidated financial statements for the smallest and biggest Group, in which LM Wind Power A/S is a subsidiary.
The annual accounts of the parent company are available at www.ge.com.

19 Fee to auditors appointed at the general meeting

	2018	2017
	TDKK	TDKK
KPMG		
Audit fee	2,125	3,374
Other assurance engagements	69	24
	2,194	**3,398**
PwC		
Other assurance engagements	0	600
Tax advisory services	0	207
Other consultant	0	120
	0	**927**
	2,194	**4,325**

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of LM Wind Power A/S for 2018 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 remain unchanged from last year.

The Financial Statements for 2018 are presented in TDKK.

Correction of material misstatements

In connection with preparing financial statements for 2018, management realized that measurement of other provisions was not true and fair in earlier annual reports. This is corrected in the annual report of 2018. The correction lead to changes in the following items in the comparative figures:

Other provisions (increased TDKK 239.375)
Deferred tax asset (increased TDKK 52.663)
Total assets (increased TDKK 52.663)
Equity (decreased TDKK 186.713)
Other external expenses (increase TDKK 239.375)
Profit before tax (decrease TDKK 239.375)
Tax on profit (decrease TDKK 52.663).

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of General Eletric Company, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of , the Company has not prepared a cash flow statement.

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 cost 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 attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Notes to the Financial Statements

20 Accounting Policies (continued)

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.

Business combinations

Intragroup mergers

Intragroup mergers are accounted for under the book value method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. The book value method is applied at the date of acquisition, and comparative figures are not restated.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Derivative 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.

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.

Notes to the Financial Statements

20 Accounting Policies (continued)

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.

Income Statement

Revenue

Revenue from the sale of goods and services is recognised when the risks and rewards relating to the goods and services sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company. LM Wind Power A/S is operating as Principal in the LM Group and the factories is operating as contract manufacturers.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are deducted from revenue.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses 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 amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Notes to the Financial Statements

20 Accounting Policies (continued)

Result from investments in subsidiaries

Result from investments in subsidiaries comprises dividends from subsidiaries recognised as income in the income statement when adopted at the General Meeting of the subsidiary and impairment losses on investments in subsidiaries.

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, realised and unrealised capital/exchange gains and losses on foreign currency transactions.

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.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 20 years due to the Company's long time customer relationship and product lifetime etc.

Software licences are measured at cost less accumulated amortisation and recoverable amount. Software licences are amortised over the licence period; however not exceeding 5 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

Notes to the Financial Statements

20 Accounting Policies (continued)

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 less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

When individual components of an item of property, plant and equipment have different useful lifes, they are accounted for as separate items, which are depreciated separately.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	25	years
Plant and machinery	2 - 10	years
Leasehold improvements	5	years
Other fixtures and fittings, tools and equipment	2 - 10	years

Depreciation period and residual value are reassessed annually.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant end equipment.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Notes to the Financial Statements

20 Accounting Policies (continued)

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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

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

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

20 Accounting Policies (continued)

Prepayments

Prepayments are measured in the balance sheet at amortised cost. Prepayments comprise prepaid expenses concerning rent, insurance premiums and subscriptions.

Equity

Reserve for development costs

A reserve for development costs is establised based on capitalized development costs after 1 January 2016 less deferred tax related to these costs. The reserve is reduced through disposals, amortization and impairment of development costs and change in deferred tax related to development costs.

Provisions

In measuring provisions, the expenses required to settle the liability are discounted to net present value, if this has a significant effect on the measurement of the liability. Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty provisions and provisions for ongoing tax inquiries.

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.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment in form of interests and discounts under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income is measured at amortised cost. Deferred income comprises payments received in respect of income in subsequent years.

Notes to the Financial Statements

20 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$