Annual Report 2020

1 January 2020 – 31 December 2020
Vestas Wind Systems A/S
Hedeager 42, 8200 Aarhus N, Denmark
Company reg. no.: 10403782

Wind. It means the world to us.™

Contents

Key achievements

Revenue
EUR 14.8bn
Within guidance of EUR 14-15bn.*

COVID-19 resilience
Record-high deliveries
despite the global pandemic

On the journey to become
Global Leader
in Sustainable Energy Solutions

Acquisition of offshore business
In December 2020, Vestas acquired MHI's shares in offshore joint venture.

End of year
1.5bn tonnes CO_2 avoided
Vestas continues to be leader within avoidance of carbon emissions.

Reduction in work injuries
A year-on-year reduction of 15 percent to
3.3 TRIR

CIP Copenhagen Infrastructure Partners
25% stake in CIP
and new Development business unit established to ramp up development capabilities.

New offshore platform introduced
V236-15.0 MW™
raising the bar for performance and continued LCOE reductions in offshore.

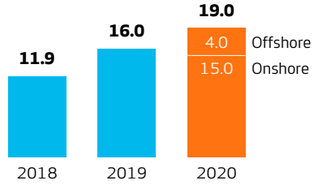
EBIT margin
before special items
5.1%
Within guidance of 5-7%.*

Reduction in carbon emissions
33%

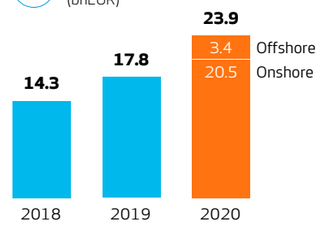
Dividend
EUR 230m
The Board recommends a dividend payout for 2020 of corresponding to DKK 8.45 per share.

All-time high
order backlog

Wind turbines (bnEUR)



Service (bnEUR)



* Guidance disclosed 11 August 2020, ref. Company announcement no. 25/2020.

Letter from the Chairman & the CEO

Continued leadership in a tough year

When looking back on a year just passed, it is usually wise to wait some time before making definitive statements about how that year will be remembered; about how its events will impact the years and decades ahead. Some events feel groundbreaking as they unfold, but end up having only minimal long-term impact. Other events go almost unnoticed in the moment but can change the way we live our lives in the future. However, it is already safe to say that 2020 was totally unprecedented and everything that took place during the year will be remembered in the context of the COVID-19 pandemic.

For the energy industry, 2020 was without question the year of COVID-19. The pandemic affected every part of the value chain and forced everyone to be even more resilient and innovative to ensure stable energy systems across the globe. In a year when COVID-19 dominated the agenda and challenged mobility as well as safety, the renewable energy industry's ability to ensure continuity and stability was potentially game-changing. It may have gone a little unnoticed, but we believe the contribution made by renewables during the crisis will have huge implications for the future. When the stakes were highest, we showed resilience and proved we can serve as the backbone of energy systems around the world.

This achievement is significant because the climate crisis remains the biggest challenge the world has ever faced, and questions have been raised about whether renewables are ready to replace fossil fuels to limit CO_2 emissions. To this end, one positive to emerge from the COVID-19 pandemic was the clear evidence that renewables can provide the foundations for more resilient societies, offering clean, stable, and cost-competitive energy, as well as sustaining and creating jobs. As a testament to this, governments across the globe, including in the USA, EU, China, and Japan, developed green recovery plans or intentions to do so in 2021. In this respect, we believe the world turned a corner in 2020, paving the way for a more sustainable planet.

At Vestas, we are proud that we continued to play a key role in the fight against climate change in 2020, and underlined our leadership by achieving market-leading revenue, scale, technology, order intake, and profitability. During the year, we consolidated our leadership position and took strategic steps to expand our presence across the value chain. We also had to face unfamiliar challenges, such as living up to the quality provisions expected of Vestas. Nonetheless, every one of our employees did an extraordinary job in making sure our installed base of more than 75,000 turbines delivered sustainable energy across the globe.

Early in the year, we concluded that by leveraging our strong safety culture and establishing clear governance around our COVID-19 crisis management, we could combine safety and business continuity during the pandemic. Today, we know that the simplicity and directional nature of this decision helped create a united team at Vestas, enabling us to find solutions to the challenges and complexities we faced. For this and much more, we owe all our 29,000 colleagues a heartfelt thank you.

Expanding and delivering on our core to grasp future growth

Onshore and offshore wind and service remain the core of our business, creating opportunities for us to grow and expand our reach into new areas of renewables and the energy transition. We are therefore pleased that in 2020 we achieved several important milestones and executed on strategic initiatives that will shape Vestas' evolution over the next decade. Among the most important milestones, in 2020 we managed to scale our business to meet demand, increasing revenue to EUR 14.8bn, representing 22 percent growth compared to 2019 and 46 percent compared to 2018. We also became the first company with 100 GW of wind turbines under service, underlining the key role our Service business will play in terms of future revenue and cash flow. At the same time, we took huge steps forward in sustainability, including efforts to electrify our service vehicles and benefit cars. We also optimised our product portfolio by introducing new localised variants, installing the first EnVentus™ turbines, and made the tough decision to discontinue product development that didn't provide sufficient returns.

In 2020, we continued to progress and execute on our strategic priorities for the mid- and long-term to remain the industry leader towards 2030. Most prominently, this process included strengthening our partnership with Mitsubishi Heavy Industries (MHI) and acquiring all shares in the joint venture, MHI Vestas Offshore Wind. Through these developments, we made an emphatic move within offshore that will help accelerate the deployment of large-scale renewables and take us closer to our vision as the global leader in sustainable energy solutions. We therefore want to thank our close partner in MHI for collaborating with us since 2014, and for sharing the vision to create a more sustainable future. We are also delighted that Kentaro Hosomi, President & CEO of MHI Energy Systems, will be nominated to joining our Board from April 2021.

In recent years, Vestas has also increased its presence in the development of renewable energy projects and built a strong global development pipeline. As a result, in 2020 we established a Development business unit which, in close collaboration with the rest of the company, will create a new revenue stream to the benefit of our global customers, local communities, and shareholders. In close alignment with our development activities, Vestas also acquired a 25 percent stake in Copenhagen Infrastructure Partners, the world's largest dedicated fund manager in greenfield renewable energy infrastructure. Through this acquisition we aim to build another pathway to value creation, accessing the long-term returns generated by renewable energy projects. We also aim to go beyond our Development business' current focus of co-development and early-stage investment in renewables projects.

Since 2018, we have grown revenue by 46 percent, but in that period our profitability and quality have not followed the same positive trajectory. Although COVID-19 increased executional cost, in early 2020 we made the decision to decline financial support from governments, as this allows us to manage our operations and capital structure in both the short and long term. The key to improving our profitability is through our own execution and discipline and looking ahead, we aim to increase the gross margin on our projects and reduce the costs associated with quality issues. Indeed, any shortfall in quality can impact our profitability; for example, in the second quarter of 2020 we made the extraordinary warranty provisions of EUR 175m to repair and upgrade turbine blades. A key strategic focus area is therefore to ensure our quality across the value chain lives up to customer expectations, and is befitting of our heritage as the industry leader.

Our work to become the safest company in the energy industry continued in 2020, although COVID-19 meant the introduction of new policies and guidelines to keep our global workforce safe. Throughout the year, everyone at Vestas acted diligently to keep the COVID-impact at a minimum, underscoring how we take care of each other and continually evolve our safety culture.

Building the future Vestas

The close collaboration between our Board of Directors and Executive Management is key to ensuring a clear direction for everyone at Vestas. Through a well-established process, with a yearly strategy seminar and frequent operational follow-ups, the Board of Directors and Executive Management continuously interact to ensure alignment on major priorities.

Through this collaboration, the Board of Directors and Executive Management has set out the future direction for Vestas as outlined in our strategy. Concretely, this means that Vestas' focus on the climate crisis translates into addressing three key challenges. These challenges, which offer huge business opportunities and which Vestas has the capabilities to solve, are:

- Accelerate the deployment of renewable energy,
- Drive society-wide electrification, and
- Implement solutions for non-electrifiable use.

Vestas' vision and strategy address these challenges by setting strategic priorities and defining the best executional sequence. We see this as a very directional way of enabling the whole organisation to engage in our vision: to be the global leader of sustainable energy solutions.

These priorities will require the integration of our onshore and offshore businesses into one efficient and winning operating model in 2021. Following meticulous planning since the announcement of the strengthened partnership with MHI in October 2020, we are well underway with this project, but we remain realistic about the effort required to create a unified culture focused on accelerating the energy transition. We want to build an organisation that will become a leader in offshore by 2025, which means we need to catch up fast and successfully introduce our new offshore platform by this Annual Report 2020 release: the V236-15.0 MW™.

We also continue to invest in sustaining our technology leadership through modularisation, and through nurturing talent, diversity, and leadership while strengthening our customer focus. To support this development and ensure we have the right capabilities in Executive Management, we were excited to welcome Tommy Rahbek Nielsen as Chief Operating Officer and Anders Nielsen as Chief Technology Officer in May 2020. Anders Nielsen replaced Anders Vedel, who continues as Chief Scientific Advisor and whom we would like to thank for his ongoing service to wind energy and Vestas.

On the brink of a new sustainable era

2020 was a remarkable year that pushed the world into its worst crisis in more than a lifetime. At the same time, 2020 was also the year in which the world's CO_2 emissions decreased more than ever before and where renewable energy showed it is ready to become the dominant energy source.

As such, we are on the brink of a sustainable era where we will see unprecedented change across all areas of society. Transportation, heating, and cooling will soon be electrified, and the shift to renewables will create a strong drive to integrate sustainability in everything we do. The journey ahead will not be a straight line and emissions will most likely increase again in 2021, but 2020 has shown that the solutions are ready. During the year, our supply chain and partners spent substantial time planning mutual steps to decarbonise the world's most sustainable assets – wind turbines – even further. At the end of 2020, our 129 GW of installed wind turbines saves the world 186 million tonnes of CO_2 annually, and during the year we reduced our own carbon emissions with 33 percent, illustrating that we together with our suppliers and partners can do this with even greater momentum and speed.

However, we would not be where we are today, and Vestas would not be playing the key role it is playing in creating a sustainable planet for our children and grandchildren, were it not for our employees. During an exceptionally challenging year, everyone at Vestas demonstrated incredible passion and purpose, and made individual and team sacrifices, to ensure we kept our promises and helped to accelerate the deployment of renewables for our customers and societies. On behalf of the Board of Directors and Executive Management, we want to thank all Vestas colleagues across the globe for their efforts in 2020.

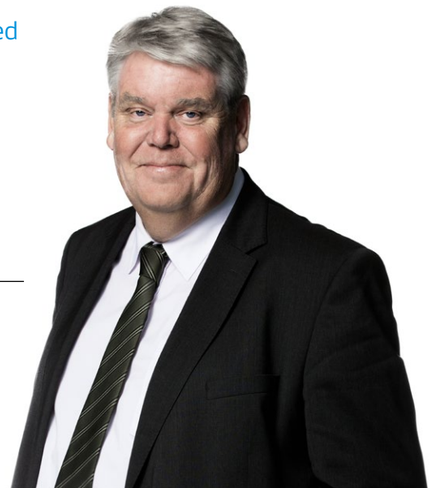
To this end and despite being outside the earnings guidance announced in February, eligibl e Vestas employees will receive an extraordinary reward totaling EUR 25m for ensuring business continuity and driving the global activities forward through this unprecedented year. The decision was made by the Board on recommendation from Nomination & Compensation Committee, and excludes Executive Management because we didn't meet our performance KPIs. This special recognition reflects the tremendous contribution from team Vestas in 2020 and that COVID-19 will impact our business well into 2021.

In the future, 2020 will be remembered as the year of COVID-19, but for Vestas it was also the year where we set the direction for the next decade. Together with our 29,000 colleagues, we have an even stronger intent in 2021 to create a more sustainable planet and bring us closer to our vision of being the global leader in sustainable energy solutions.

Thank you to every external and internal stakeholder for your support and commitment in 2020.

> "When the stakes were highest, we showed resilience and proved we can serve as the backbone of energy systems around the world."

Bert Nordberg
Chairman of the Board of Directors



> "Among the most important milestones, in 2020 we managed to scale our business to meet demand, increasing revenue to EUR 14.8bn, representing 22 percent growth compared to 2019."

Henrik Andersen
Group President & CEO

Financial and operational key figures

mEUR	2020	2019	2018	2017	2016
FINANCIAL HIGHLIGHTS					
INCOME STATEMENT					
Revenue	14,819	12,147	10,134	9,953	10,237
Gross profit	1,538	1,761	1,631	1,963	2,126
Operating profit before amortisation, depreciation and impairment losses (EBITDA) before special items	1,391	1,550	1,394	1,651	1,826
Operating profit (EBIT) before special items	750	1,004	959	1,230	1,421
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	1,382	1,550	1,379	1,651	1,826
Operating profit (EBIT)	698	1,004	921	1,230	1,421
Net operating profit after tax (NOPAT)	619	773	719	923	1,066
Net financial items	(95)	(98)	(51)	2	(33)
Profit before tax	934	909	910	1,192	1,287
Profit for the year	771	700	683	894	965
BALANCE SHEET					
Balance sheet total	18,160	14,331	11,899	10,871	9,931
Equity	4,703	3,345	3,104	3,112	3,190
Investments in property, plant and equipment	379	451	312	268	304
Net working capital	(1,127)	(1,583)	(2,040)	(1,984)	(1,941)
Capital employed	6,057	4,165	3,602	3,609	3,686
Interest-bearing position (net), at the end of the period	1,920	2,452	3,046	3,359	3,255
Interest-bearing debt, at the end of the period	1,354	820	498	497	496
CASH FLOW STATEMENT					
Cash flow from operating activities	743	823	1,021	1,625	2,181
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(659)	(729)	(603)	(407)	(617)
Free cash flow before acquisitions of subsidiaries and financial investments	84	94	418	1,218	1,564
Free cash flow	476	332	(69)	1,218	1,364
FINANCIAL RATIOS[1]					
FINANCIAL RATIOS					
Gross margin (%)	10.4	14.5	16.1	19.7	20.8
EBITDA margin (%) before special items	9.4	12.8	13.8	16.6	17.8
EBIT margin (%) before special items	5.1	8.3	9.5	12.4	13.9
EBITDA margin (%)	9.3	12.8	13.6	16.6	17.8
EBIT margin (%)	4.7	8.3	9.1	12.4	13.9
Return of capital employed (ROCE) (%)	13.5	19.7	20.4	25.1	30.8
Net interest-bearing debt/EBITDA before special items	(1.4)	(1.6)	(2.2)	(2.0)	(1.8)
Solvency ratio (%)	25.9	23.3	26.1	28.6	32.1
Return on equity (%)	21.4	22.1	22.6	28.1	32.6
SHARE RATIOS					
Earnings per share (EUR)	3.9	3.6	3.4	4.2	4.4
Book value per share (EUR)	23.3	16.8	15.1	14.4	14.4
P/E ratio	49.6	25.4	19.3	13.6	14.0
Dividend per share (EUR)	1.14[2]	1.06	1.00	1.24	1.31
Payout ratio (%)	30.0[2]	30.0	30.0	29.9	30.0
Share price at the end of the period (EUR)	193.5	90.1	65.9	57.6	61.7
Number of shares at the end of the period	201,973,452	198,901,963	205,696,003	215,496,947	221,544,727
OPERATIONAL KEY FIGURES[3]					
Order intake (bnEUR)	12.7	13.8	10.6	8.9	9.5
Order intake (MW)	17,249	17,877	14,214	11,176	10,494
Order backlog – wind turbines (bnEUR)	19.0	16.0	11.9	8.8	8.5
Order backlog – wind turbines (MW)	24,630	20,974	15,646	11,492	9,530
Order backlog – service (bnEUR)	23.9	17.8	14.3	12.1	10.7
Produced and shipped wind turbines (MW)	17,055	12,618	10,676	11,237	9,957
Produced and shipped wind turbines (number)	5,239	4,185	3,729	4,241	4,264
Deliveries (MW)	17,212	12,884	10,847	8,779	9,654

1) The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios).
2) Based on proposed dividend.
3) The order backlog for Vestas Offshore Wind A/S (former MHI Vestas Offshore Wind A/S) is included as at 31 December 2020. The remaining operational key figures include Vestas Offshore Wind A/S for the period 14 December 2020 to 31 December 2020.

Sustainability key figures[1]

	2020	2019	2018	2017	2016
ENVIRONMENTAL					
UTILISATION OF RESOURCES					
Consumption of energy (GWh)	621	638	614	569	567
- of which renewable energy (GWh)	295	258	211	204	215
- of which renewable electricity (GWh)	261	227	178	175	186
Renewable energy (%)	48	40	34	36	38
Renewable electricity for own activities (%)	100	82	68	66	70
Withdrawal of fresh water (1,000 m³)	421	473	470	454	428
WASTE					
Volume of waste from own operations (1,000 t)	89	85	81	71	75
- of which collected for recycling (1,000 t)	46	43	42	39	37
Recyclability rate of hub and blade[2] (%)	41[3]	42[4]	//	//	//
CARBON EMISSIONS					
Direct emissions of CO_2e (scope 1) (1,000 t)	71	71	69	60	58
Indirect emissions of CO_2e (scope 2) (1,000 t)	2	38	61	70	66
Indirect emissions of CO_2e from the supply chain (scope 3)[2] (million t)	9.79	6.90	//	//	//
Indirect emissions of CO_2e from the supply chain (scope 3)[2,5] (kg per MWh generated)	6.49	6.45	//	//	//
PRODUCTS					
Expected CO_2e avoided over the lifetime of the MW produced and shipped during the period (million t)	493	322	275	317	281
Annual CO_2e avoided by the total aggregated installed fleet (million t)	186	154[6]	134	120	106
SOCIAL					
SAFETY					
Total Recordable Injuries (number)	185	213	210	243	303
- of which Lost Time Injuries (number)	65	67	80	92	82
- of which fatal injuries (number)	0	1	0	1	0
Total Recordable Injuries per million working hours (TRIR)	3.3	3.9	4.0	5.3	6.9
Lost Time Injuries per million working hours (LTIR)	1.2	1.2	1.5	2.0	1.9
EMPLOYEES					
Average number of employees (FTEs)	26,121	24,964	24,221	22,504	21,625
Employees at the end of the period (FTEs)	29,378	25,542	24,648	23,303	21,824
DIVERSITY AND INCLUSION					
Women in the Board[7] and Executive Management at the end of the period (%)	27	23	15	23	23
Women in leadership positions[8] at the end of the period (%)	19	19	19	19	19
HUMAN RIGHTS					
Community grievances[2] (number)	20	10	//	//	//
Community beneficiaries[2] (number)	14,770	6,093	//	//	//
Social Due Diligence on projects in scope[2] (%)	78	32	//	//	//
GOVERNANCE					
WHISTLE-BLOWER SYSTEM					
EthicsLine cases[9] (number)	287	224	165	105	103
- of which substantiated (number)	54	44	42	31	19
- of which unsubstantiated (number)	199	145	92	74	68

1) For definitions and accounting policies for the sustainability key figures, see the Notes on page 134. Comments to the indicators related to specific sustainability targets can be found in this report, pages 019-024. The developments in the remaining indicators are commented on in the Vestas Sustainability Report 2020.
2) Data only available from 2019 onwards.
3) The decrease from 2019 to 2020 is attributable to a design change in 2020 that has optimised the metal content in the turbine hub after which the blade mass corresponds to a bigger share of the total rotor mass.
4) The 2019 baseline has been updated from 44 percent to 42 percent recyclability due to adjustments in the bill of materials.
5) This covers 70 percent of the scope 3 emissions.
6) In the Vestas Annual Report and Sustainability Report 2019, this number was 151 million tonnes saved. Since then, the fleet average capacity factor used has been corrected, and the number adjusted accordingly.
7) Only Board members elected by the general meeting are included.
8) Employees in leadership positions comprise managers, specialists, project managers, and above.
9) The cases not registered here as substantiated or unsubstantiated are still under investigation at the end of the year.

Outlook

Outlook 2021

Revenue for full-year 2021 is expected to range between EUR 16bn and 17bn, including service revenue, which is expected to grow approx. 15 percent. Vestas expects to achieve an EBIT margin before special items of 6-8 percent with a service EBIT margin of approx. 24 percent. Total investments[1] are expected to amount to approx. EUR 1,000m in 2021.

Vestas expects warranty provisions at a level of around 3 percent of revenue. Special items are expected to amount to approx. EUR 100m relating to the integration of MHI Vestas Offshore Wind A/S.

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect Vestas' financial results for 2021. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2021.

Outlook 2021

Revenue (bnEUR)	16-17
EBIT margin (%) before special items	6-8
Total investments[1] (mEUR)	approx. 1,000

Long-term financial ambitions

Wind power has outcompeted fossil fuel alternatives in most parts of the world, volumes in the global wind turbine market are good, and the prospects for the coming years promising, with wind power's expected central role in the electrification of societies, industries and mobility systems and forecasts of average annual growth of wind power capacity of 8 percent towards 2030.[2]

At the same time, the wind power industry has seen consolidation, giving way for a more stable competitive environment. The profitability, however, is still not at a satisfactory level, and hence this needs to be a focus area for wind turbine manufacturers in the coming years.

Ambitions for the three business areas

Onshore

The demand for onshore wind power globally is expected to remain stable or grow slightly from the current high level the next two-to-three-years. After that, a new phase of growth is expected, driven by new policies, increased electrification, and corporate ambitions and activities. Adding to that, Vestas expects to see increasing contributions from its development activities.

On this background, Vestas maintains its long-term ambition for the onshore wind power segment to grow faster than the market and be market leader in revenue.

Offshore

The projections for the offshore market suggest a development in three phases for Vestas' newly acquired offshore segment. Based on the order backlog, Vestas will see a couple of years with high activity levels and solid financial performance. Then, from 2023, the company expects to see a decline in activity towards 2025. These first two phases will be under the influence of heavy investments both in the organisation, supply chain, and technology. By 2025, when a steep increase in annual offshore installations is expected, and Vestas' new platform will be gaining traction in the market, Vestas aims to be a leading player in offshore wind power.

Based on these assumptions, Vestas has an ambition to achieve revenue in the offshore segment of EUR +3bn by 2025, with an EBIT margin on par with the Group's overall margin.

Service

The wind power service market is expected to continue growth at the current rate, and Vestas maintains its ambitions for the long-term for the Service revenue to grow faster than the market. The Service EBIT margin is expected at a level of around 25 percent in the coming years, accounting for the integration of the offshore business, which currently generates lower margins than onshore.

Ambitions on Group level

Vestas maintains its ambition on an overall level to grow faster than the market and be market leader in revenue. Even with the integration of the offshore business, the company remains optimistic about reaching a 10 percent EBIT margin based on the current market conditions and projections. The introduction of a new offshore wind power platform will impact free cash flow, but Vestas nevertheless expects to generate a positive cash flow each year. The ambition is still to achieve a long-term ROCE of minimum 20 percent over the cycle.

Long-term financial ambitions

Revenue	Grow faster than the market and be market leader in revenue
EBIT margin	At least 10 percent
Free cash flow	Positive each year
ROCE	Minimum 20 percent over the cycle

1) Excl. acquisitions of subsidiaries, any financial investments, and the investment in Copenhagen Infrastructure Partners P/S.
2) Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.

Corporate strategy

The beginning of a sustainable era

Energy is one of the fundamental building blocks of society. It powers life and prosperity, defines entire eras in human history, and dictates how we live our lives. When energy sources change, societies change with them, and we are currently on the brink of a new era defined by renewables. Renewables are now the cheapest source of electricity in most parts of the world,[1] and global efforts to combat the climate crisis and create sustainable societies are gaining momentum. The need for change is urgent, and the sustainable energy solutions to deliver it are available today.

The sustainable era will be characterised by unprecedented change to energy systems as well as societies at large. Entire industries and mobility systems will need to be electrified in order to take advantage of renewable energy sources, and as a result renewable energy sources will redefine how we produce, distribute, and use energy. As such, the entire planet is embarking on an industrial and societal transition never seen before, opening up new opportunities for value creation for sustainable companies.

Today, electricity constitutes just 20 percent of the global energy system, and of this wind energy provides around 6 percent. With less than 2 percent of all energy coming from wind turbines, it is clear the growth potential for renewables is enormous, as illustrated on page 11.[2]

Global electricity demand is expected to have grown almost 60 percent by 2050 as electrification accelerates and energy demand in developing economies increases. Wind and solar PV are expected to play a key role in this expansion and supply 56 percent of global electricity, up from just 9 percent in 2019.[1]

For the last 40 years, Vestas has pioneered wind energy, and this will remain our key focus. To create a sustainable planet for future generations and continue to provide an economic return to our shareholders, we must, however, also look beyond wind energy. Today, we are therefore increasingly investing in solutions that enable both the continued deployment of renewables and allow us to integrate sustainability in everything we do.

Who we are

With a vision to become the global leader in sustainable energy solutions, everything we do revolves around the development and deployment of sustainable energy solutions. Every day, our 29,000 employees help to create a better world by designing, manufacturing, installing, developing, and servicing wind energy and hybrid projects all over the world. With 129 GW of wind turbines installed in 83 countries, our sustainable energy solutions have already prevented 1.5 billion tonnes[3] of CO_2 being emitted into the atmosphere and contributed to a more sustainable energy system. We have more than 40 years of experience in wind energy and were the first company to reach the 100 GW landmarks for both the installation and service of wind turbines. As such, we believe we have already played a crucial role in laying the foundations for the sustainable era, and that we are uniquely positioned to show the path to a sustainable planet.

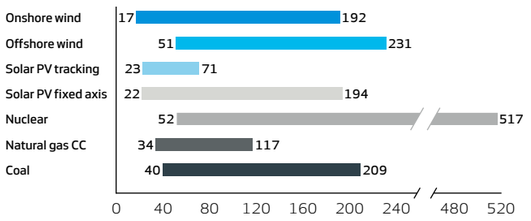
Wind energy is our heritage and core competence. We believe wind will form the backbone of the sustainable energy systems of the future, and we remain focused on developing solutions that accelerate the energy transition and strengthen Vestas' continued leadership in wind.

Solutions for a sustainable energy system

The world is 1.1 °C warmer today than in pre-industrial times,[4] and although the COVID-19 pandemic has caused a decrease in CO_2 emissions,[2] global warming remains on the wrong trajectory. According to the Intergovernmental Panel on Climate Change, a 1.5 °C increase in global average surface temperature will have devastating consequences for our planet, causing extreme weather events, rising sea levels, and climatic changes.[4] The temperature increase is largely caused by the growing concentration of CO_2 in the atmosphere, and energy production and usage remain the primary emitter.[5] It is therefore abundantly clear that urgent change is needed in the world's energy mix. For instance, according to the International Energy Agency, a 40 percent reduction in emissions by 2030 will require nearly 75 percent of global electricity generation to come from low-emission sources by this time.[2]

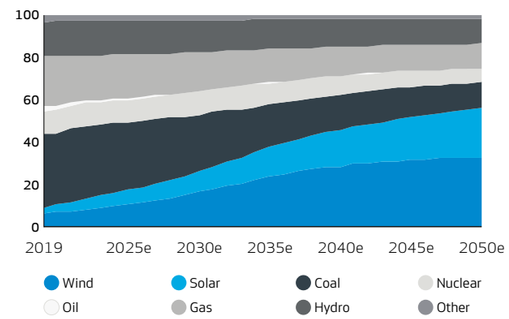
To change our planet's trajectory, the most cost-effective and immediate path to meaningful emissions reduction is large-scale deployment of renewable energy. However, as the penetration of renewable electricity increases, this alone will not be enough to avoid a temperature increase above 1.5 °C. We must therefore address the following three challenges:

Wind power and solar as most competitive energy sources
USD/MWh



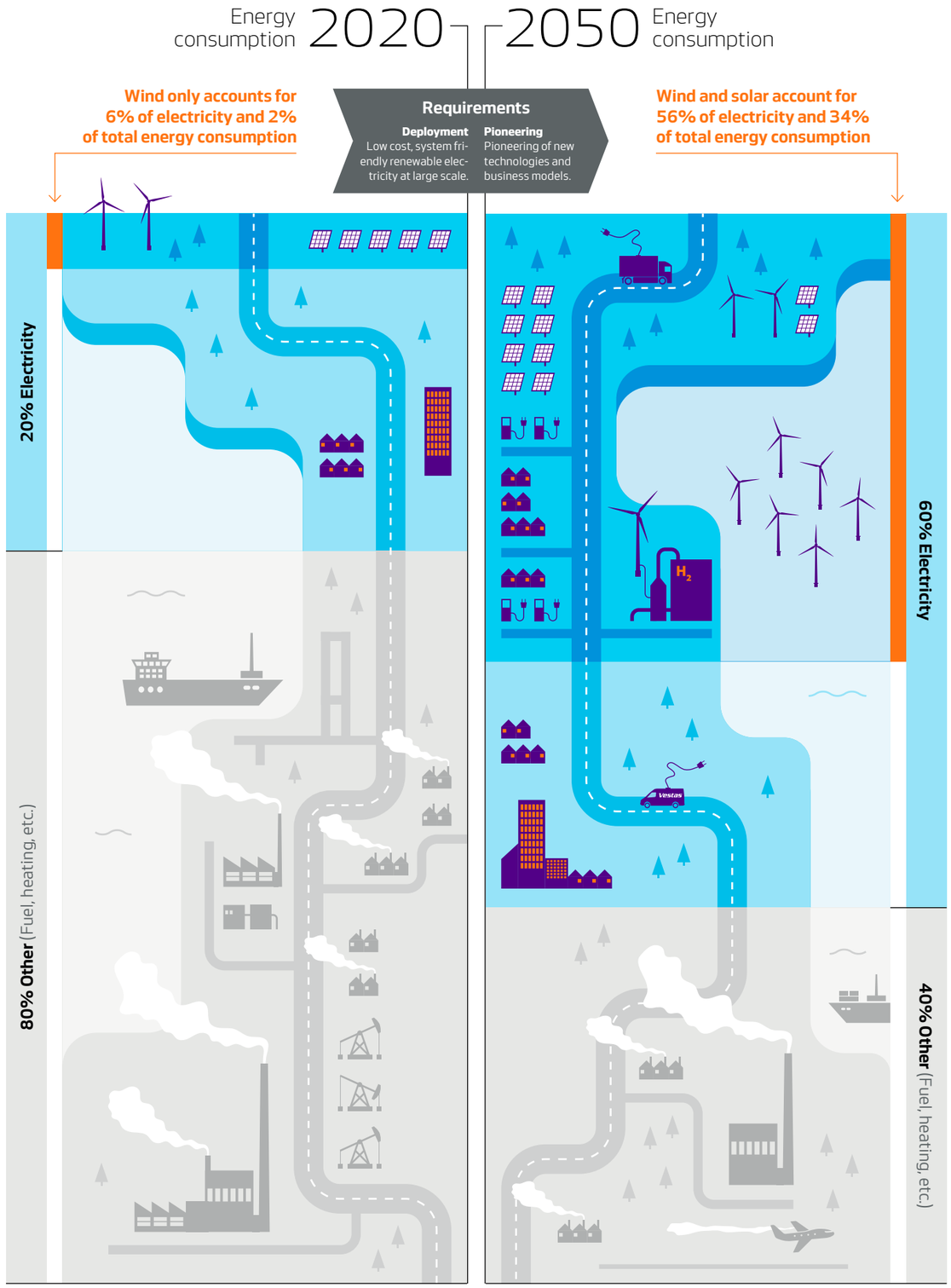
Source: Bloomberg New Energy Finance: 2H 2020 LCOE Update. December 2020.

Global electricity generation mix
Percent

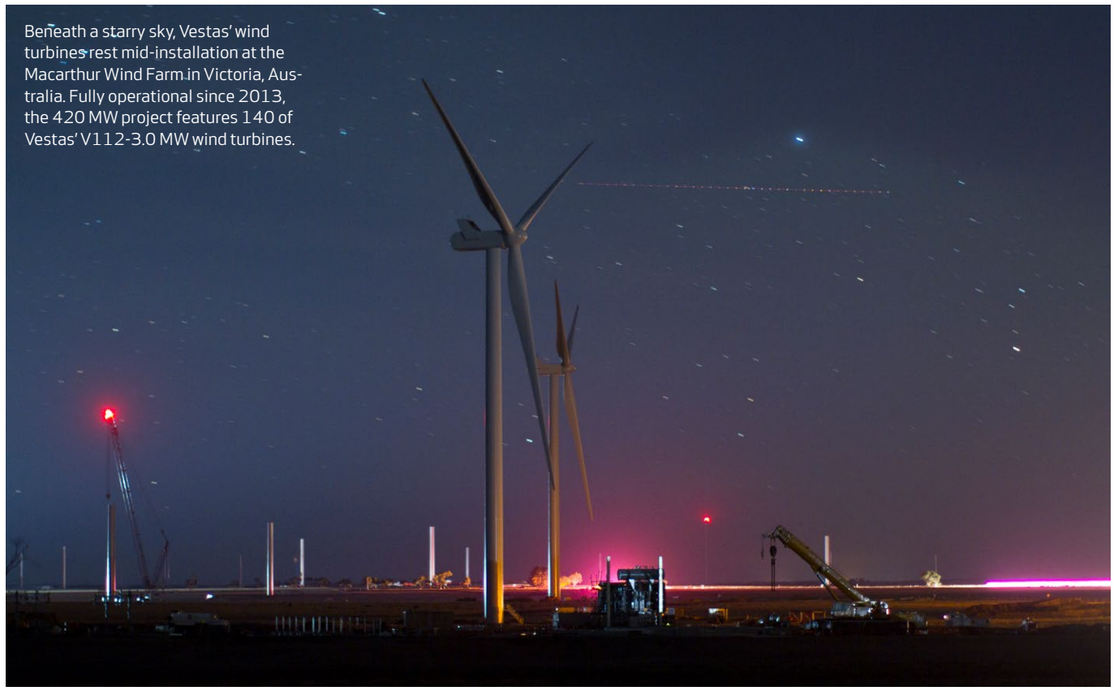


Source: Bloomberg New Energy Finance: New Energy Outlook 2020. September 2020.

Energy market transition



1) Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook. September 2020.
2) Source: International Energy Agency: IEA World Energy Outlook 2020. October 2020.
3) See the Notes to Sustainability key figures, page 136 under the headline "Products" for how this number is calculated.
4) Source: UN Climate Change: United Nations Climate Change Annual Report 2019. 20 August 2020.
5) Source: International Energy Agency: Global Energy Review 2020. July 2020.



Beneath a starry sky, Vestas' wind turbines rest mid-installation at the Macarthur Wind Farm in Victoria, Australia. Fully operational since 2013, the 420 MW project features 140 of Vestas' V112-3.0 MW wind turbines.

1. Accelerate the deployment of renewable energy
Wind and solar energy only account for around 9 percent of the global electricity generation mix today;[6] it is therefore clear that the deployment of renewables needs to accelerate substantially for the world to stay within a 1.5 °C scenario.

2. Drive society-wide electrification
Today, only certain elements of society are powered by electricity and renewable energy – in fact, only 20 percent of energy consumption is electricity.[7] A key lever to creating a sustainable energy system is to drive electrification forward and ensure mobility, heating, and industries can be powered by electricity from renewables.

3. Implement solutions for non-electrifiable use
In some industries and sectors electrification is not feasible anytime soon. However, Power-to-X and green hydrogen are well-known solutions that show great potential to address the challenges we face – for example, by helping to shift steel production and heavy transport to renewable energy sources.

Pioneering solutions to all three of these challenges, and deploying them at scale and low cost, is the key to achieving a sustainable energy future. Founded with the aspiration to help create a more sustainable planet, Vestas' vision and strategy address these challenges with solutions underpinned by our leadership in wind, and by the knowledge that the climate crisis remains the greatest challenge and opportunity of our time.

A strategy to lead from the front

In 2020, Vestas celebrated its 75th anniversary, and its 40-plus years of pioneering the development and deployment of wind energy. Since 1979, when we installed our very first wind turbine, we have been leading the wind energy industry from the front. Today, wind and/or solar PV are the cheapest new sources of electricity in countries making up around 73 percent of world GDP,[6] and Vestas' total installed capacity displaces more CO_2 emissions than any other company in the sustainable energy sector.

With global wind power capacity expected to grow on average 8 percent per year until 2030,[8] and with our leading position in the industry, Vestas' core continues to revolve around wind and the accelerated deployment of renewable energy. Ensuring competitive and compatible wind energy solutions remains vital to a sustainable energy mix. Only by continuing to innovate superior solutions for wind power generation and the energy system surrounding it can we address the climate crisis and continue to grow our company. With power capacity expected to rise sixfold from 2019 to 2050, and with renewables expected to surge from 28 percent in 2019 to 69 percent in 2050,[6] the growth opportunities are significant. In fact, this growth is expected to drive investments of around USD 11 trillion in renewables, of which USD 5.9 trillion will be invested in wind energy.[6]

The strong outlook for renewable energy has been a key driver of change for the wind energy industry over the last ten years. In particular, the industry has moved from niche to mainstream and become more mature, making renewables even more competitive, consolidating the industry, and driving more sustainable operations across the entire value chain. As a consequence, only a few wind energy companies are currently profitable and those that will benefit as the industry expands will be those that can scale over time. Simultaneously, the immense growth in renewables has led to a rapid expansion of key industry job functions – for example, service technicians and manufacturing workers. In this way, the energy

6) Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook. September 2020.
7) Source: International Energy Agency: IEA World Energy Outlook 2020. October 2020.
8) Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.

Business model

Value created

Safety culture
Safety is always our top priority. This provides our employees with safe working environments across all our operations.

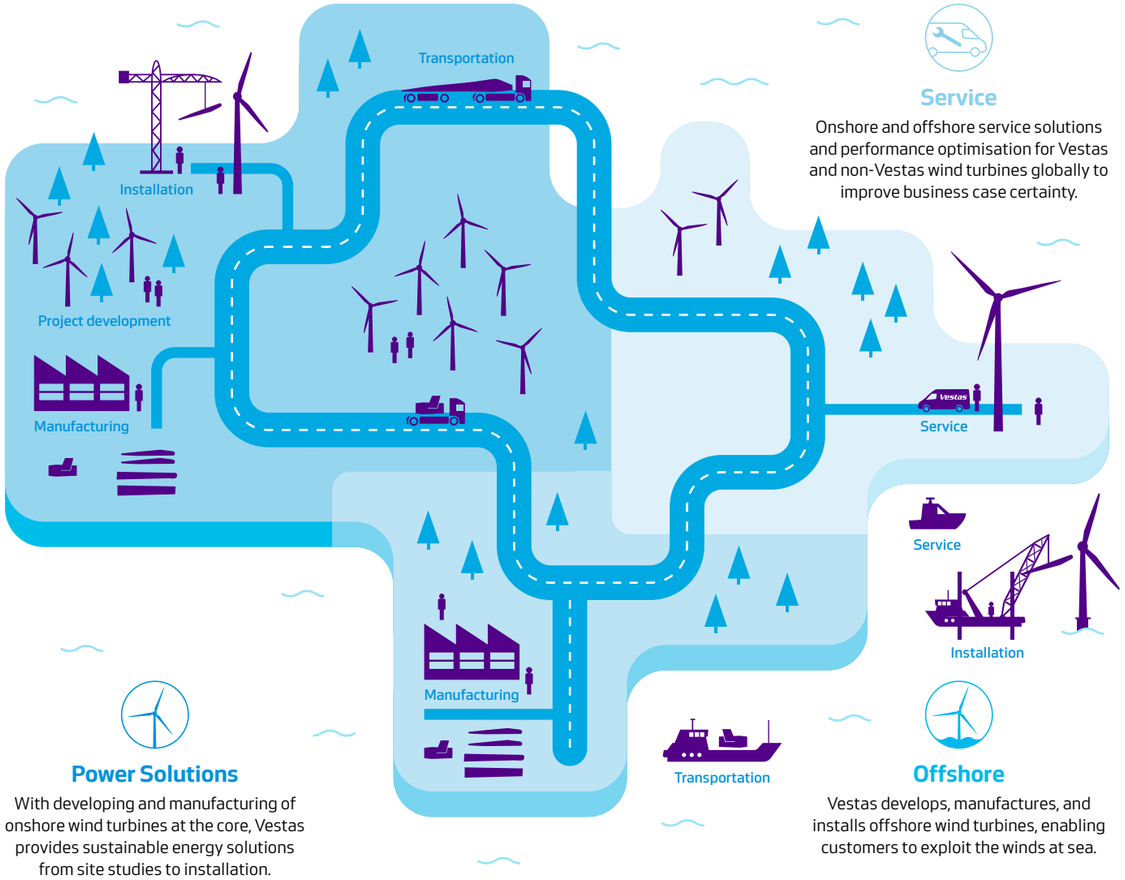
Sustainable jobs and employment
We invest in local supply chain, manufacturing, and service operations – creating truly sustainable and local jobs.

Climate efficiency
Over the total life cycle, a Vestas wind turbine emits less than one percent of carbon emissions compared to conventional sources – at lower cost in most markets globally.

Local community development
We engage with and create value for local communities when entering into new territories.

Return on investment
We optimise solutions for our customers to generate the highest possible return on investment.

Shareholder value
Through our priorities for capital allocation, we create value for our shareholders.



Key resources

Natural resources
Our energy solutions utilise natural resources such as wind.

Research and development
We constantly provide our customers with industry-leading technology.

Human resources
We employ the best and most passionate people and strive to become the employer and company of choice.

Manufacturing capabilities
Our global manufacturing and supply chain capabilities ensure high quality and efficiency.

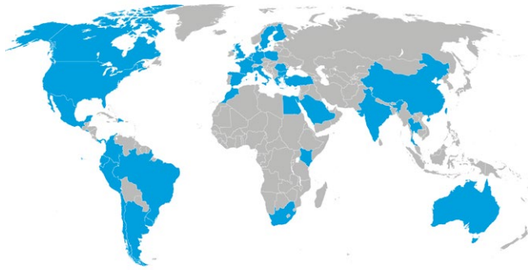
Efficient capital management
Strong financial and commercial position allows for value accretive investments.

Credit worthiness
Our green bond facility showcases our financial strength and serves as a business enabler for customers.

Global reach of renewables as most competitive energy source

2014

2020



Countries with renewables as most competitive energy source

Source: Bloomberg New Energy Finance: 2H 2020 LCOE Update. December 2020.

transition is stimulating local job creation – both in the short term during construction, and in the long term via servicing and manufacturing.

2020 was a remarkable year that pushed the world into its worst crisis since World War II. Vestas and the wider industry showed remarkable resilience during the global pandemic, demonstrating that renewables can form the backbone of our energy systems. COVID-19 has challenged the entire energy value chain and restrained global mobility, but during 2020 renewables and wind in particular ensured that production and installation schedules remained on track. Turbine performance was also maintained to the benefit of all societies with renewable energy assets.

At the same time, COVID-19 recovery stimulus and increasingly ambitious climate targets, such as the EU's Green Deal, China's 2060 net-zero CO_2 target, the US re-entry to the Paris Climate Accord, and Japan's 2050 net-zero CO_2 ambitions, are all having a positive impact. Together, these developments are stimulating increased investments in renewable energy and adjacent technology that will help create a sustainable energy mix.

Vestas has the scale, reach, track record, and technological expertise to continue leading the buildout of renewable energy and the electrification of societies. Leveraging these qualities, our strategy revolves around three pillars:

- Enabling electrification through low-cost renewable energy
- Driving increased deployment of renewable energy
- Pioneering new solutions to indirect electrification

As part of our strategy, and as part of our efforts to play a leading role in the energy transition, in 2020 we took major steps towards the realisation of our vision. These steps will affect Vestas in the short term and shape the future Vestas of 2030. They include:

- Making an emphatic move in offshore by acquiring MHI Vestas Offshore Wind
- Launching the industry's most ambitious sustainability strategy
- Making Vestas the first OEM in renewable energy with verified climate targets in line with the 1.5°C scenario
- Expanding our development activities and investing in Copenhagen Infrastructure Partners
- Forming a partnership with Mitsubishi Heavy Industries focused on green hydrogen

In the mid-term, our priorities remain to integrate sustainability in everything we do and lead the market in both wind power plant solutions and in service. We also aim to ensure industry-leading profitability, sustaining our preferred partner status with customers, and attracting the best talent in the energy industry.

To achieve our goals and lead the energy transition, we focus on three strategic business areas: onshore, offshore, and service.

Our three strategic business areas - outlook and priorities

A global leader in onshore wind energy solutions

Onshore wind remains a key driver in the energy transition and will form a key part of future sustainable energy systems. Although not expected to grow at the same rate as offshore wind, the market for onshore is expected to constitute 60-70 GW a year in the coming years.[9] With the increased economic competitiveness and global applicability of advanced wind power plant solutions, the potential for onshore wind is significant, albeit with some short-term regional fluctuations.

Activity levels in 2019 and 2020 reached record highs, around which the market is expected to stabilise in the coming two-to-three years. After this period, a new phase of stable global growth is expected as a result of demand from new policies, increased electrification, and corporate activities.[9] Over the years, onshore wind energy has outcompeted fossil fuel alternatives in most parts of the world.[10] However, more importantly wind energy's predictability and production profile now make it possible to build a carbon-free economy around wind energy and adjacent technologies, including storage, interconnectors, grid expansion, and energy analytics.

In 2020, industry dynamics and record-breaking volumes of deliveries, as well as disruptions linked to COVID-19, increased the pressure on many players. This pressure in turn drove further consolidation and challenged profitability across the sector. As a result, Vestas' key strengths and capabilities mean the company is well positioned to emerge stronger from the global pandemic.

Following a successful increase in Vestas' global development activities over the past three years, we have now established a new business unit committed to the development of renewable energy projects. The new unit supports our ambition to accelerate the deployment of sustainable energy, marking an important step in Vestas' journey towards becoming the global leader in sustainable energy solutions.

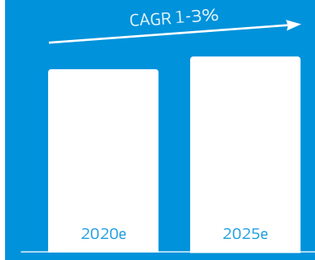
9) Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.
10) Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook. September 2020.

Market expectations

Onshore
Large market, healthy growth

Vestas' market position
Global leader
Nº 1

Market expectation
New installations
(GW)*

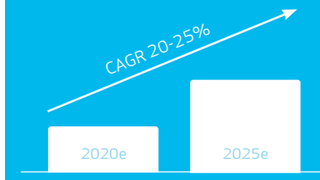


- Stable 60-70 GW post 2020 record
- Increasing geographical diversification
- Growth upsides driven by economics and climate ambitions

Offshore
Younger market, high growth

Vestas' market position
Top player
Nº 2

Market expectation
New installations
(GW)**

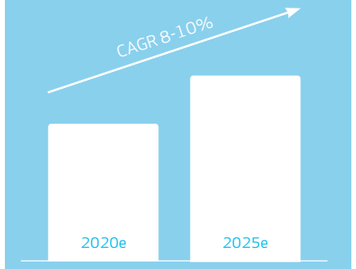


- +4x growth to 2030
- Strong expansion in Europe and new markets
- Step-change upsides from floating and Power-to-X

Service
Mid-sized market, high growth

Vestas' market position
Global leader
Nº 1

Market expectation
Installed fleet
(GW)**



- Solid growth from high base
- Expanded solution scope
- Focus on digitalisation and global scale

* Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook. September 2020.
** Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.

The development business unit will see Vestas playing a more influential role in progressing the deployment of renewable energy across national energy systems, as well as expanding our presence across a larger part of the renewable value chain. This acceleration is necessary if we are to meet the ambitious timeline of global climate goals, and progress on our commitment to the green energy transition. We are therefore seeking to advance our overall growth journey by ramping up development as an autonomous area within our core business, drawing on our strength and expertise from other parts of the renewables value chain. In this way, Vestas is taking a major step towards expanding its presence across the entire value chain, from technology development to manufacturing. We will also be supporting governments in the deployment of renewables, financial solutions, installations, service, and long-term returns on assets.

To leverage our leading position in onshore wind, our priorities in the Power Solutions segment are to:

- Provide leading wind turbine products globally, for example the V162-6.0 MW EnVentus™ turbine and the V155-3.3 MW™ turbine.
- Expand our solutions that address customer needs beyond turbines, such as our EPC and co-development activities, and support our customers by facilitating tailored financial solutions.
- Optimise our operations in a cost-effective manner that minimises risk for Vestas and our supply chain partners, and safeguards delivery for our customers globally.
- Continue growing faster than the market by maintaining market leadership in our core regions, and further building out our position in new markets. Such markets include Brazil, China, and India, fast-growing markets like South Africa, Russia, the Middle East and North Africa, and new ones like Colombia and Vietnam.
- Lead the industrialisation of the wind power value chain while continuing to offer our customers unique solutions that maximise value for their wind sites. To this end, we are accelerating a multi-year journey to modularise our products, systems, and organisation.
- Continue prioritising industry-leading quality by ensuring the safety and reliability of wind power plants is the key focus for Vestas, while having robust processes in place to handle any incidents, determine causes, and resume operations.

A leading player in offshore wind

Vestas is the leader in onshore wind power. However, to accelerate the energy transition and achieve our vision we must play a larger role in offshore wind. The demand for offshore wind energy has accelerated in recent years and is expected to reach more than 25 GW per year by 2030.[11] Initially, this includes solid growth from 2021 to 2024 from the current high single-digit GW level; but from 2025, when new markets are expected to open, projections foresee a step-change growth of the annual installed capacity. This development is being driven by a 69 percent decline in levelised cost of offshore wind energy since 2012.[12] It is also the result of the growing applicability of offshore wind energy. This is mainly driven by high-system value, proximity to load centres, improved permitting, and public acceptance, as well as the application of large-scale Power-to-X solutions.

In response to these conditions, and as part of our ambition to become a leader in offshore wind, in 2020 we acquired Mitsubishi Heavy Industries' shares in the MHI Vestas Offshore Wind joint venture.

11) Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.
12) Source: Bloomberg New Energy Finance: 2H 2020 LCOE Update. December 2020.

While Vestas is not yet a leading player in offshore wind, we are taking a long-term perspective on the segment due to the length of offshore wind business cycles. To fulfil our ambitions in offshore wind, our priorities in the offshore segment are to:

- Deliver on customer projects based on the V164/V174 platform, where we face high levels of activity in the coming one-to-two years. Key commitments include installations on some of the largest and most noteworthy projects in the offshore sector to date, such as the 1.1 GW Seagreen project in Scotland.
- Launch and ramp-up of a new industry-leading offshore wind power platform with the V236-15.0 MW™ turbine, which takes offshore wind turbine technology to a new level – not only in terms of energy production, but in terms of lowest cost of energy, reliability and industrialisation to drive and scale the offshore wind sector globally.
- Develop and deploy new technologies and concepts, such as floating offshore wind power and Power-to-X.
- Drive a smooth integration process to establish a unified product and business platform within Vestas for future profitable growth across offshore and onshore. This process will be characterised by respect for our employees and strong capabilities, with a clear goal to create the same scalability in offshore as we have in onshore.

A global leader in wind energy service solutions

In 2020, Vestas became the first company to reach 100 GW of wind turbines under service, highlighting wind energy's growing importance in providing cheap and stable electricity across the globe. Similarly, wind turbines played a key role during the COVID-19 pandemic, providing stable electricity and jobs when supply chains were disrupted, and industries were hit by economic slowdown.

Primarily driven by high installation volume, service market activity continued to grow in 2020 and offered strong value to owners of wind power plants. With the high level of new annual additions set to continue, service is expected to grow at a significant pace. At the same time, the service segment continues to mature, driving further efficiencies and creating new revenue streams from a broad range of competitive new solutions. Such solutions include increasing more advanced and value-accreting contracting scope to asset owners, expanding our offering of new solutions for multibrand platforms and ageing assets, and driving industry-leading digitalisation and eCommerce offerings.

As Vestas looks to expand its onshore and offshore footprint in service while sustaining leadership in this area, our priorities in the service segment are to:

- Ensure we streamline our global service delivery model.
- Continue growing our service business, ensuring we remain the preferred partner for both existing and new customers by providing dedication, professionalism, and technical expertise, and by developing specific new offerings they need.
- Continue investing in and focusing on the expansion of technical capabilities across more turbine platforms, while developing higher scope and longer-term contracts.

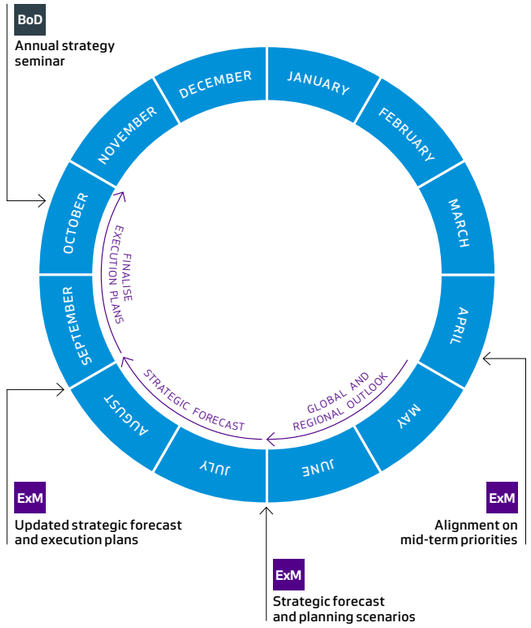
Strategy execution

To drive our strategic priorities and ensure we focus on the key challenges we face, Vestas runs a yearly strategy cycle and review where we discuss, adjust and optimise our strategy based on market changes and future scenarios. The yearly cycle ensures close alignment on strategic priorities between the Board of Directors (the Board) and Executive Management, providing the organisation with a strong focus and ensuring clear direction for all of our colleagues around the world.

In 2020, our key strategic priorities included among others the following 'Must Win Battles':

- **Modularisation:** Modularisation is both a tool and a mindset. It will guide Vestas' continued transformation to meet the future demand for wind energy and customer requirements – onshore as well as offshore. In this way, modularisation combines customisation and standardisation, making it possible for us to serve broad market requirements at competitive costs. Our platforms have served us well until now, but the increasing number of variants has increased the competitive pressure; our response is continued standardisation and cost-out, without compromising on providing the solutions our customers need. To succeed, we must remain disciplined by investing in the right initiatives, while discontinuing projects that look unlikely to provide the returns we originally expected. As an example, in April 2020 we discontinued the development of a specific aspect of our technology programme.
- **Quality:** New product introductions, accelerated cost-out and high activity levels have challenged production ramp-ups and delivery plans, which in turn has put pressure on the entire Vestas value chain, including our quality. As a result, we are now seeing higher warranty provisions and consumption due to increased rework and delays in the launch and execution of new products, which reduces our profitability. Addressing these challenges and enforcing a strong quality culture across the value chain is a strategic priority for Vestas. Our aim is to ensure issues are contained and solved close to their origin, while providing best-in-class quality for future customer solutions.
- **Talent & Leadership**: Vestas' growth ambitions require us to have the right employees with the right capabilities. We need to attract, recruit, develop, and retain business-critical talents, not only in established markets but in new markets where the Vestas brand may not be so well known. To fulfil our strategy, we therefore must build a strong talent pipeline, improve leadership capabilities, and increase diversity to foster sustainable success and growth. We already have around 30,000 skilled and dedicated employees, but we are on a journey and we must do even more to be successful in the future – especially in terms of diversity and succession.

Corporate annual strategy wheel



ExM Executive Management BoD Board of Directors

Vestas is exploring several avenues within Power-to-X, including an innovative Battery Energy Storage Solution (BESS), which is being utilised this year through our partnership activities with the Mercedes-Benz EQ Formula E Team.

Creating the global energy system of the future

For years, renewable power producers, utilities, and policy makers have been grappling with a key question: in a global power system that was designed for the trading and distribution of fossil-fuel generated power, how can we make the transition to a system driven by renewables?

With the renewables industry gaining momentum, and electrification set to trigger huge changes in power consumption, it is a question that requires an urgent answer. In an effort to find a solution and help build a sustainable planet for future generations, at Vestas we are investing heavily to address the technological challenges currently facing the renewables industry.

As part of this process, tackling the twin issues of intermittency and limited dispatchability in renewables is key. Simply put, energy intermittency concerns the fact that renewable energy sources such as wind and solar can only produce power when the wind is blowing and the sun is shining. This poses a challenge to the daily operation of the electricity grid because electricity supply and demand need to be constantly balanced to ensure grid stability. In turn, dispatchability of power refers to power that can be dispatched on demand, with generators adjusting output to local market needs.

At Vestas, Lars Christian Christensen, Vice President of Storage & Energy Solutions, is looking at innovative ways to address the challenge of intermittency. According to Lars Christian: "Critics of renewable energy often present intermittency as a challenge that will make renewable energy unviable as the backbone of the energy system. There's no doubt we need cost of storage and other solutions to drop further, but right now it looks like we need to reach a renewable energy penetration of 70 or 80 percent before costs soar. In the early 21st century we thought costs would soar at five percent, so we're very optimistic."

As the world transitions from a power system designed around large, controllable electric generators to a decentralised system based on renewable energy, there are many ways to address intermittency. Interconnectors, smart grids, Power-to-X, and battery storage will all play a prominent role in this conversation. Vestas is exploring several of these avenues, including Battery Energy Storage Solutions (BESS), as Anders Nielsen, Executive Vice President & CTO, explains:

> "Critics often present intermittency as a challenge, but we're very optimistic."
>
> **Anders Nielsen**
> Executive Vice President & CTO

"Our BESS is a battery energy storage solution, storing renewable, CO_2-free energy generated by Vestas wind turbines. With a capacity of 900 kW and delivery potential of 650 kWh, the battery is linked to the electricity grid, but is also synchronised with Vestas turbines via a data and control link. The battery therefore charges when the wind blows and stores the energy generated when not in use, ensuring the availability of fully sustainable energy."

Although not yet capable of mitigating intermittency in larger grids, BESS is fully transportable and therefore scalable, with the potential to deliver sustainable energy to areas without traditional infrastructure. Just as renewable energy has scaled massively in recent years, we need the same to happen for solutions that enable a decentralised energy grid based on intermittent renewable energy sources.

As Lars Christian concludes: "Solutions like BESS, Power-to-X, and interconnectors are central to ensuring a successful transition toward sustainable energy. As such, BESS is a great example of how we can electrify areas of society, mitigate the use of carbon-based fuels, and address the global climate crisis. It's a small step, but every step counts." ■

Capital structure strategy

The Board of Directors and Executive Management regularly assess whether Vestas' capital structure, i.e. how the company funds its overall operations and growth, is in the shareholders' best interest. They also consider the ways in which it supports the Vestas corporate strategy.

Financial management

In relation to financial management, the objective is to create the necessary flexibility and stability to implement strategic development work, while in the long term achieving a competitive return for the company's shareholders. At the same time, Vestas aims to reduce the cost of capital.

Capital structure targets

As a key player in a market where projects, customers, and wind energy investors are increasing in size and number, Vestas aims to be a strong financial counterpart. Vestas will maintain capital resources to ensure compliance with its capital structure target of net interest-bearing debt to EBITDA below 1x at any time.

> " During 2020, we continued to execute on our strategy, acquired full control of our offshore wind activities, and once again paying dividends to our shareholders. "
>
> **Marika Fredriksson**
> Executive Vice President & CFO

Capital allocation priorities

Vestas applies the following principles to capital allocation:

- Provide the investments and R&D required to realise Vestas' corporate strategy and its long-term vision of being the global leader in sustainable energy solutions.
- Make bolt-on acquisitions to accelerate or increase profitable growth prospects. All investments in organic growth and acquisitions must support Vestas' long-term financial ambition of achieving return on capital employed.
- Pay shareholder dividends based on the Board's intention to recommend 25-30 percent of the company's annual net result after tax, which will be paid out following shareholder approval at the annual general meeting.
- From time to time, initiate share buy-back programmes to adjust the capital structure. Any decision to distribute cash to shareholders will be based on the capital structure target and availability of excess cash. The level of excess cash will be determined in line with the company's growth plans and liquidity requirements. Share buyback programmes, if any, will likely be initiated in the second half of the year based on performance. In years without major investments, most of the free cash flow may be distributed to shareholders through dividends and share buy-backs.

The Board and Executive Management consider that Vestas' current capital and share structure serves the interests of shareholders and the company well. It also provides strategic flexibility to pursue Vestas' vision of becoming the global leader in sustainable energy solutions.

On 1 February 2021, Vestas obtained a Baa1 long-term issuer credit rating with a stable outlook from Moody's Investors Service, Inc.,which will secure access to attractive funding sources.

Progress on sustainability strategy targets

Committed to a leading role in the renewable energy transition, Vestas via its installed capacity of 129 GW helps avoid more carbon emissions than any other company. This creates a unique opportunity for Vestas to help shape the energy market of the future and combat the climate crisis. To make sure Vestas drives change beyond the renewable technology and products, the company has introduced an ambitious sustainability strategy.

This section is dedicated to a high-level description of Vestas' progress on targets connected to its four sustainability strategy goals. Sustainability key figures can be found on page 007, and governance matters are elaborated in a separate section, see page 052. Further information on Vestas' sustainability strategy, corresponding initiatives, general ESG approaches and principles, as well as full reporting for the year can be found in the comprehensive Vestas Sustainability Report 2020.

In 2020, Vestas launched its sustainability strategy, Sustainability in Everything We Do. While Vestas continues to create and service products that are crucial to mitigating climate change, it is also now focused on becoming a fully sustainable company, having made sustainability an integrated part of its day-to-day operations. The company is working to improve the environmental performance of its full value chain, create value for local communities, promote a safe, diverse and inclusive workplace, and lead the transition to a world powered by sustainable energy. To succeed in these ambitions, Vestas is ramping up its efforts to integrate sustainability not only across the business, but throughout its operations and value chain.

Within its new sustainability strategy, Vestas has defined four key goals with connected targets:

Goal no. 1: Carbon neutrality by 2030 – without using carbon offsets

Reducing emissions in own operations

The goal of becoming a carbon-neutral company requires Vestas to reduce carbon emissions in its operations (scope 1 and 2) by 55 percent by 2025 and by 100 percent by 2030, with the year 2019 as baseline. Committed to leading the transition to a world powered entirely by sustainable energy, Vestas will not use carbon offsets to help achieve carbon neutrality.

In August 2020, Vestas' targets for reducing greenhouse gasses in its own operations were validated by the Science Based Target initiative (SBTi). The SBTi confirmed that Vestas' carbon neutrality target is in line with the efforts required to keep global warming to no more than 1.5°C above pre-industrial levels, granting Vestas the most ambitious designation available through the SBTi validation process.

In 2020, Vestas achieved a 33 percent reduction in carbon emissions in its own operations compared to the 109 tonnes emitted in 2019. This reduction was largely the result of sourcing 100 percent of Vestas' electricity consumption across all operations from renewable sources.

In addition, Vestas launched three other initiatives to support the company in reaching carbon neutrality by 2030: switching to plugin-hybrid and electric benefit cars; increasing the use of renewable energy for heating in factories; and replacing service vehicles with sustainably fuelled alternatives. Regarding the latter initiative, Vestas introduced 127 sustainably fuelled service vehicles in 2020.

To support the transition to a fleet of electric cars, in December 2020 Vestas signed a global collaborative framework with Enel X S.r.l., the Enel Group's advanced energy services business line. Through the agreement, Enel X will be providing Vestas with the charging infrastructure to support Vestas' service and benefit car fleets across workplace locations in 15 of Vestas' largest markets.

To date, Vestas' installed fleet has helped to avoid 1.5 billion tonnes of carbon emissions globally, and this years' produced and shipped capacity is expected to discplace 493 million tonnes over its lifetime – placing Vestas as one of the world leaders in preventing CO_2 from being emitted into the atmosphere.

Reducing emissions in the supply chain

Vestas is furthermore dedicated to reduce carbon emissions in its supply chain (scope 3) by 45 percent per MWh generated by 2030, compared to 2019. The company will pursue this goal via a two-pronged strategy, the results of which are only likely to be seen in the long term. On the one hand, Vestas will support its main suppliers in developing strategies to reduce their emissions. On the other hand, the company will have a direct impact on these emissions by focusing on how its products and supply chain are designed.

In 2020, the first ten strategic suppliers were engaged to set carbon emissions baselines and formalise targets within business plans. In 2021, the scope will increase to focus on 27 strategic suppliers. During the Vestas Supplier Forum in November 2020, expectations for 2021 were shared with suppliers. These include an expectation to commit to 100 percent electricity consumption from renewable energy sources, targets for scope 1 and 2 emissions, and the measurement of production waste for products delivered to Vestas. In 2022, suppliers will be expected to commit to scope 3 emission targets.

Furthermore, in 2020 Vestas entered into sustainability partnerships with its suppliers DSV Panalpina A/S and Hempel A/S, systematically and collaboratively working to reduce emissions from transport and coating solutions.

The scope 3 carbon emissions from Vestas in 2020 amounted to 6.49 kg CO_2e per MWh generated, at the same level as was seen in 2019.

Decarbonisation leadership

By the end of 2020, Vestas has installed 129 GW of wind turbines globally. On an annual basis, this energy generation capacity spares the planet around 186 million tonnes of carbon emissions. Via Vestas' total deployed capacity since 1981, it is estimated that 1,492 million tonnes of carbon emissions have been avoided over the years.* The table below provides examples of what this equates to when translated into everyday activities.**

CO_2e avoided

2020		1981-2020
186 million tonnes CO_2e avoided		**1,492 million** tonnes CO_2e avoided
Equivalent to greenhouse gas emissions avoided by **125 million** Passenger vehicles driven for one year		Equivalent to greenhouse gas emissions avoided by **1,007 million** Passenger vehicles driven for one year
Equivalent to CO_2e emissions from **31 million** homes' electricity use for one year		Equivalent to CO_2e emissions from **252 million** homes' electricity use for one year
Equivalent to CO_2e emissions from **23 trillion** smartphones charged		Equivalent to CO_2e emissions from **190 trillion** smartphones charged
Equivalent to greenhouse gas emissions avoided by **63 million** tonnes of waste recycled		Equivalent to greenhouse gas emissions avoided by **507 million** tonnes of waste recycled
Equivalent to carbon sequestered by **0.9 million** km² of forest in one year		Equivalent to carbon sequestered by **7.8 million** km² of forest in one year

* See the Notes to Sustainability key figures on page 135 under the headline "Products" to see the method of calculation.
** These estimates are approximations. The equivalent numbers for passenger vehicles are based on average CO_2 emissions per kilometer and average kilometers driven per EU passenger car according to the European Environment Agency. All other CO_2 equivalencies are calculated with the use of the Greenhouse Gas Equivalences Calculator provided by the United States Environmental Protection Agency.

Goal no. 2:
Zero-waste wind turbines by 2040

Committing to the production of zero-waste turbines means Vestas aims to create a value chain that generates no waste materials. Vestas plans to achieve this goal by developing and implementing a circular strategy for the different phases of the Vestas value chain: design, production, service, and end-of-life. Vestas will present this strategy in 2021.

Today, Vestas wind turbines are on average 85 percent recyclable. However, the wind turbine rotors (blades and hubs) are currently comprised of composite materials which are difficult to recycle. As a first step, therefore, Vestas is working to improve the recyclability of all turbine rotors, with the goal of increasing the recyclability rate of these components from 42 percent in 2019[1] to 50 percent by 2025, and to 55 percent by 2030.

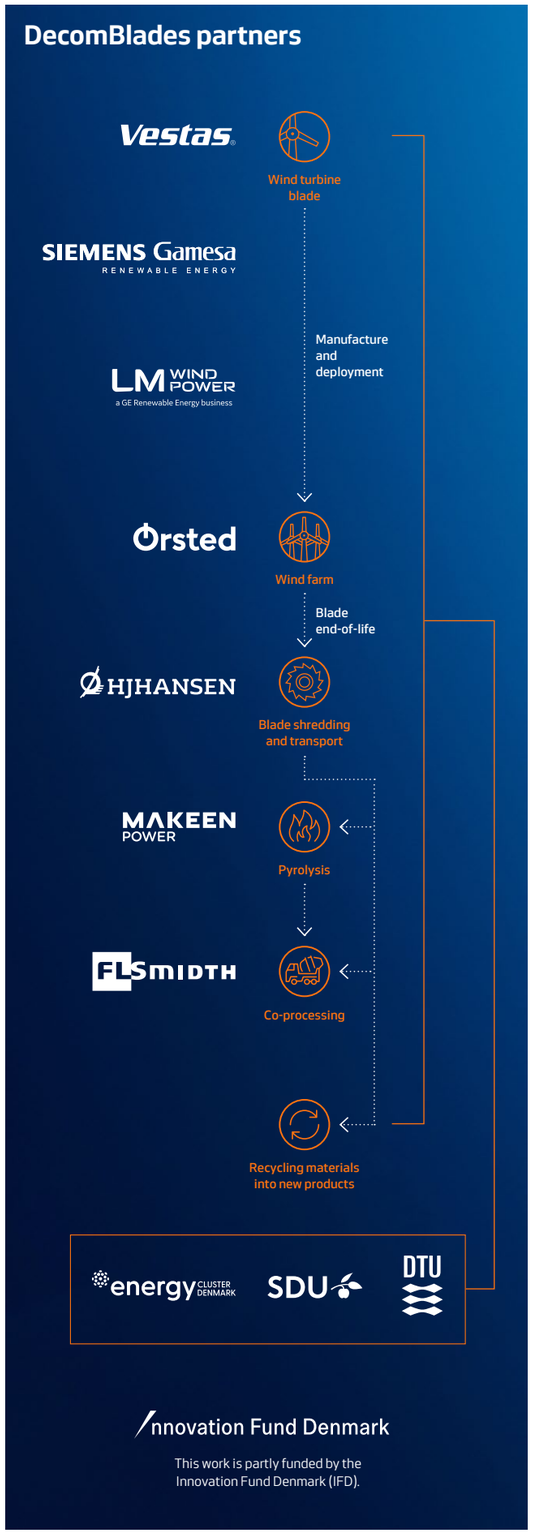
In 2020, Vestas introduced a number of initiatives to increase the recyclability of its wind turbine rotors. As a founding member of the UK's National Composites Centre, Vestas supports the SusWIND project, which was launched in November 2020. This initiative aims to discover viable ways of recycling composite materials in wind turbine blades and explore sustainable materials for new blades.

Furthermore, together with one of its epoxy suppliers, Vestas implemented a project to develop new composite technologies that enable resin dismantling for end-of-life turbine blades. This would potentially enable 'design-for-disassembly' to be integrated into future blade technology.

Then, in January 2021, the DecomBlades project was initiated, focusing on value chains for recycling wind turbine blades reaching their end of life. In collaboration with other major wind turbine manufacturers, recycling companies and knowledge partners, DecomBlades aims to identify one or more sustainable, globally available and economically feasible recycling routes for turbine blades. Specifically, Vestas will support the development of material and value streams for three recycling routes. The recycling technologies will undergo a complete life cycle analysis and mapping for global warming potential. The project runs for three years and is partly funded by the Innovation Fund Denmark.

The means of reaching zero-waste wind turbines cannot be applied quickly, but will need to be developed and tested over time. Vestas therefore does not expect to see a significant increase in recyclability rates in the short term. For 2020, the recyclability rate for Vestas turbine hubs and blades was 41 percent recyclability by weight. The slight decrease results from of a design change, which has optimised the metal content in the turbine hub, after which the blade mass corresponds to a bigger share of the total rotor mass.

> " At Vestas, we have started to realise a future in which sustainability is integrated into everything we do. This work is crucial, not least because the renewables sector has some way to go. As our industry scales, we commit to showing the way for doing so sustainably."
>
> **Henrik Andersen**
> Group President & CEO



1) The 2019 baseline has been updated from 44 percent to 42 percent recyclability due to adjustments in the bill of materials.

Sustainability strategy targets

To become a carbon-neutral company by 2030, without using any carbon offsets

INITIATIVE
Reduce absolute carbon emissions in own operations (scope 1 and 2) without using any carbon offsets

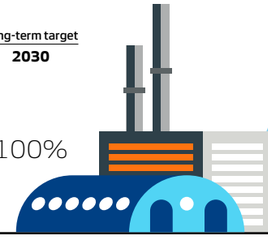
KPI: Percent reduction CO_2e[1]

Baseline 2019	Status 2020	Mid-term target 2025	Long-term target 2030
0%	33%	55%	100%

INITIATIVE
Reduce carbon emissions in the supply chain (scope 3) per MWh generated

KPI: Percent reduction CO_2e per MWh[1]

Baseline 2019	Status 2020	Long-term target 2030
0%	0%	45%

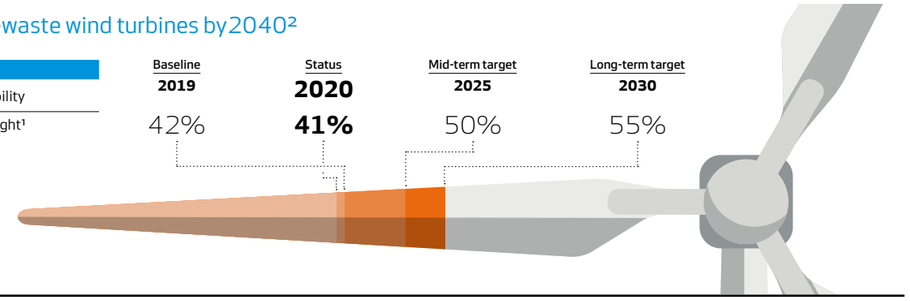


To produce zero-waste wind turbines by 2040[2]

INITIATIVE
Increase blade and hub recyclability

KPI: Percent recyclability by weight[1]

Baseline 2019	Status 2020	Mid-term target 2025	Long-term target 2030
42%	41%	50%	55%



To be the safest, most inclusive and socially responsible workplace in the energy industry

INITIATIVE
Reduce total recordable injuries

KPI: Total Recordable Injury Rate[1]

Baseline 2019	Status 2020	Mid-term target 2025	Long-term target 2030
3.9	3.3	1.5	0.6

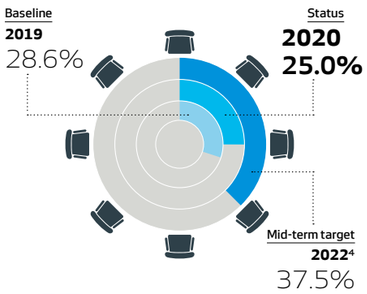
INITIATIVE
Increase the share of women in leadership positions

KPI: Percentage of women in leadership positions[1, 3]

Baseline 2019	Status 2020	Mid-term target 2025	Long-term target 2030
19%	19%	25%	30%

INITIATIVE
Increase the share of women in the Board

KPI: Percentage of women in the Board[1]



To lead the transition towards a world powered by sustainable energy

COMMITMENTS
- To take a leading role in driving electrification and decarbonisation beyond the power sector
- To team up with sustainability leaders to drive change
- To support Vestas' partners in their journey to become more sustainable

ACTIVITIES (ONGOING)
- Driving decarbonisation beyond the power sector, for example through Vestas' collaborations with OK, innovating to charge EVs with renewable electricity
- Driving electrification in the transport sector through the ongoing commitment as Principal Partner of the Mercedes- Benz EQ Formula E Team
- Showcasing leadership throughout the value chain by entering sustainability partnerships, for example with DSV Panalpina and Hempel
- Inviting Vestas' suppliers to join its sustainability journey, for example by supporting them with calculating emissions

1) Absolute figures and accounting principles for these indicators can be found on page 007 and 134 respectively.
2) The 2019 baseline has been updated from 44 percent to 42 percent recyclability due to adjustments in the bill of materials. The decrease from 2019 to 2020 is attributable to a design change in 2020 that has optimised the metal content in the turbine hub after which the blade mass corresponds to a bigger share of the total rotor mass.
3) For diversity and inclusion, the initiative "Expanding access to inclusive leadership and unconscious bias training" was removed as it is considered more of an enabler to the KPI related to women in leadership positions. Since 2020, diversity and inclusion training elements are mandatory in all onboarding processes. Read more in the Vestas Sustainability Report 2020, on page 027.
4) Due to the agreement with Mitsubishi Heavy Industries made in October 2020, the Board has decided to postpone this target to 2022. Read more in the Vestas Sustainability Report 2020, on page 026.

Goal no. 3: The safest, most inclusive and socially responsible company in the energy industry

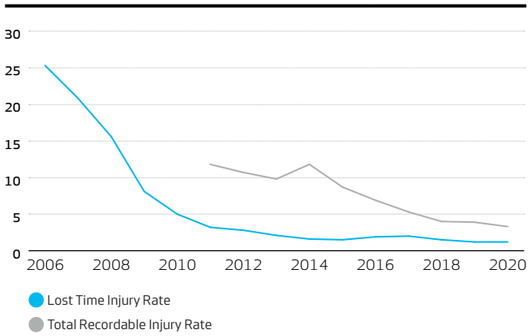
Safety

Every day, Vestas employees manufacture, install and service wind farms all over the world. Without exception, they always operate under the principle of 'safety first' and have done so for the last 15 years. During the same period, Vestas has successfully reduced the occurrence of work injuries by 96 percent, to a Lost Time Injury rate in 2020 of 1.2 per one million work hours. In order to become the safest company in the energy industry, Vestas is committed to reducing its Total Recordable Injury Rate (TRIR) to 1.5 by 2025 and to 0.6 by 2030. These efforts would ensure an overall average TRIR reduction of 15 percent year-on-year.

With a TRIR of 3.3 for 2020, Vestas achieved the targeted 15 percent reduction compared to 2019, and continues to implement initiatives to reduce the occurrence of work injuries. See the Vestas Sustainability Report, pages 022-023 for more information on safety initiatives.

In 2020, during the COVID-19 pandemic, Vestas' priority was to minimise all risks to keep employees safe, while continuing to manufacture, install, and service wind farms around the world. In this way, the company worked to ensure ongoing stable energy supply throughout the global health crisis.

Incidence of injuries
Per million working hours



Diversity and inclusion

At Vestas, more than 100 nationalities work together to achieve the vision of becoming the global leader in sustainable energy solutions. The internal mix of various identities is a major competitive advantage for the company: it brings together multiple perspectives, levels of experience and educational backgrounds, which combine to help expand and deepen access to sustainable energy solutions worldwide. However, if the company is to adequately represent the societies in which it operates, Vestas must be more ambitious. Indeed, Vestas wants to become the most inclusive company in the energy sector and the guarantor of all its employees being able to fulfil their full potential in their job roles all over the world.

As a first step, Vestas is focusing on increasing the share of women in leadership positions to 25 percent by 2025, and to 30 percent by 2030, from the 2019 baseline of 19 percent. The percentage has been stable over a series of years and at the end of 2020, women still occupied only 19 percent of Vestas' leadership positions, suggesting that increased attention to both recruitment and retention of female leaders is necessary. In 2021 a new Values, Inclusion and Wellbeing team will be established to support and drive action on attracting, retaining and developing female talents.

During the year, Vestas commissioned an external pay equity audit of seven major countries to identify potential areas of pay inequality. In conclusion, the audit found no overall structural issues, only identifying pay inequities relating to individual jobs across functions and geographies. Vestas also conducted a review of the company's recruitment processes, provided unconscious bias training for all recruiters, and invested in new technology to help identify biased language in job ads. Further initiatives promoting diversity and inclusion across the company will be launched in the coming year.

In relation to both diversity and governance, in 2017 Vestas set an ambitious target to reach an equal gender distribution in the Board of Directors of Vestas Wind Systems (the Board) by the end of 2021. In April 2020, the General Meeting elected six men and two women to the Board. Therefore, Vestas' Board did not achieve an even gender distribution at the end of the year, as defined by the Danish Business Authority.

As part of the agreement made in October 2020 with Mitsubishi Heavy Industries, Ltd. (MHI), the Board proposes Mr. Kentaro Hosomi, CEO, Energy Systems, MHI, as board member for election at Vestas' Annual General Meeting in April 2021. For this reason, it is unlikely that Vestas will be able to reach its goal in 2021. The Board has therefore decided that the goal of reaching equal gender distribution in the Board will have to be postponed to no later than in 2022 for the purpose of strengthening Vestas' partnership with MHI. Vestas finds it critical to achieve more diversity in its Board and will work towards reaching this goal.

Corporate Social Responsibility

In September 2020, Vestas communicated its commitment to lead the way in social responsibility by adopting a cross-stakeholder approach to business-related human rights in the renewables industry. This commitment, entitled Leading a Responsible and Inclusive Energy Transition, entails three aspects: respecting human rights in Vestas' operations, entering into strategic partnerships to create long-term value and local community engagement, and consolidating Vestas' human rights position in the future energy market.

From 2020 onwards, Vestas will be including CSR performance indicators in its sustainability key figures, further demonstrating its dedication to socially responsible operations at a global level. For more information, see the Vestas Sustainability Report 2020, pages 014-015.

Goal no. 4: Leading the transition to a world powered by sustainable energy

Vestas is committed to leading the global energy transition. The company also aims to take a leadership role in driving decarbonisation and electrification beyond the power sector, forming partnerships with other sustainability leaders to drive change, and supporting its partners on their journey to become more sustainable.

In 2020, Vestas formed a partnership with Danish energy company OK a.m.b.a, piloting the deployment of a High Power Charging Station by the highway outside of Odense, Denmark, that will charge electric vehicles (EVs) through the grid. The station will exclusively use wind-sourced electricity by way of a 900-kW battery that is digitally synchronised to a Vestas turbine.

The system is the first of its kind, and it is hoped the experience and insight gained will pave the way for a wider rollout, further leveraging EVs to help fight the climate crisis.

Furthermore, during the year, Vestas teamed up with several other sustainability leaders to drive change across various industries, emphasising Vestas' conviction that substantial and lasting sustainable change can only be achieved through joint action. Vestas is also actively working with partners such as DSV Panalpina A/S and Hempel A/S to decrease the carbon footprint of Vestas' value chain. Going forward, Vestas will work to leverage the full potential of these partnerships and proactively pursue new collaborative approaches to foster sustainable change.

For more information on how Vestas took a leading role in driving the energy transition in 2020, see the Vestas Sustainability Report 2020, page 016.

Group performance

Financial performance

Group business areas

Vestas

Consolidated

For 2020, Vestas' consolidated numbers comprise Vestas Wind Systems A/S and the subsidiaries over which Vestas exercises control. "Vestas" covers the two business areas: Power Solutions and Service.

MHI Vestas Offshore Wind

MHI Vestas Offshore Wind A/S reported information on a stand-alone basis up until 14 December 2020.

Hereafter, the balance of the joint venture was fully consolidated into Vestas' financials.

Power Solutions

Key highlights 2020

Revenue
EUR 12,764m

EBIT before special items
EUR 397m

Order backlog (onshore)
EUR 15.0bn

Activity levels in the onshore wind power market have been rapidly increasing, and Vestas reached another record high revenue in its Power Solutions business in 2020 of EUR 12.8bn. This also resulted in 17,055 MW produced and shipped and 17,212 MW delivered to the customers. Order intake continued at a high level of 17,249 MW.

Service

Key highlights 2020

Revenue
EUR 2,055m

EBIT before special items
EUR 568m

Order backlog
EUR 23.9bn*

Vestas' service business continues to grow as the installed fleet of Vestas turbines increases and value adding solutions are added. At the end of 2020, Vestas had service agreements in the order backlog with expected future contractual revenue of EUR 23.9bn, an increase of EUR 6.1bn compared to 2019. At the end of the year, Vestas had a total of 117 GW under service across 71 countries.

Offshore

Key highlights 2020

Revenue
EUR 1,379m

Net loss
EUR (92)m

Order backlog (offshore)
EUR 4.0bn

Accounted for as a joint venture until 14 December 2020, MHI Vestas Offshore Wind A/S generated a net loss of EUR (92)m, resulting in a contribution of EUR (46)m to Vestas. The solid order backlog provides a good foundation for activity levels in the coming years, while continuous investments are needed to secure longer term competitiveness.

*The service order backlog includes offshore service orders as of 14 December 2020.

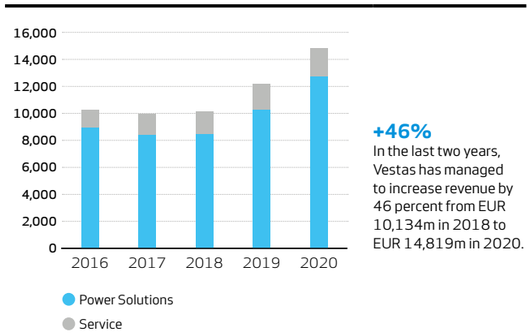
Income statement

Result for the year

Revenue

Revenue in 2020 amounted to EUR 14,819m, an increase of 22 percent compared to 2019, primarily driven by the Americas region. Hence, Vestas closed the year with revenue in the high end of the guidance range of EUR 14bn-15bn. Compared to 2019, revenue included a negative impact of approximately EUR 700m from foreign exchange rate effects.

Revenue
mEUR



+46%
In the last two years, Vestas has managed to increase revenue by 46 percent from EUR 10,134m in 2018 to EUR 14,819m in 2020.

The regions Europe, Middle East, and Africa (EMEA) and Americas accounted for 36 percent and 49 percent of the revenue, respectively, reflecting a slight increase in the Americas' share of revenue compared to last year. Asia Pacific accounted for 15 percent of revenue in 2020.

Regional distribution of revenue
mEUR

	2020	2019
Europe, Middle East, and Africa	5,304	5,442
Americas	7,291	5,259
Asia Pacific	2,224	1,446
Total	**14,819**	**12,147**

Gross profit

Gross profit in 2020 amounted to EUR 1,538m, corresponding to a gross margin of 10.4 percent, a 4.1 percentage point decrease compared to 2019. The decrease was driven by increased cost levels derived from warranty provisions, as well as logistical challenges and supply-chain bottlenecks, amplified by the COVID-19 situation. This was partly offset by improved Service profitability.

Warranty provisions

Warranty provisions in 2020 amounted to EUR 693m, equivalent to a warranty ratio of 4.7 percent of revenue in the year, which was 2.3 percentage points above the ratio in 2019. The increase was mainly caused by extraordinary warranty provisions of EUR 175m in the second quarter and a higher than expected level in the fourth quarter of 2020.

The extraordinary provisions in the second quarter of 2020 were made to cover a specific repair and upgrade of a confined, albeit considerable number of blades that are already installed.

The higher than anticipated level in the fourth quarter of 2020 relates to a bonding failure on blade root inserts. The scope of the replacement costs has been clearly identified, and current and future production is not impacted.

Research and development costs

Research and development costs recognised in the income statement amounted to EUR 265m, slightly below the 2019 level of EUR 268m. The total research and development expenditure prior to capitalisation and amortisation decreased from EUR 372m in 2019 to EUR 331m in 2020, however, partly offset by higher amortisation costs as a result of bringing new technology to the market.

Distribution costs

Distribution costs amounted to EUR 281m in 2020 (2019: EUR 222m). The increase was mainly due to additional depreciation in the supply chain area for transport equipment to handle new blade types and higher activity levels.

Administration costs

Administration costs amounted to EUR 242m (2019: EUR 267m) and constituted 1.6 percent of revenue in 2020, a decline of 0.6 percentage points compared to 2019.

Depreciation, amortisation, and impairment

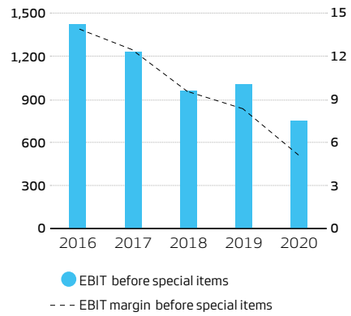
Depreciation, amortisation, and impairment amounted to EUR 641m before special items in 2020 (2019: EUR 546m). The increase was primarily a result of recent years' higher capitalisation of costs related to the development and introduction of new technologies and product variants, including transport equipment.

Operating profit (EBIT)

EBIT before special items amounted to EUR 750m in 2020 (2019: EUR 1,004m), equivalent to an EBIT margin of 5.1 percent before special items, which is within the guidance range of 5-7 percent. The EBIT margin before special items decreased by 3.2 percentage points compared to 2019 mainly driven by the lower gross profit margin as well as higher distribution costs.

EBIT after special items amounted to EUR 698m with costs in special items of EUR 52m in 2020. Special items were the outcome of the decision in the first quarter to optimise and simplify the product portfolio for the coming years, resulting in cost of impairment of capitalised development costs and associated equipment, purchase commitments with suppliers, and lay-offs.

Operating profit (EBIT) before special items
mEUR · Percent



EBIT has seen a decreasing trend
EBIT has been decreasing due to a highly competitive market as well as other external factors, putting pressure on profitability in the market.

Income from investments in joint ventures

Income from investments in joint ventures amounted to a profit of EUR 331m in 2020 (2019: EUR 3m). This relates mainly to a net impact of positive EUR 383m in relation to Vestas' acquisition of Mitsubishi Heavy Industries, Ltd. (MHI)'s shares in the MHI Vestas Offshore Wind joint venture driven by the remeasurement of the value of Vestas' existing 50 percent ownership. Furthermore, a net loss of EUR 46m derived from Vestas' share of the result in MHI Vestas Offshore Wind A/S on a standalone basis until closing of the acquisition 14 December 2020,

driven by a change in the assessment of the need for warranty provisions for offshore activities (2019: EUR 3m profit). These effects were partly offset by elimination of profit related to co-development projects in the USA.

Net financial items
Financial items for 2020 amounted to negative EUR 95m (2019: negative EUR 98m) and comprised interests, fees, and currency related items.

Income tax
Income tax amounted to EUR 163m, equivalent to an effective tax rate of 17 percent (2019: 23 percent). The decrease in the effective tax rate compared to 2019 was primarily due to the non-taxable gain from Vestas' acquisition of MHI's shares in the MHI Vestas Offshore Wind joint venture and from reductions in provisions and valuation allowances on tax assets offsetting a negative effect from generally higher statutory tax rates in the countries where Vestas operates.

Profit for the year
Profit for the year amounted to EUR 771m in 2020 (2019: EUR 700m). The increase compared to the year before was mainly a result of higher income from investments in joint ventures.

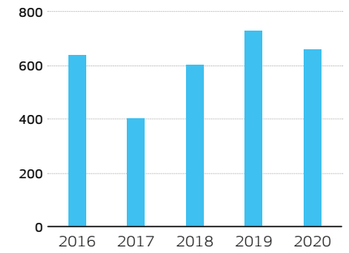
Profitability ratios
Earnings per share amounted to EUR 3.90 in 2020, an increase of EUR 0.33 compared to 2019, benefitting from a gain in relation to Vestas' acquisition of MHI's shares in MHI Vestas Offshore Wind A/S. Return on capital employed (ROCE) was 13.5 percent in 2020, a decline compared to 19.7 percent in 2019. The negative development can be attributed to an increase in total equity and financial debt, as well as lower EBIT. Return on equity was 21.4 percent in 2020 (2019: 22.1 percent), a decrease of 0.7 percentage points, which can also be attributed to a higher equity balance relative to increased earnings.

Working capital and cash flow
Net working capital
Net working capital amounted to a net liability of EUR 1.1bn as at 31 December 2020, which was EUR 0.5bn below net liability at the end of 2019 of EUR 1.6bn. During 2020, the level was negatively impacted by an increased level of inventories only partly offset by higher down- and milestone payments from customers and trade payables towards suppliers.

Cash flow from operating activities
Cash flow from operating activities was EUR 743m in 2020, a decrease of 10 percent compared to last year. The decrease was mainly driven by the above-mentioned negative development in net working capital during 2020 and a higher consumption of warranty provisions.

Cash flow from investing activities before acquisitions
Cash flow from investing activities amounted to a net outflow of EUR 659m compared to an outflow of EUR 729m in 2019, a decrease driven mainly by the decision in the first quarter of 2020 to optimise and simplify the product portfolio for the coming years. This excludes acquisitions of subsidiaries, financial investments, and the acquisition of MHI's shares in MHI Vestas Offshore Wind.

Net investments
mEUR



Investing in the future
From 2016 to 2020, Vestas has been increasing the investment level to stay ahead of the curve – developing the next generation wind turbines.

Free cash flow
Free cash flow, excluding acquisitions of subsidiaries, financial investments, and the acquisition of MHI's shares in MHI Vestas Offshore Wind, amounted to positive EUR 84m (2019: EUR 94m).

Acquisition of strategic targets
On 29 of October, Vestas announced that it would acquire MHI's shares in the MHI Vestas Offshore Wind joint venture, against MHI acquiring 2.5 percent in Vestas and being nominated to a seat in Vestas Wind Systems A/S' Board. The transaction was approved by relevant authorities on 27 November 2020, with closing taking place 14 December 2020, where MHI received a total of 5,049,337 shares in Vestas following a capital increase. As of 14 December, the balance of the joint venture was fully consolidated into Vestas' financials. Offshore revenue in the period from the closing on 14 December to 31 December amounted to EUR 100m, with insignificant impact to EBIT. This impact has been fully consolidated in Vestas' income statement for 2020.

Furthermore, in December 2020, Vestas announced that it had entered into an agreement with the investment management company Copenhagen Infrastructure Partners P/S (CIP), whereby Vestas will acquire a 25 percent minority stake in CIP's parent companies. The stake will be acquired at a price of EUR 500m, in the form of EUR 180m as upfront payment, and EUR 320m as an earn-out payment. The transaction was completed in the beginning of February 2021, and therefore has had no impact to Vestas' income statement and balance sheet for 2020.

Capital structure and financing items
Equity and solvency ratio
As at 31 December 2020, total equity amounted to EUR 4,703m, an increase from the year before of EUR 1,358m, which can be attributed to a positive net result of EUR 771m and a EUR 861m impact from the capital increase in relation to the agreement with MHI. These effects were also the main drivers of Vestas' solvency ratio at 31 December of 25.9 percent compared to 23.3 percent the year before.

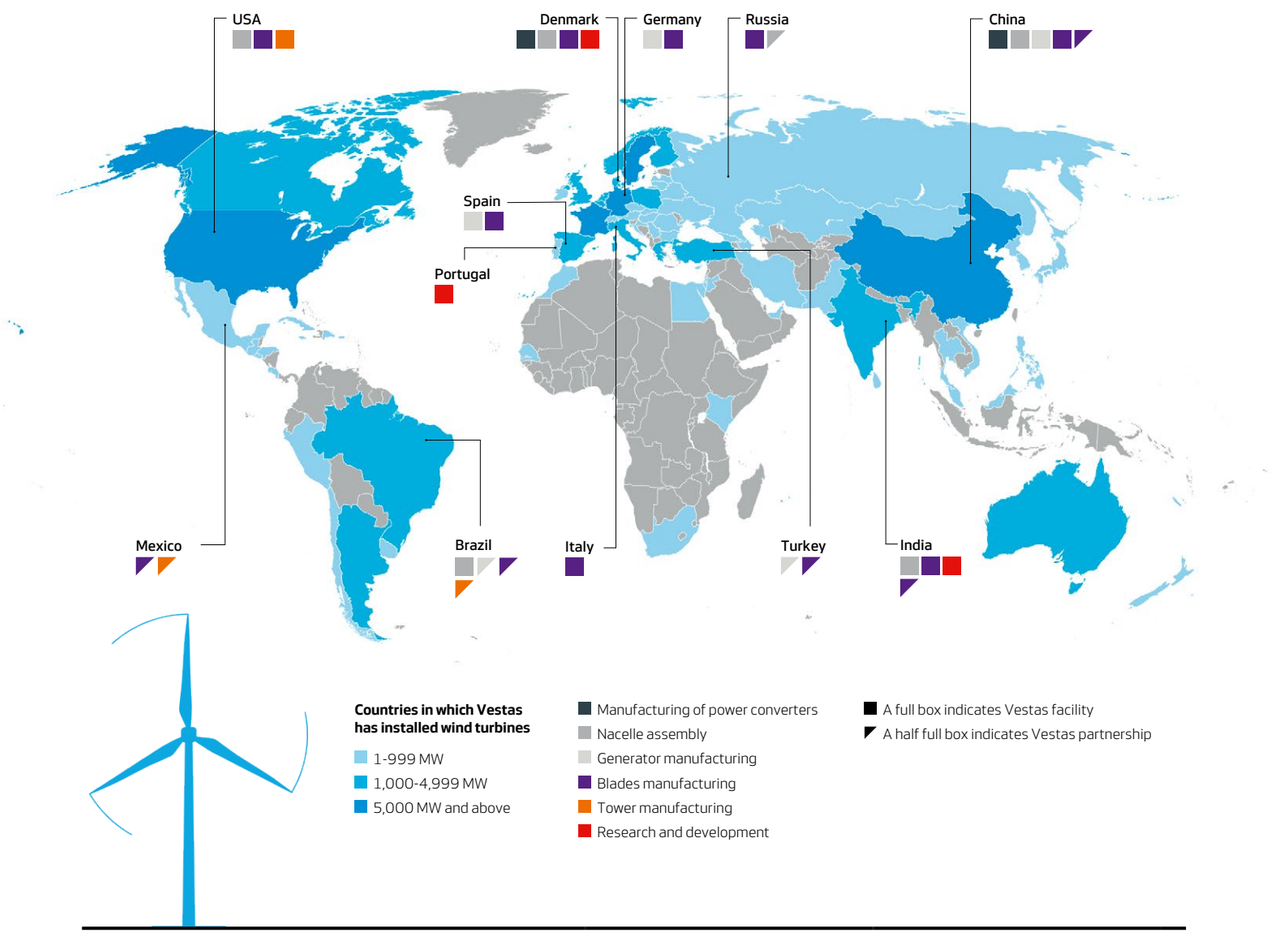
The strength of the balance sheet, combined with the results achieved in 2020, has led the Board of Directors to recommend a dividend of DKK 8.45 (EUR 1.14) per share, equivalent to 30.0 percent of the net result for the year after tax.

Net interest-bearing position and cash position
As at 31 December 2020, Vestas' net interest-bearing position was positive of EUR 1,920m, a decline of EUR 532m compared to 2019. This development was primarily the result of the consolidation of the acquired offshore business and dividend payment in 2020. Cash and cash equivalents amounted to EUR 3,063m as of 31 December 2020 (2019: EUR 2,888m).

The ratio net interest-bearing debt/EBITDA was (1.4) as at 31 December 2020 compared to (1.6) end of 2019. This slightly negative development was driven by the decline in net interest-bearing position, partly offset by lower operating profit (EBITDA). The ratio remains well below the capital structure target of a net interest-bearing debt/EBITDA ratio below 1x.

Power Solutions

Global footprint



Countries in which Vestas has installed wind turbines

- 1-999 MW
- 1,000-4,999 MW
- 5,000 MW and above

- Manufacturing of power converters
- Nacelle assembly
- Generator manufacturing
- Blades manufacturing
- Tower manufacturing
- Research and development

- A full box indicates Vestas facility
- A half full box indicates Vestas partnership

	Americas	Europe, Middle East, and Africa	Asia Pacific
Revenue	EUR 6,588m	EUR 4,163m	EUR 2,013m
Order intake – firm and unconditional orders	6,403 MW	7,417 MW	3,429 MW
Deliveries	8,949 MW	5,289 MW	2,974 MW
Order backlog – firm and unconditional orders	7,979 MW	13,123 MW	3,528 MW
Wind turbines delivered in	9 countries	23 countries	8 countries

Financial performance

Result for the period

In 2020, revenue from Power Solutions amounted to EUR 12,764m (2019: EUR 10,276m), continuing the strong growth in past years. This was primarily driven by high activity levels in the Americas, and particularly the USA.

EBIT before special items from Power Solutions amounted to EUR 397m, a 46 percent decrease compared to 2020. Consequently, the EBIT margin before special items was 3.1 percent (2019: 7.2 percent). This decrease was primarily attributable to increased cost levels derived from warranty provisions, as well as logistical challenges and supply-chain bottlenecks, amplified by the COVID-19 situation.

Order intake

In 2020, onshore order intake amounted to 17,249 MW, slightly down from the record-high level in 2019 of 17,877 MW, but with demand for wind power and Vestas' wind power solutions globally continuing to be strong. The order intake in 2020 corresponded to EUR 12.7bn (2019: EUR 13.8bn) and resulted in an average selling price of EUR 0.74m per MW.

Europe, Middle East, and Africa accounted for 43 percent of the order intake, and the region continues to be important for Vestas, with countries such as Poland, UK, and the Netherlands offsetting a declining order intake in Finland.

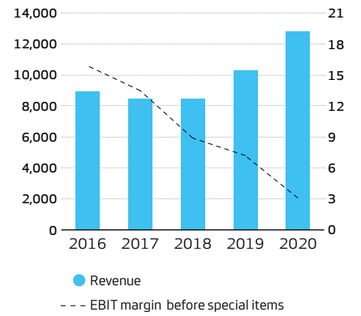
The Americas region has as expected been negatively impacted by a lower level of orders in the USA, but partly offset by a higher order intake in Brazil and Colombia. Americas accounted for 37 percent of the total Vestas order intake.

Asia Pacific has seen a growing order intake in 2020 and accounted for 20 percent of total order intake. This has mainly been led by China, where 2020 marked the last year in which customers could receive feed-in-tariffs.

Order backlog

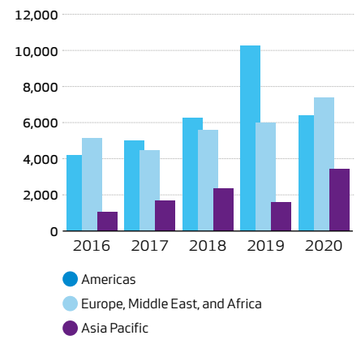
At the end of the year, the total wind turbine order backlog amounted to 24,630 MW, corresponding to EUR 19bn. Of this, 21,048 MW relates to onshore wind turbines, corresponding to 15bn. Compared to last year, the onshore order backlog in MW increased by 17 percent. The average price per MW in the backlog of onshore turbines was EUR 0.72m in 2020.

Revenue and EBIT margin before special items
mEUR · Percent



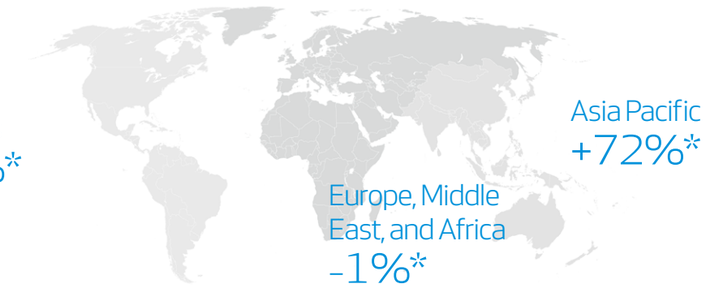
+51%
Revenue in Power Solutions increased 51 percent from 2016 to 2020, while profitability decreased due to a competitive market as well as other external factors.

Order intake
MW



+65%
Vestas' order intake increased 65 percent from 2016 to 2020 with strong growth across all regions.

Deliveries in 2020 – to 40 countries
MW



* Compared to 2019.

Americas	
USA	6,779
Brazil	1,236
Chile	249
Argentina	240
Mexico	194
Canada	130
El Salvador	46
Panama	40
Bolivia	35
Total	**8,949**

Europe, Middle East, and Africa					
Norway	792	Netherlands	270	United Kingdom	78
France	679	Finland	222	Kazakhstan	48
Germany	499	Saudi Arabia	159	Jordan	40
Sweden	424	Belgium	140	Portugal	34
Poland	413	Spain	135	Senegal	23
Russian Fed.	390	South Africa	132	Ukraine	8
Turkey	324	Denmark	92	Austria	3
Greece	297	Italy	87	**Total**	**5,289**

Asia Pacific	
China	1,465
Australia	898
Vietnam	199
South Korea	107
New Zealand	95
Sri Lanka	80
India	68
Taiwan	62
Total	**2,974**

Global trends in the onshore wind power market

The global market for wind energy continued to experience strong demand going into 2020. Consequently, the volume of annual installed onshore wind power capacity is expected to have increased to a record high of 71 GW during the year (2019: 56 GW).[1] This represents an increase of 27 percent compared to 2019 and is expected to be supported by all major regions, especially the Americas and Asia Pacific.

Europe, Middle East, and Africa saw increased installation levels in Scandinavia, Germany, and Eastern Europe, primarily Poland and Ukraine. Installations in the Americas were driven mainly by the USA, where projects which previously qualified for the full Production Tax Credit (PTC) created record activity levels nationally. Installations in Asia Pacific were primarily driven by China, where the feed-in-tariff system has now been phased out and will, as in most major wind power markets globally, be replaced by an auction system from 2021 onwards.

Wind power as critical infrastructure

Throughout 2020, as strong growth in demand for wind power coincided with the disruption of global value chains caused by the global pandemic, the major challenge facing the entire wind power industry was to secure business continuity. To this end, by delivering the strongest annual installation volumes in wind power's history, keeping thousands of people employed and securing a stable energy supply, the industry confirmed its position as a provider of critical infrastructure.

Consequently and due to renewable electricity generation being cost competitive, countries and corporations continued to raise the bar on sustainability, and renewable energy was made a vital component of economic reset programmes around the world. During the year, investments were increasingly canalised towards renewable energy, presenting a major opportunity for wind turbine manufacturers and their customers.

Developments in Power Solutions during the year

One of the priorities for Vestas' Power Solutions business during the year was to deliver on its customer commitments while keeping all Vestas employees safe. In a challenging year, the Power Solutions business achieved this goal, and successfully delivered the largest number of wind turbines to customers in the company's history.

These delivery volumes also meant that Vestas continued to reach new levels of operational scale, with a close to 60 percent increase in deliveries to customers in just two years. The foundations are now in place to capture the future potential of the Power Solutions business, with wind power's place in society and in the global energy mix firmly established.

Opportunities arising in new markets

Vestas has already established itself as the global leader in wind in most mature onshore markets. While these markets are expected to continue generating strong demand, Vestas must also continue to grow its presence in areas where it has not traditionally operated.

During 2020, Vestas expanded the number of countries in which firm and unconditional orders have been secured. These included, among others, Colombia, a country with great wind power resources. In fact, some relatively new countries ended up contributing significantly to the total order intake for the year. Vietnam, for example, which up until late 2019 was an almost unexplored wind power market, generated more than 1.1 GW in firm order intake in 2020, representing 6 percent of Vestas' total order intake.

Winning in these new and developing markets presents a great opportunity and requires collaboration across all Vestas' functions. Market specific strategies are defined for each country, driven by strong on-the-ground local teams with full support from global functions. The application of Vestas' Social Due Diligence methodology then ensures local communities are engaged respectfully and inclusively, thereby securing the best possible project outcomes on multiple levels.

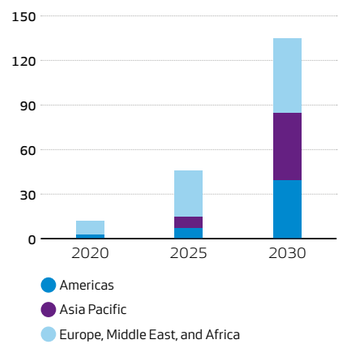
> " Vestas has once again proven its leadership in the onshore wind market with orders across 30 countries and presence in 83 countries in total, creating a unique understanding of global wind markets to better meet customer needs."
>
> **Juan Araluce y Martinez de Azagra**
> Executive Vice President & CSO (Sales)

Repowering

The market for repowering older assets within ageing wind turbine fleets offers a promising outlook due to the improved economics of onshore wind energy. Furthermore, repowering such assets will be critical to sustaining renewable energy generation, and thereby also tremendously important for those countries with an already sizable installed fleet, enabling them to meet their future sustainability targets.

Although still in its infancy, and primarily centred around Europe and the USA, repowering is expected to be a significant driver of demand in the coming decade. In some core European markets, like Denmark, Austria, and the Netherlands, repowering is expected to account for approximately 50 percent of new installed capacity by 2030, pointing to increased opportunities as other countries reach the same level of maturity.

Ageing of the installed base towards 2030
GW onshore



Increasing opportunities in repowering
In 2020, 10 GW of the worldwide installed fleet was between 20 and 25 years old. In 2025 and 2030, this will increase to 37 GW and 118 GW, respectively.

Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2020.

During 2020, Vestas received a number of orders in connection with the repowering of older wind farms. In the Netherlands, for example, Vestas developed a project in close collaboration with more than 200 local farmers, residents, and entrepreneurs. The wind park currently consists of more than 200 wind turbines, which will be replaced by new Vestas turbines. The project will generate almost three times more energy with less than half the number of turbines, demonstrating the significant value in replacing older wind power assets with new and more efficient variants.

By utilising the newest technology available, repowering is vital to sustaining wind power's growing share of the energy mix, and to securing future stability in the global energy system.

Transforming commercial capabilities

As the energy industry evolves along with the proliferation of renewables, the opportunity to capture more value across the value chain increases. An increasingly diverse customer landscape has created the need for more flexible offerings, including hybrid solutions and wind farm development.

During 2020, Vestas continued to strengthen its capabilities in the development of wind power projects. While continuously increasing its own pipeline of development and co-development projects in 2020, Vestas further established a dedicated development business unit to expand the spectrum of project opportunities for existing customers.

Vestas and Copenhagen Infrastructure Partners P/S further agreed for Vestas to acquire a 25 percent ownership stake in the investment management company to expand its presence in renewable project development, and engage with areas of the renewables value chain that lie beyond its existing footprint.

Manufacturing and supply chain capabilities

2020 was without doubt a very busy year for Vestas' manufacturing and supply chain. The clear priority to deliver on the promises made to customers, without jeopardising the health and safety of Vestas' employees, was the guiding star during this period. Consequently, Vestas managed to deliver a record-high 17,212 MW of wind turbines to customers, far exceeding previous years' levels, across 40 countries and 6 continents. Within this context, the unmatched global reach and scale of Vestas' manufacturing and supply chain footprint was, and continues to be, of the utmost importance.

Scaling the supply chain to new levels

While the last couple of years have presented multiple challenges and increased complexities, including both trade restrictions and the global pandemic, Vestas has managed to remain focused and ramp up its manufacturing and supply chain activities. In particular, during 2020 Vestas increased its capabilities in India, China, and Brazil.

The annual capacity of produced and shipped wind turbines consequently increased to 17.1 GW (2019: 12.6 GW). The majority of the produced and shipped turbines comprised upgraded variants of the 4 MW platform (the V136-4.2 MW™ and the V150-4.2 MW™ turbine), highlighting the need to expand and accelerate new turbine production.

Investing in the supply chain and future partnerships

To serve a truly global and growing marketplace for sustainable energy solutions, and to secure industry-leading profitability, Vestas needs to leverage its size, scale, and volume. For this reason, Vestas is always actively looking for strategic partners. In many parts of the value chain, these partnerships have been key to delivering strong growth in recent years, and will help to secure the scalability and flexibility of the Vestas business model going forward. In recent years, this is exemplified by increased outsourcing of important components such as blades, for which Vestas now has global partnerships with suppliers, while also continuing manufacturing in-house.

Another key element of the wind turbine supply chain is transportation. In January 2020, Vestas entered into a strategic partnership with DSV Panalpina A/S in an effort to develop more efficient transportation and logistics solutions. The partnership seeks to combine DSV Panalpina's global range of supply chain services with Vestas' volume and unparalleled experience in special project transportation. Each year, Vestas receives around 500,000 inbound shipments and uses more than 900 vessels. To mitigate the environmental impact of these shipments, the partnership also includes a mutual commitment to reduce and eliminate CO_2 emissions related to transport and logistics.

Partnerships serve as an import enabler for Vestas to maintain its true global scale and comply with localisation requirements. It also presents an opportunity to partner with companies supporting the renewable transformation in order to accelerate the vision of being the global leader in sustainable energy solutions.

Focus on quality

Vestas continues to lead the industry, expanding its product portfolio and introducing modular technology to efficiently meet customer demand. Recent years have seen an acceleration of new product development and an increased focus on cost reduction. Consequently, Vestas has doubled the number of blade variants developed in the past three years, while at the same time significantly increasing activity levels. This has naturally resulted in challenges linked to production ramp-ups and delivery plans across the value chain, including increased rework and repairs, process immaturity, and general delays in new product launch and execution. In order to overcome these challenges and secure Vestas' long-term competitive edge in turbine technology, quality needs to be at core of the company's priorities and operations at all times.

As a result, Vestas is addressing existing and potential future challenges across the value chain and develops a plan for how to overcome these. By finding, analysing, and addressing the root causes and ensuring focus on successful handovers in the value chain, Vestas will be better at getting things right the first time by adhering to processes and fast identify, correct, and learn from mistakes when they occur. Finally, Vestas will leverage successes from its journey in safety to create a culture where all employees proudly take ownership of quality.

> " We have managed to grow our deliveries 34 percent to record-high levels in a year of extraordinary circumstances. This highlights the flexibility and scalability of Vestas' global manufacturing and supply chain setup."
>
> **Tommy Rahbek Nielsen**
> Executive Vice President & COO

Modularising wind power technology

With the development and 2019 launch of the EnVentus™ wind turbine platform, Vestas reached a milestone in its journey towards modularisation. Compared to the 2 MW and 4 MW platforms, which share 20 percent components, the EnVentus™ platform is fully modular, making the development of variants more efficient. The new modular approach represents a fundamental change in how wind power products are developed, sourced, manufactured, and serviced. Indeed, modularity enables Vestas to accelerate the delivery of affordable and reliable renewable energy solutions.

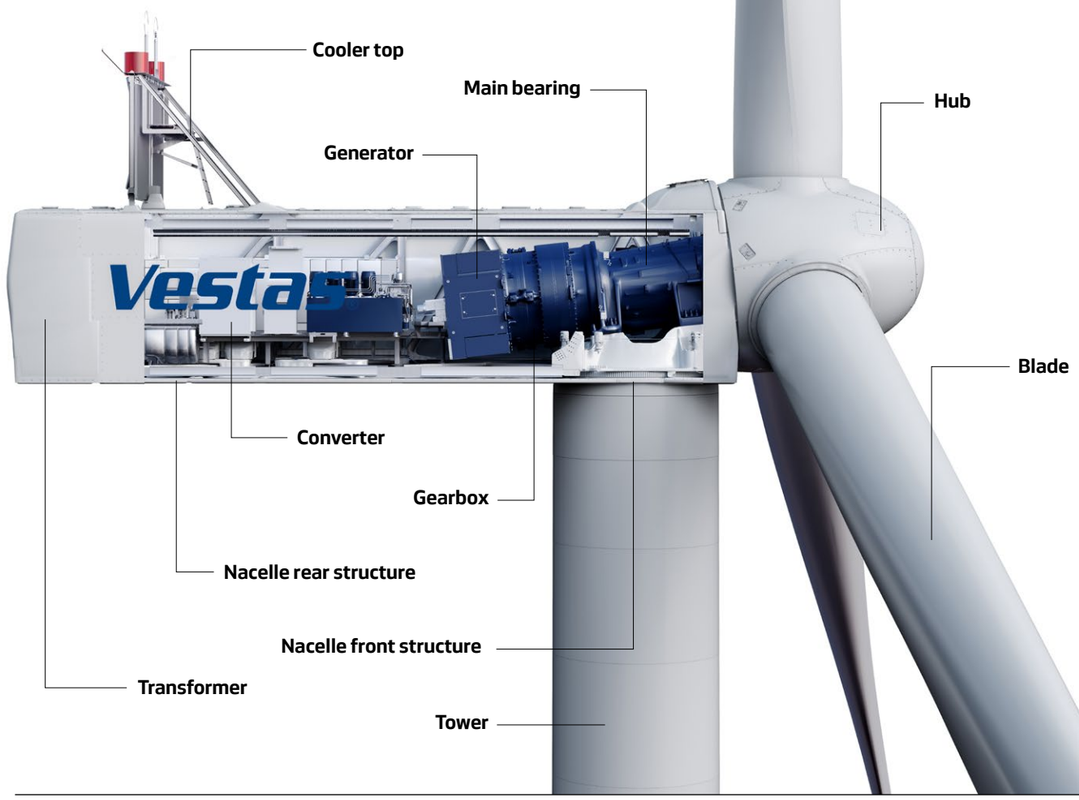
In 2020, Vestas took another significant step on its modularisation journey, introducing a new operating model within Vestas' technology division. The simplified organisational setup includes an increased focus on products, reduced organisational layers, and new ways of working. It also enables full value chain integration in design decisions, as well as an improved flow of customer, market and value chain requirements for product and module response.

Also in 2020, Vestas' modularisation efforts delivered prototype installations of the EnVentus™ platform's two first product variants, the V162-5.6 MW™ and the V150-5.6 MW™. In addition, Vestas' continued focus on innovation and product development allowed for the two variants to be upgraded to a 6.0 MW standard rating, delivering an increase in energy production of more than three percent. A strong focus on execution and long-term competitiveness also means that Vestas needs to bring the right products to the market at the right time and cost. In 2020, this led Vestas to optimise parts of its product portfolio, including the cancellation of certain technology projects as an assessment showed the return on investment would not be satisfactory.

1) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2020.

Modularisation

Combining standard modules into new products increases product variety. Unlike the more conventional way of developing turbine solutions, the modular product design approach allows for synergies across platforms and variants. Besides a consistent and comprehensive value chain and product life cycle focus, one of the main enablers for achieving modularity benefits is the principle that the different variants share configuration modules. This reduces costs across the value chain and throughout the product life cycle, enabling Vestas to increase its product offerings and bring new product variants to market quicker. Modularity is a fundamental new structural architecture; it provides multiple benefits in terms of developing, sourcing, manufacturing, servicing, and upgrading power solutions.



While the EnVentus™ platform architecture continues to lay the foundation for future Vestas turbine development, and while the modular architecture approach creates synergies across platforms, Vestas' 2 MW and 4 MW variants remain highly competitive. 2020 also saw the launch of the V155-3.3 MW™ turbine for the 4 MW platform, specifically designed with a large rotor-to-rating ratio to improve partial load production in low-wind conditions, such as those found in the USA and India. These innovations highlight Vestas' increased focus on delivering product variants to specific market segments.

EnVentus™ variants are Vestas' first modular offering and have gained a strong foothold in the market. However, more solutions are underway, and modular product development is shaping the future of wind energy. At the forefront of these developments, Vestas strengthened its position as industry leader during 2020, and took further steps towards realising its vision of becoming the global leader in sustainable energy solutions.

Rethinking recycling

One of the four pillars of the Vestas sustainability strategy is circularity. The development and manufacturing of wind turbines in Vestas' Power Solutions plays a vital role in the company's drive to produce zero-waste turbines by 2040. Today, Vestas turbines are approximately 85 percent recyclable, with the blades presenting the main barrier to achieving full circularity. In 2020, Vestas engaged in various projects to address this issue.

One such project is DecomBlades, a cross-industrial and interdisciplinary project which will run for three years, with the aim of increasing the value of recycled materials and thereby set economic incentives for recycling wind turbine blades.

Safety first: business continuity during COVID-19

While COVID-19 has caused significant job losses and supply chain stagnation across the world, global demand for a stable and reliable energy supply has remained consistent. Through an agile pandemic response framework, Vestas navigated rising infection rates throughout 2020 which presented a considerable risk to the safety of Vestas' employees, as well as local lockdown measures, which threatened to compromise our operations.

Faced with these unprecedented circumstances, we appointed a global crisis management team to develop a globally applicable safety protocol to guide our organisation through unexpected disruption. Thanks to several local governments acknowledging the critical role we play in supporting global energy infrastructure, we were able to protect both the safety and livelihoods of our employees around the world, while continuing to deliver on our commitments to support the countries that rely on us.

Safeguarding health, employment and continuity in highly affected regions

When an unexpected governor's decree in March halted production operations in our assembly factory in Ceará, Brazil, our local teams were able to respond quickly. Leveraging a globally aligned Pandemic Response Plan, already successfully implemented across Europe, we secured official confirmation within just a few days. Our production management team in Ceará then worked to ensure the necessary safety measures were in place, aligning with both local guidelines and Vestas' global recommendations.

"Since lockdown measures were introduced in mid-March," says Sandro Leite, Production Manager in Brazil, "our primary focus was to keep business running as close to normal as possible." As Sandro explains, the team divided operations into smaller sub-sections to ensure employees could maintain physical distance as they worked. "We appointed process instructors to carry out safety communications. We learned that effective communication is key to maintaining morale and preventing misinformation. Of course, this was an adjustment, but thankfully we were able to adapt quickly with the support of the Vestas Pandemic Response framework and global decision trees."

In India, fluctuating infection rates led to stringent restrictions in the state of Gujarat, where Vestas operates a factory in Ahmedabad. For production management staff, this created an increased need to maintain a steady flow of communication between team members, despite physical distancing measures. These efforts helped to ensure that new information was shared effectively, and the concerns of all employees were addressed quickly.

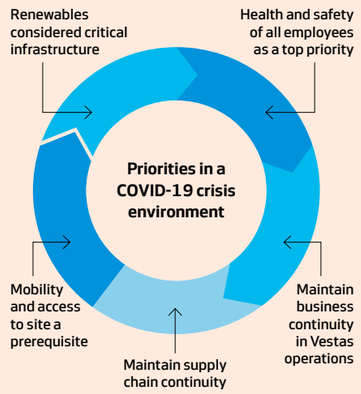
"Across the factory, we operated a safety-first, work-next approach," says Kundariya Ayushi M, EAM Planner in India. "We introduced several measures to promote physical distancing, from additional transport to motel accommodation for critical employees. But the main innovation was communication; to keep my team feeling reassured, I introduced several new channels of communication, from WhatsApp groups to digital conferences, to help compensate for the physical distance."

> "We learned that effective communication is key to maintaining morale and preventing misinformation."
>
> **Sandro Leite**
> Production Manager, Brazil

Looking ahead

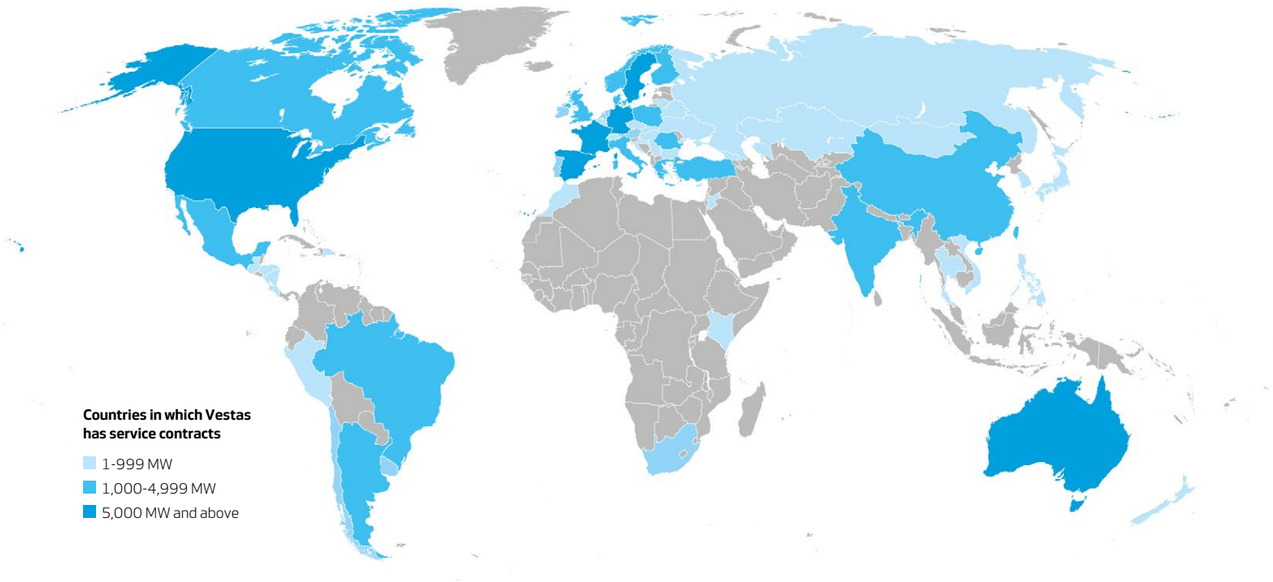
The key to Vestas' safety and continuity approach throughout the pandemic was to ensure that new processes were scalable and that governance structures remained agile. With circumstances constantly evolving, it was crucial to create processes that supported quick adaptation. Going forward, Vestas will build on this foundation to ensure that renewable energy continues to play an influential role within the global energy system. As our footprint across Brazil and India increases, we aim to continue driving job creation, higher green energy penetration, and overall resilience for these regions in the future.

The pandemic has forced a new normal on modern life and modern business. At Vestas, our vision is to maximise safety and support to ensure we continue to thrive in this new reality, maintaining strong communications, protecting the health of our employees, and salvaging business continuity to the fullest extent possible. This work can be further supported by the prioritisation of renewable energy in economic recovery measures. The achievement of global climate goals will require ongoing production and service operations across the renewable industry's value chain, enabling the sector to scale to meet a larger share of global energy demand. ■



Service

Global footprint



	Americas	Europe, Middle East, and Africa	Asia Pacific
Revenue	EUR 703m	EUR 1,141m	EUR 211m
Share of the region's total revenue	10%	22%	9%
Under service	46 GW	57 GW	14 GW
Expected contractual revenue of order backlog	EUR 7,316m	EUR 13,751m	EUR 2,825m
Firm service contracts in	20 countries	40 countries	12 countries

Financial performance

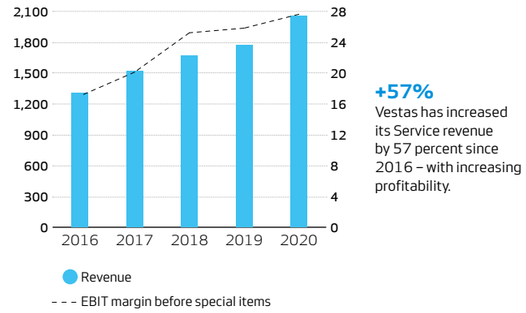
Result for the period

In 2020, the onshore service business generated revenue of EUR 2,055m, which equals a year-on-year growth rate of 10 percent. The organic growth rate excluding translation exchange rate impact was 13 percent in 2020. The revenue in the service business continues to be positively impacted by the growing fleet of installed wind turbines, which has seen a strong increase over the last five years.

Profitability in the service business continues to be at a high level, and in 2020, the EBIT margin increased to 27.6 percent (2019: 25.8 percent). This development was primarily driven by reliable performance of wind turbines under service contracts as well as efficient cost management and Vestas' industry-leading global scale.

Revenue and EBIT margin before special items

mEUR · Percent



+57%
Vestas has increased its Service revenue by 57 percent since 2016 – with increasing profitability.

Order backlog

At the end of 2020, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 23.9bn, which is an increase of EUR 6.1bn compared to 2019. This provides the service business with strong visibility and the ability to continue the reduction of the cost of maintenance for wind turbines.

Going forward, all offshore service activities will be integrated into Vestas' service business. Of the EUR 23.9bn service order backlog, EUR 3.4bn is a reflection of Vestas acquiring full control of MHI Vestas Offshore Wind.

Global trends in the onshore wind power service market

The strong growth witnessed in onshore wind power installations in recent years continues to fuel growth in the global wind power service market. In 2020, it is estimated that cumulative installed capacity grew 12 percent to 660 GW.[2]

This growth offers both opportunities and challenges as the market becomes more mature. It also means greater stability and predictability will be required for wind power as an energy source, as it penetrates a larger portion of the overall energy mix. Within this context, wind power service solutions play a crucial role, and scale will continue to be critical for service providers. As the focus on life cycle costs increases, Vestas continues to improve its service capabilities to deliver maximum value to customers.

Becoming part of the critical infrastructure

Together with other renewables, wind power is on track to become the foundation of the global energy system. The service of wind turbines is consequently playing an increasingly central role in ensuring a sustainable, cost-competitive, and reliable energy supply – now, and for years to come. In 2020, the global pandemic highlighted the importance of wind power and, in turn, service solutions, with wind constituting an even greater part of the electricity mix and securing generation during lockdown.

However, as installed wind power capacity increases, digital transformation also needs to continue to improve. Having the right digital platform, one that allows operators to efficiently scale their turbine fleets, has never been more important to the delivery of predictable and cost-efficient energy solutions.

Developments in Service during the year

A major milestone

During 2020, Vestas reached the milestone of 100 GW of wind turbines under service, leading the industry's efforts to replace fossil-based energy sources and drive the transition to a sustainable energy future. This achievement is both a testament to Vestas' leading position within wind power service solutions, and the speed with which the installed capacity of wind energy and renewables is growing within the global energy system.

Reaching this milestone provides scale and maturity, enabling Vestas' Service business to increase its value-add to customers, while making operations more efficient. In particular, it raises the bar for the continuous digitalisation of the Operations and Maintenance offerings.

Continuously investing in digital transformation

Vestas continues to invest in this transformation, leveraging simplified processes, automatic tools, and improved planning to increase workforce efficiency in the field and enhance employee and customer satisfaction.

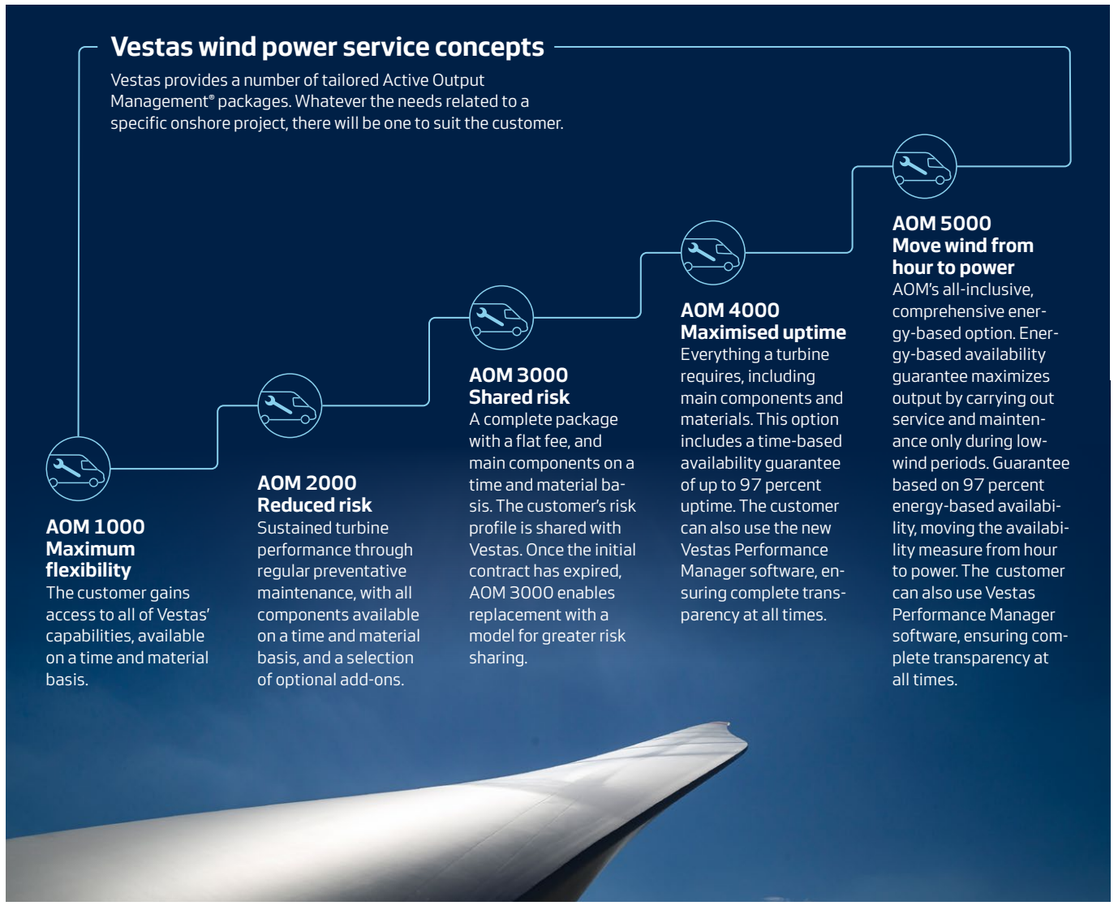
To draw the full advantages of Vestas' digitalisation journey and to optimise efficiency, quality, and safety, in 2020, Vestas rolled out Apple technology and custom apps in many parts of the organisation, including its more than 10,000 service employees. Information and processes for technicians, for example, have been consolidated and streamlined in user-friendly applications, improving employee satisfaction and increasing the ability to perform work tasks efficiently. Technicians now use phone or tablet applications for activities including work orders, troubleshooting, reporting, and time registration. This saves a significant amount of time each year, translating directly to reduced cost. As part of this roll-out, custom apps have been developed for specialised tasks in different parts of the service operations.

The digital transformation is end-to-end, improving the processes and systems from sales teams to the technician in the wind turbine. For example, new customer relationship management tools are being rolled out as part of this transformation, enabling improved care for customers and information for sales teams. Operationally, for example, digitalisation increases the ability to do more remote troubleshooting, improve planning, and provide better technical support. These efforts will improve customer satisfaction, employee motivation, and strengthen Vestas' position as the leading service provider.

" We want to be the best partner for our customers and provide the best service across the renewables industry by leveraging our leading scale and introducing tomorrow's way of working."

Christian Venderby
Executive Vice President & CSO (Service)

2) Source: Wood Mackenzie: Q4 Global Wind Power Market Outlook Update. December 2020.



Vestas' four-leg service portfolio

Vestas offers its customers a range of service solutions covering maintenance partnering; parts & repair; fleet optimisation solutions; and digital solutions to help customers optimise the output of wind power projects.

The company's four-leg service portfolio drives performance and lowers the cost of energy for customers' wind power plants, positioning Vestas as the one-stop shop for lifetime plant maintenance. Vestas works closely with its customers to tailor service packages to meet site-specific wind power plant requirements. Responding to Vestas customers' evolving demands, Vestas offers a new generation of flexible fleet optimisation capabilities, such as advanced plant and data management, diagnostics, and forecasting.

Maintenance partnering

Maintenance partnering, based on the Active Output Management® (AOM) service concept, is the core of the Vestas portfolio. With ample opportunities to further increase efficiency in the service of onshore wind turbines, full-scope service offerings remain critical in order for the customers to realise the lowest possible cost of onshore wind energy.

Comprehensive service contracts are the most popular form of maintenance partnering. These service contracts are signed with a duration of up to 30 years. This results in an average remaining duration on close to 10 years in the backlog. Combining longer tenures with the most comprehensive service packages is a great way for customers to maximise certainty on investment. It also enables Vestas to utilise the scale benefits of its entire fleet under service, and improve wind turbine performance efficiency.

AOM 2000-5000* signed with new wind turbine orders

Percent of MW service order intake

	2020	2019
AOM 2000	0.6	0.0
AOM 3000	8.6	7.0
AOM 4000	27.3	27.2
AOM 5000	63.5	65.8

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

Parts & repair

Vestas offers an extensive range of parts & repair services for Vestas turbines and multibrand turbine platforms, while continuing to invest in digitalising the transactional business area, for example via shop.vestas.com. The Repair Services team provides customers with a fleetwide one-stop shop for value added services, ranging from advanced inspections and asset management programmes, to up-tower and down-tower repair and the exchange of major components and blades.

During the year, Vestas saw an increasing level of activities in its parts & repair services, mainly as a result of expanded capabilities and offerings.

Fleet optimisation

Improvements in the production efficiency of a wind power plant can be achieved through various measures. These include site-specific optimisation of operational parameters, implementation of intelligent software algorithms, and enhanced aerodynamic add-ons. Such measures are designed to increase the production of installed wind turbines, while Vestas PowerPlus® can boost energy production by up to 5 percent annually. At the end of 2020, the number of wind turbines successfully upgraded with PowerPlus® products totalled can boost energy production by up to 5 percent annually.

In 2020, Vestas signed a number of new fleet optimisation deals. This process included the renewal of an existing contract across four projects in Finland, including a new Power Mode, Power Performance Optimisation, and a lifetime extension up to 30 years.

Digital solutions

Vestas offers customers digital solutions to deliver greater predictability, increased renewable energy production, more efficient operations, and better integration with energy grids. As the global energy sector undergoes transformation, energy systems and power plant owners must improve forecasting accuracy for renewable production. They also need to optimise output from each individual generation asset, and orchestrate a portfolio of resources across multiple sites and equipment types.

Together with Utopus Insights Inc., Vestas offers customers a suite of best-in-class analytics applications across energy sources that supports the digitalisation of renewable energy assets and energy systems. Through this partnership, Vestas also addresses well-known challenges such as predictive maintenance, forecasting and power plant optimisation. The platform for these applications is known as Schipher™.

Inaccurate supply forecasts, along with unreached output targets by renewable generators, can result in power system instability and higher operating costs. During 2020, the actual benefit of these forecasting tools was demonstrated in Australia, where Vestas, together with its customer, applied hyperlocal forecasting tools across two wind farms totalling 198 MW. Through Vestas's intervention, it was shown that some of the operating costs related to inaccurate forecasts and unreached output targets declined more than 25 percent, making the advanced forecasting tools worth the investment.

Multibrand

Vestas has the world's broadest and deepest range of multibrand wind turbine service offerings, and continues to develop its operations and maintenance capabilities. As new brands are added to the list, Vestas develops its inhouse knowledge and capacity to service an expanding portfolio of wind turbines, in accordance with global quality standards and safety requirements. This process encompasses the training of technicians, documentation, service manuals, SCADA solutions and technical support, all of which is implemented throughout Vestas' global Service organisation and made available 24/7 across different wind turbine brands.

2020 was characterised by continued investments in the expansion of technical capabilities, resulting in five new market entries, increased service scope and longer-term contracts.

As part of Vestas' continued focus on broadening multibrand capabilities, operations also commenced on a long-term, full-scope contract on 410 MW of wind turbines in Brazil, adding a new turbine platform, Alstom ECO 122, to the list of technologies for which Vestas can provide service solutions.

Furthermore, Vestas significantly increased its portfolio of Senvion turbines, which now extends to almost 800 MW under service across eight countries and 20 wind farms, two of which have a contract duration of 20 years.

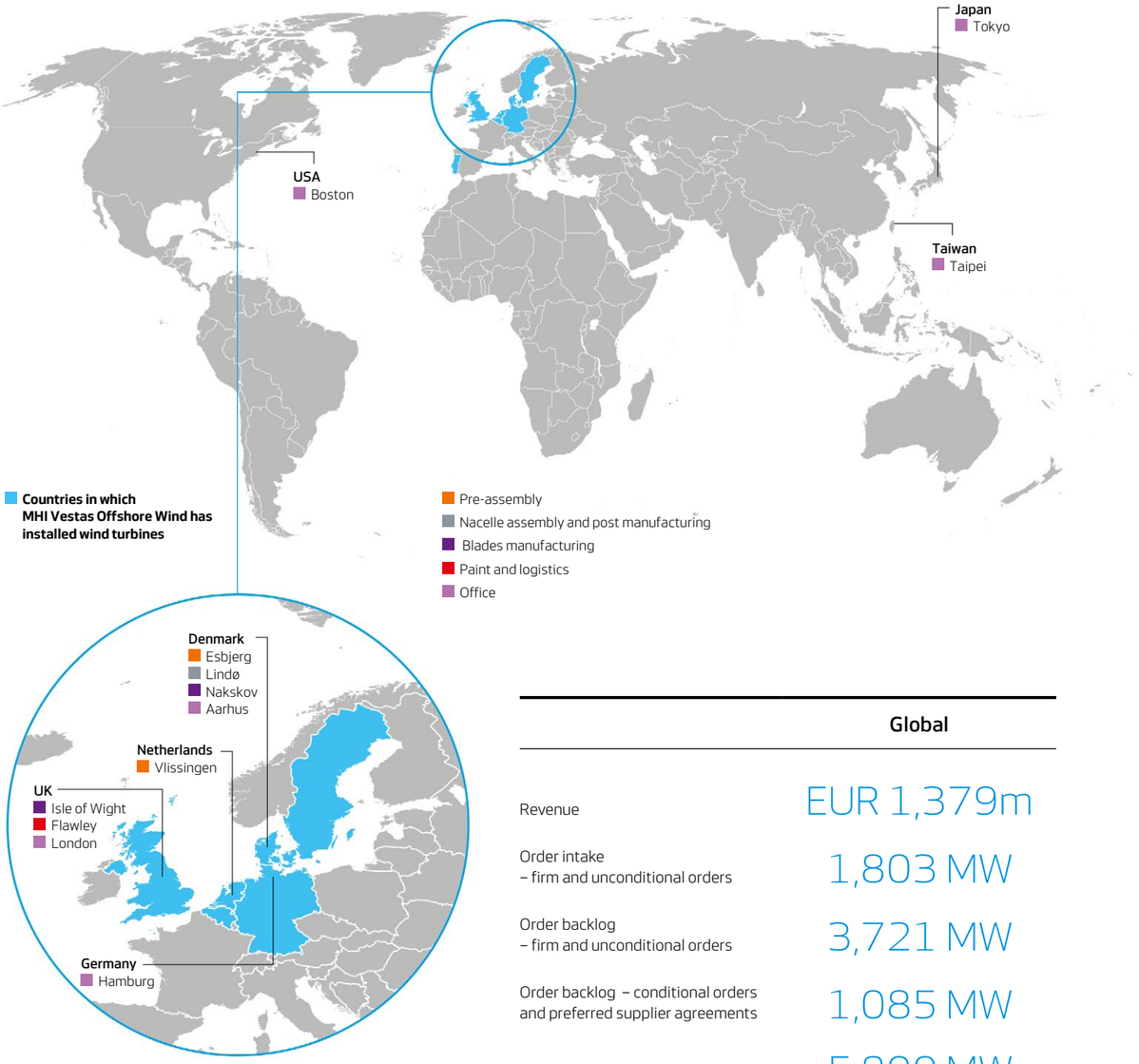
In total, more than 3 GW of wind turbines were added to Vestas' multibrand operations in 2020, comprising projects in 18 countries from seven different OEMs.

Reducing carbon footprint and maximising environmental value

Vestas' Service business continues to ensure a constant flow of sustainable energy to electricity grids globally. However, it is critical to ensure that wind turbine operations are in themselves sustainable. To this end, Vestas' Service organisation is making great efforts to reduce its environmental footprint by transitioning its fleet vehicles from fossil fuel sources to sustainably powered electric vehicles. 2020 marked the start of this journey, with 127 new vehicles added to the fleet. This replacement programme will continue into 2021 and beyond.

Offshore

Global footprint



	Global
Revenue	EUR 1,379m
Order intake – firm and unconditional orders	1,803 MW
Order backlog – firm and unconditional orders	3,721 MW
Order backlog – conditional orders and preferred supplier agreements	1,085 MW
Total installations	5,800 MW

Financial performance

MHI Vestas Offshore Wind A/S was founded in 2014 as a 50:50 joint venture between MHI and Vestas Wind Systems A/S. Vestas acquired MHI's 50 percent share in the joint venture with effect from 14 December 2020 (consolidation in the last 17 days of the year). This also means that from 2021, Vestas' offshore activities in the new entity Vestas Offshore Wind A/S will be fully consolidated into Vestas' financials.

Result for the period

Compared to 2019, the joint venture's stand-alone revenue in 2020 was EUR 1,379m, on par with 2019. The revenue in 2020 was driven by deliveries to the Northwester 2 project in Belgium and two offshore wind farms in the Netherlands during the year – Borssele III/IV and Borssele V.

EBIT developed negatively from a profit of EUR 45m in 2019 to a loss of EUR 82m in 2020, corresponding to an EBIT margin of negative 5.9 percent. As a consequence, net loss in the joint venture amounted to EUR 92m (2019: EUR 6m profit). This development was primarily driven by a change in the assessment regarding the need for warranty provisions. Excluding this change, the EBIT margin of MHI Vestas Offshore Wind would have been 4 percent, while net profit would have amounted to EUR 45m.

Order intake

MHI Vestas Offshore Wind signed four firm orders during 2020, highlighting the global expansion of its portfolio:

- 95 MW Changfang Phase 1 project in Taiwan
- 494 MW Changfang Phase 2 and Xidao projects in Taiwan
- 139 MW Akita Noshiro project in Japan
- 1,075 MW Seagreen project in the UK

Order backlog

At the end of the year, the order backlog amounted to 3,721 MW, corresponding to EUR 4.0bn (included in Vestas' consolidated backlog).

Accounting

From 1 January 2020 to 14 December 2020, the joint venture is accounted for using the equity method, and Vestas' share of MHI Vestas Offshore Wind's overall net result for the period is recognised in the income statement as "Income from investments in joint ventures and associates", see note 3.5 in the consolidated financial statements, page 085.

The recognition of Vestas' share of MHI Vestas Offshore Wind's net result amounted to a negative contribution of EUR 46m from 1 January 2020 to 14 December 2020 (2019: EUR 3m positive contribution).

For further information about the investment in MHI Vestas Offshore Wind, see note 3.5 to the consolidated financial statements, page 085.

Global trends in the offshore wind power market

At the end of 2020, the global installed base for offshore wind energy, amounted to 25 GW (excluding China) after a record annual growth of 20 percent in the year.[3]

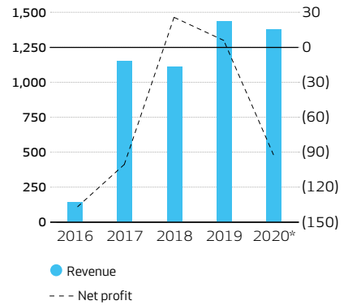
Over the next five years, the annual installation growth is expected to average 25 percent.[3] As the industry looks ahead to 2030 and beyond, key segments, such as floating offshore wind and renewable-based hydrogen, look set to provide significant additional volume of offshore wind power.

One of the hallmarks of the sector's maturity is the emergence of major oil and gas companies as they seek to expand their renewable portfolios. Strategic alliances in the development of offshore wind farms have already been formed, and more are anticipated as the industry moves beyond the North Sea into Asia Pacific and the Americas. As new technologies such as floating offshore wind and renewable-based hydrogen mature towards commercial-scale projects, the infrastructure and logistics experience of oil and gas companies is likely to be a key driver in both mid- and long-term development.

3) Source: Wood Mackenzie: Market Outlook Update Q4/2020. December 2020.

Revenue and net profit

mEUR



+ EUR 1bn

MHI Vestas Offshore Wind successfully increased its activity level beyond EUR 1bn two years in a row.

* From 1 January 2020 to 14 December 2020.

Developments in MHI Vestas Offshore Wind during the year

Operational resilience and safety

The COVID-19 pandemic substantially impacted global supply chains in 2020. During the year, MHI Vestas Offshore Wind managed to adapt business operations, maintaining a high level of resilience while keeping employees safe.

The company's operations proved successful, with the installation of the 219 MW Northwester 2 project in Belgium, the world's first offshore wind farm to feature 9.5 MW turbines. MHI Vestas Offshore Wind also completed the installation of two offshore wind farms in the Netherlands during the year – Borssele III/IV and Borssele V. In total, the two Dutch projects will provide 751 MW of clean power from 79 V164-9.5 MW™ offshore wind turbines.

MHI Vestas Offshore Wind also completed the installation of WindFloat Atlantic, a landmark demonstration project 20 km off the coast of Portugal, and the first floating wind project in continental Europe. The project features three V164-8.4 MW™ turbines, the largest wind turbines ever installed on a floating platform. And in a preview of things to come in 2021, the company began installing the five-turbine Kincardine floating demonstration project in Scotland.

Total installation activity in 2020, all of which featured the V164 turbine platform, amounted to 960 MW, bringing the total installed base for the V164 platform to 377 turbines and 3,200 MW at year end.

Throughout its operations, MHI Vestas Offshore Wind has been committed to continuous improvement in occupational health and safety, and in providing employees with the training and information they need to manage risks in their own work areas. Despite continuous installation activity and COVID-19 restrictions, MHI Vestas Offshore Wind has kept the rate of Lost Time Injuries at 1.06.

Regional expansion

Even as MHI Vestas Offshore Wind saw its global efforts accelerate, particularly in Asia Pacific, the company remained focused on its core markets in Europe and the UK. These efforts were punctuated by the successful installations of Northwester 2, Borssele III/IV and V, and WindFloat Atlantic, as well as the firm order signing of Seagreen, the

company's largest project to date. The 1,140 MW project in Scotland will feature 114 V164-10 MW™ turbines, with installation due to begin in late 2021.

Several European countries also clarified their ambition in the offshore sector, including newcomer Poland. Despite the fact that Poland has not yet built an offshore wind farm, the Polish government aims to have 3.8 GW installed by 2030, with 10 GW of new capacity awarded through Contract-for-Difference auctions by that time. Poland also aims to reach 28 GW by 2050, which would make Poland the largest operator of offshore wind power in the Baltic Sea.

MHI Vestas Offshore Wind saw its plans in Asia Pacific accelerate substantially during the year. With a flurry of local supply chain partnerships announced in Taiwan, the expansion of the regional office in Tokyo, and commercial activity ahead of Japan's first offshore wind auction, the company established firm roots in the region.

Looking to the Americas, MHI Vestas Offshore Wind expanded its operation in Boston, as it continued to develop its local supply chain and undertook commercial engagements. With increasing volume ambition along the east coast of the USA, led by New York, New Jersey, and Massachusetts, the company is well positioned for success as it looks to bring its product portfolio to the US market.

Capturing global opportunities

With worldwide applicability of the V174 turbine, and the introduction of new technology, the offshore business begins the new year as an integrated part of Vestas with a strong technology baseline. Synergies with onshore wind power to pursue emerging technologies provide an array of possibilities, as MHI Vestas Offshore Wind seeks to capture a sizable share of growing sector volume.

One of the drivers of the offshore wind power industry in 2020 was the growing appetite for locally manufactured products, as governments around the world sought to integrate offshore wind technology into their energy mix. Increased localisation requirements in emerging markets is both a challenge and an opportunity, requiring a global footprint and scale. During the year, MHI Vestas Offshore Wind worked tirelessly to develop the industry's most comprehensive local supply chain in Taiwan.

MHI Vestas Offshore Wind also continued to explore synergies wherever possible in manufacturing, logistics, and tools reuse. Greater industrial efficiency will be essential to achieving the infrastructure necessary to deliver on the sector's exponential volume growth and has been one of the driving factors when it comes to integrating the offshore business into Vestas' organisation.

Continued focus on service capabilities

Throughout the year, MHI Vestas Offshore Wind took several steps towards creating an adaptable service portfolio that will meet an increasing variety of business needs in the next decade. As the installed base expands outside Northern Europe, having an established service presence globally will be key to providing efficient operations and maintenance solutions for customers.

With promising new business frontiers such as floating offshore wind, renewable hydrogen, and the regional expansion of fixed foundation projects, the company's service offerings look set to make an increased contribution to the company's financial performance in the months and years ahead.

Sustainability

As MHI Vestas Offshore Wind to a large extent has conducted its own sustainability agenda, it has, so far, not been contributing to Vestas' overall sustainability strategy. However, sustainability sits quite naturally at the very core of the business. Without doubt, the offshore wind power industry is an important part of the renewable energy transition, and will play an even greater role in the future as the market expands globally.

Achieving leadership in offshore wind therefore supports Vestas' vision of being the global leader in sustainable energy solutions, and Vestas' acquisition at the end of 2020 of MHI's share in MHI Vestas Offshore Wind marks an important step towards the fulfilment of this vision.

In 2020, Vestas installed continental Europe's first floating offshore wind farm, WindFloat Atlantic, off the coast of Portugal.

Vestas people

Leadership, employees, and values

Vestas' purpose is shaped by a passion to make the world a better place and to contribute to a sustainable future. The company's more than 29,000 passionate employees are its most important asset and the foundation upon which its achievements are built. It is therefore essential to constantly develop and sustain a culture that allows everyone to thrive and reach their full potential.

Values and leadership behaviour

Vestas' four corporate values describe the principles and standards of behaviour that shape how employees interact with each other, how decisions are made, and how to conduct the day-to-day work. Vestas' vision is to become the global leader in sustainable energy solutions. To successfully realise this vision, the right type of organisational values and leadership behaviour are needed. It is Vestas' ambition that its values reflect a deeper level of relevance throughout the company, that they become embodied by all our employees, and ultimately have a sustainable impact on the company culture. To this end, the values need to be translated into real and actionable ideals that engage on a professional, emotional, and intellectual level.

The four values are Accountability, Simplicity, Collaboration, and Passion, and they are embedded in all People & Culture (HR) processes. For example, 50 percent of the performance score in the employee review process is linked to an individual's success in embodying the Vestas values in their day-to-day work.

Employee engagement

Vestas constantly monitors employee engagement and satisfaction, both annually, in November, via a global employee engagement survey, and quarterly in pulse surveys for selected groups and with specific focus areas. In 2020, 95 percent of the employees participated in the annual engagement survey, and the overall satisfaction and motivation score was 73, an improvement of 2 index points compared to 2019. The employee net promoter score (eNPS), measuring how Vestas' employees perceive Vestas as an employer was 26.

Employee life cycle

Vestas uses a holistic life cycle approach to employment, focusing on the different phases of the Vestas employee journey. From recruitment, onboarding, and development through to final departure, Vestas provides opportunities to ensure employees are engaged, respected, and recognised at all times.

In 2020, Vestas implemented a new People & Culture strategy and organisational structure to support the different aspects of the employee life cycle in the best way. The restructuring reflects the ambition to have an organisation that embodies the corporate value of Simplicity and limits vertical layers, an ambition that runs through all parts of the company and could also be seen in 2020 by several organisational restructurings as well as in the current activities of integrating the offshore segment into the business.

In the strategy process, three key focus areas were identified for 2020: Unlocking Vestas' employee value proposition, increasing the number of women in leadership positions, and building a strong succession pipeline. Employees are essential to the realisation of the company's mid-term priority and vision. Vestas therefore works hard to ensure it builds the right teams of people and competes for talent in all areas. To this end, investments in workforce diversity and the Vestas employer brand are vital to future success. Vestas also needs to develop a strong internal talent pipeline to be able to fill senior and key positions going forward.

Unlocking Vestas' Employee Value Proposition

Vestas aims to be the employer of choice, and to attract, develop, and retain the best people, in order to become the global leader in sustainable energy solutions. By unlocking the full potential of the Vestas purpose and brand via an Employee Value Proposition, the company can become a true talent leader and driving force in the energy transition. Nurturing excellence, focus, and collaboration internally will be key to achieving these goals.

In 2020, Vestas initiated the process of defining the company's Employee Value Proposition by collecting and comparing data from interviews with managers, employees, candidates, and competitors, followed by dedicated focus groups and workshops. This led to the creation of new initiatives that will be implemented in 2021, and the identification of target groups for future branding campaigns.

Women in leadership positions

To leverage the benefits of diverse leadership, in 2020 Vestas focused on increasing the representation of women in senior positions. Under the new Vestas sustainability strategy, Sustainability in Everything We Do, which was initiated in 2020, the company has set specific targets for women in leadership, aiming to reach 25 percent representation by 2025 and 30 percent by 2030.

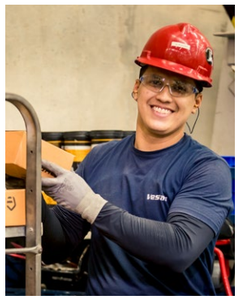
During the year, Vestas focused on specific recruitment areas with a view to increasing gender diversity and breaking the curve of historical challenges in attracting and hiring women. The company also invested in software to eliminate bias in job postings, while recruitment teams received training in unconscious bias and worked to increase the share of female applicants being presented to hiring managers. In addition, women were selected as a specific subgroup within the Employee Value Proposition development programme.

To ensure the retention of female employees, Vestas enhanced the standardised exit process globally, with a key focus on minorities generally and women specifically. Efforts will continue in future years to identify barriers to career progression at Vestas for women and other minority groups. Read more about Vestas' initiatives to promote diversity and inclusion in the Vestas Sustainability Report, pages 026-029.

Succession pipeline

Vestas recognises that a high internal fill rate for leadership and key technical positions will lead to better business performance. Therefore, in 2020 the company initiated efforts to ensure a strong succession pipeline to futureproof the business and expected growth. Vestas enhanced planning globally to improve the understanding of its current talent landscape, and initiated a self-led development concept among employees. With increased available data, Vestas can now analyse areas of need and plan specific actions to address identified talent gaps.

> " Vestas' employees are the most important building block of the company and therefore it is essential to constantly develop and sustain a culture that allows everyone to thrive and reach their full potential."
>
> **Kerstin Knapp**
> Executive Vice President & CPCO



Simplicity.

We strive to simplify our work and our solutions to the benefit of our customers.

Guiding Leadership Behaviours

Our Starting Point
We never compromise on safety and always follow our Code of Conduct.

Customer Perspective
We strive to take an outside-in perspective to challenge our thinking and to identify and create customer value.

Agility & Focus
We are ready to adjust quickly and simplify how we work. We drive continuous improvement while focusing on our long-term strategy.

Clarity of Intent
We make our goals, outcomes and objectives as clear as possible, and give teams freedom to execute.

Accountability.

We have the courage to speak up and deliver on our commitments.

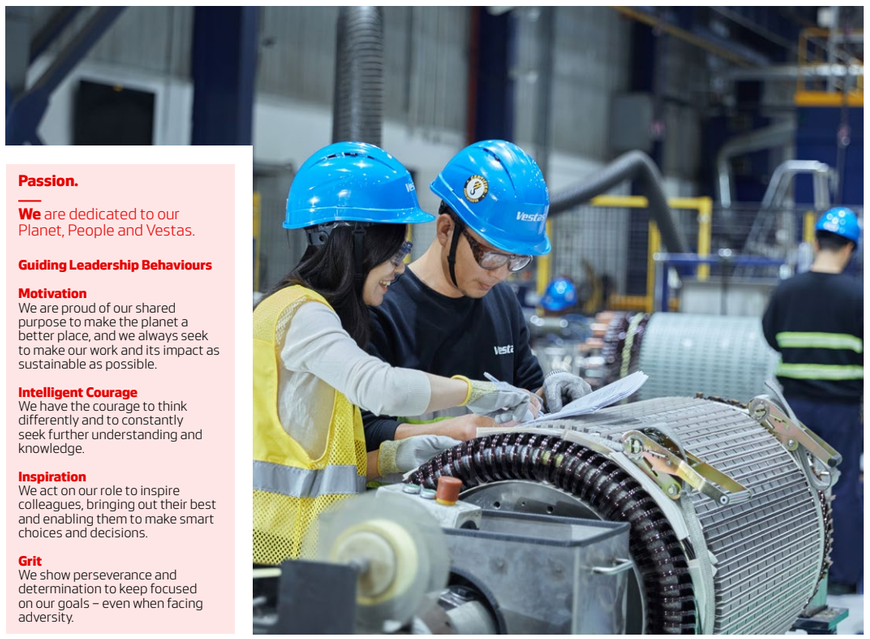
Guiding Leadership Behaviours

Decide and Act
We acknowledge responsibilities and decisions made and hold each other accountable for them.

Understand what's best for all of Vestas
We understand the business and do what serves Vestas best across the entire business.

Speak up
We have the courage to raise our hand and ask questions, seek clarity or raise concerns.

Keep your word
We see commitments as promises – so we always keep them.



Passion.

We are dedicated to our Planet, People and Vestas.

Guiding Leadership Behaviours

Motivation
We are proud of our shared purpose to make the planet a better place, and we always seek to make our work and its impact as sustainable as possible.

Intelligent Courage
We have the courage to think differently and to constantly seek further understanding and knowledge.

Inspiration
We act on our role to inspire colleagues, bringing out their best and enabling them to make smart choices and decisions.

Grit
We show perseverance and determination to keep focused on our goals – even when facing adversity.

Collaboration.

We win and lose together, and pick the best team for the job.

Guiding Leadership Behaviours

Integrity & Respect
We are consistent, constructive and always lead by example.

Transparency
We proactively share information and engage and communicate with clarity, conviction, and impact.

Inclusion
We value diversity and different perspectives. We build, lead and contribute to high-performing teams that make better-informed decisions and solutions.

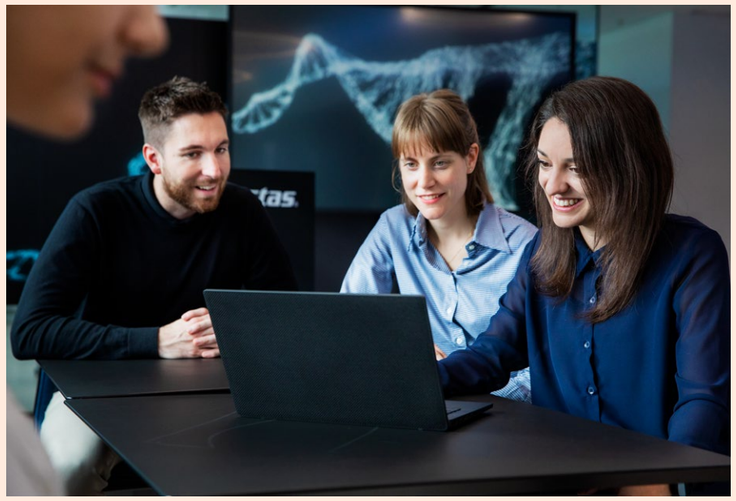
Listen & Learn
We try to understand other viewpoints before making our viewpoint understood. We lead a feedback culture, asking for and learning from feedback.

Driving the energy transition through diversity and inclusion

At Vestas, we believe a diverse and inclusive workforce is vital for accelerating the green energy transition globally. We know our differences make us stronger, more innovative, and better equipped to address the challenges of the future. In 2020, we continued our efforts to create an environment that actively embraces diversity and inclusion in all areas.

Inclusion means everyone feels valued and heard, and only through an inclusive culture will our people thrive and perform at their best.

As Anne Engemann Rasmussen, Head of Global Reward in Denmark, explains: "We prioritise Diversity & Inclusion (D&I) because in addition to being the right thing to do, it is a prerequisite for remaining competitive and successful. We know that collaboration between individuals with diverse skills and backgrounds will ensure the most innovative, highest-quality solutions. In Vestas, we believe that a diverse and inclusive workforce is vital for accelerating the green energy transition globally. We know that our differences make us stronger, more innovative, and better equipped to address the challenges of the future."



Improving gender parity in leadership

D&I is a vital component of our strategic efforts to achieve sustainability in everything we do. As part of the launch of the new Vestas sustainability strategy in early 2020, we committed to targets for female representation in leadership positions, aiming to reach 25 percent representation by 2025 and 30 percent by 2030. As first steps on this journey, we worked hard during the year to ensure more diverse candidates by removing bias from the recruitment process. We also conducted an external pay audit in an effort to improve pay equity, acknowledging this is a key part of ensuring equal opportunities.

"Representing my gender has been an exciting journey throughout my 17 years at Vestas," says Monika Tobisiak, Sr. Service Director for Poland, Benelux, South Africa & Kenya. "Being a female leader among mostly male peers made me increasingly aware of the female perspectives within my teams, and their contribution to increased efficiency and creativity. I'm also driven to support female employees on their journey to become great leaders. I'm very happy to observe how the whole business is changing and evolving to welcome more women into managerial positions."

> "We prioritise Diversity & Inclusion because in addition to being the right thing to do, it is a prerequisite for remaining competitive and successful."
>
> **Anne Engemann Rasmussen**
> Head of Global Reward, Denmark

Nurturing diversity and inclusion across the employee life cycle

Vestas is committed to supporting diversity and inclusion throughout the whole employee life cycle. Inclusive leadership training and unconscious bias training will be a mandatory part of all leadership development by 2021.

Anne Lenders, Senior Service Manager in Germany North-West, reflects this progressive ethos in her approach to new hires: "I am always looking for the best person for a position. My last hired leader, for example, was a woman with a part-time working contract. She is doing a great job and working as efficiently as many other leaders in fulltime positions."

While gender diversity is a fair and measurable indicator of diversity generally, our D&I strategy also prioritises parameters beyond gender. Therefore, we also measure progress on nationality and age as we strive to increase our focus on diversity.

"I am a female leader with an economics background in a predominantly male area," says Else Bylling Møller, Sr. Director Service Operations & Business, Northern & Central Europe. "The fact that I am not the traditional profile for my job drives me to encourage diversity within my team. When compiling my leadership team, I don't just look for great engineers, I look for people who can drive change, think differently, and maintain a high customer focus. I generally spend a lot of time on recruitment, paying careful attention to what is already present in the team, and which personality or profile is missing."

According to Breno Comenalli Diogo, Production Shift Team Lead, Assembly & Towers Production, Brazil, diverse age ranges help to enrich and enhance team dynamics. "Leading people much older than me and having much younger colleagues on the same team has been hugely valuable, especially in terms of exchanging knowledge and life experiences," says Breno. "This has made me a more curious professional, more open to different points of view, and more willing to listen. The female presence on our factory floor inspires many colleagues to overcome the challenges they face. The women working here are dedicated and careful, they bring lightness to the environment, while pushing colleagues to excel by following their example of continuous dedication."

We are also proud to represent more than 100 nationalities across Vestas, working collaboratively to achieve our vision of becoming the global leader in sustainable energy solutions.

"Having worked in this cultural-diversified environment for 10 years, I have witnessed and enjoyed how new opportunities can be created to improve our company day by day." Hao Li, Lead Specialist, Regional Procurement, China.

"We are proud to be part of the Lake Turkana Service Team at Vestas Eastern Africa", says team member Benson Lkumsika Leakono, "Vestas allows us to play a small part in our country going green, which will make Kenya a good place for future generations."

Empowering the energy industry

Raising standards in D&I beyond Vestas to the wider industry is also a high priority within our strategy. Our colleagues in Vestas America, for example, have been working closely with Women of Renewable Industries and Sustainable Energy (WRISE), and recently sponsored industry-wide development opportunities on diversity, equality, and inclusion.

"The energy industry is at a pivotal point," says Karen Carlson, Team Lead, Projects and Planning, P&C Americas. "We achieve sustainability not only through our products, but through our people. Energy touches the lives of everyone and because of that, we need to work to ensure that energy companies represent the communities they serve. I'm extremely proud to work in an industry that has the capacity to impact the energy transition and support communities across the globe."

Our journey on diversity and inclusion has only just begun. Together, we will keep moving forward and become truly sustainable in everything we do. ■

> "Leading people much older than me and having much younger colleagues on the same team has been hugely valuable, especially in terms of exchanging knowledge and life experiences."
>
> **Breno Comenalli Diogo**
> Production Shift Team Lead, Assembly & Towers Production, Brazil

Governance

Vestas on the capital markets

Vestas' share

In 2020, the Vestas share price ended the year at DKK 1,439.50, an increase of 114 percent compared to 2019. This performance was significantly above the general trend in the Danish OMXC25 stock index, which increased by 34 percent. Furthermore, the Vestas share was the second most traded share on the Nasdaq Copenhagen stock exchange, with an average daily turnover of DKK 558m.

During the year, the highest trading price for the Vestas share was DKK 1,493 on 29 December 2020, and the lowest was DKK 473 on 19 March 2020.

Share capital

At the end of the year, Vestas had a total of 201,973,452 shares. All shareholders are treated equally, and have the same voting and dividend rights.

On 6 May 2020, the company reduced its share capital by a nominal value of DKK 2.0m. The shares were purchased in 2019 in connection with a share buy-back programme. The capital reduction was carried out through the cancellation of 1,977,848 treasury shares in accordance with the resolution passed at the Annual General Meeting on 7 April 2020.

On 14 December 2020, Vestas completed a capital increase by a nominal value of DKK 5.0m. The capital increase was effectuated as part of the transaction, whereby Vestas acquired full ownership of the offshore business in the joint venture company MHI Vestas Offshore Wind A/S, against Mitsubishi Heavy Industries, Ltd's subscription of 5,049,337 new shares in Vestas. The share issue was made pursuant to the authorisation in article 3(1)(b) of Vestas' Articles of Association.

Major shareholder

In accordance with section 30 of the Danish Capital Market Act, on 8 October 2020, BlackRock Inc. (Wilmington, DE, USA) notified Vestas that the investment management corporation owned 10,560,970 Vestas shares, corresponding to 5.36 percent of the share capital in Vestas at the time of the notification.

Basic data as at 31 December 2020

Stock exchange	Nasdaq Copenhagen
Stock exchange quotation	1998
ISIN code	DK0010268606
Ticker symbol	VWS
Share capital	DKK 201,973,452
Capital distribution	
- international shareholders	145,552,352
- Danish shareholders	45,159,075
- Vestas Wind Systems A/S	1,098,495
Nominal denomination	DKK 1
Number of shares	201,973,452
Share classes	One share class
Voting rights	One share carries one vote
Free float	100 percent free float
Trading lot (minimum)	None, one share is tradable
Share price,	DKK 1,439.50
Number of registered shareholders*	140,560

* Shareholders registered by name, including custodian banks.

Green corporate eurobond

In 2015, Vestas issued a EUR 500m green corporate eurobond at a fixed interest rate of 2.75 percent to finance its corporate activities. The bond is listed on the Luxembourg Stock Exchange's regulated market, and will mature on 11 March 2022.

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

As at 31 December 2020, the book value of the bond was EUR 498m with a corresponding fair value of EUR 508m. For further information about the bond, see note 4.4 to the consolidated financial statements, page 100.

Distribution to shareholders

In 2020, Vestas' distribution to shareholders was a dividend payout of EUR 211m for the financial year 2019, corresponding to 30.0 percent of the net profit for the year.

Distribution to shareholders

	2020	2019
Dividend per share (DKK)	8.45*	7.93
Dividend per share (EUR), approx.	1.14*	1.06
Dividend (mEUR)**	230*	211
Payout ratio (%)	30.0*	30.0
Share buy-back (mEUR)	-	201

* Based on recommended dividend.
** Based on issued shares as at 31 December.

The general intention of the Board of Directors (the Board) is to recommend a dividend of 25-30 percent of the company's annual net result after tax, which will be paid out following approval by the Annual General Meeting, see Capital structure strategy, page 018. For the financial year 2020, the Board proposes a dividend of DKK 8.45 (approximately EUR 1.14) per share, equivalent to 30.0 percent of the net result for the financial year 2020 after tax.

Holding of treasury shares

Number

Treasury shares as at 31 December 2019	3,559,449
Reduction of the share capital	(1,977,848)
Share buy-back programme	-
Exercised share options and performance shares	(483,106)
Total holding of treasury shares as at 31 December 2020	1,098,495

Authorisations granted to the Board

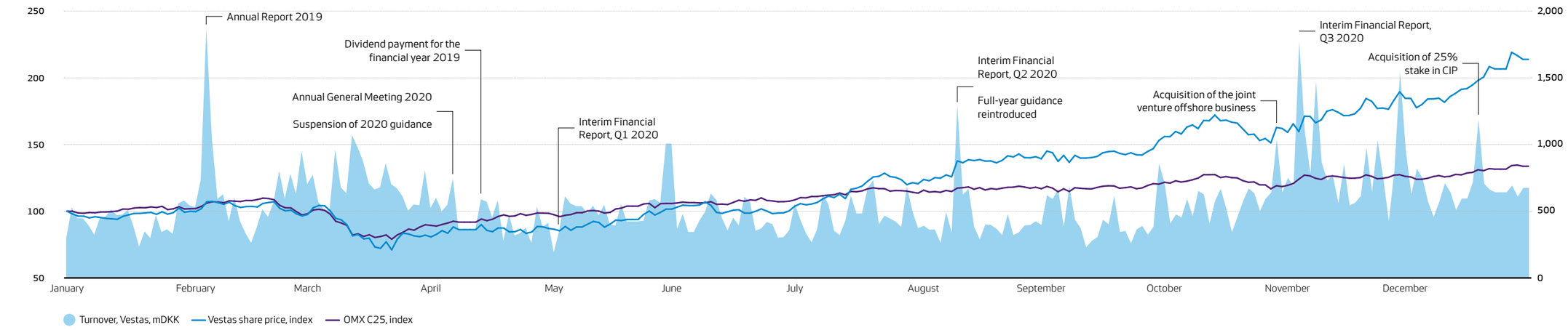
According to article 3 of the Articles of Association, the Board is authorised to increase the company's share capital in one or more issues of new shares up to a nominal value of DKK 21,549,694 (21,549,694 shares). The authorisation is valid until 1 April 2023.

In connection with the acquisition of the offshore business, the Board partially exercised the authorisation set out in article 3(1), b). Accordingly, the remaining authorisation to increase the share capital set out in articles 3(1), a) and b) total a nominal amount of DKK 16,500,357 (16,500,357 shares).

At the Annual General Meeting in 2020, the shareholders authorised the Board to let the company acquire treasury shares for the period to 31 December 2021 equal to 10 percent of the share capital at the time of authorisation. This is on the provision that the nominal value of the company's total holding of treasury shares at no time exceeds 10 percent of the company's share capital at the point of authorisation.

Share price index and trading in the Vestas share in 2020

Index · mDKK



+114%
2020 was a strong year for the Danish OMXC25 index with a 34 percent increase. The Vestas share price outperformed the index by increasing 114 percent – ending the year at DKK 1,439.50.

Corporate governance

Vestas' vision is to become the global leader in sustainable energy solutions. As part of this vision, the company's goal is to lead the transition to a world powered by sustainable energy. This goal commits Vestas to taking a leading role in driving electrification and decarbonisation beyond the power sector. It also involves teaming up with sustainability leaders to drive change and support Vestas' partners in their journey to becoming more sustainable.

To achieve these ambitions, it is essential for the company to build strong foundations through its organisational values. Vestas therefore places increasing emphasis on leadership and good corporate governance to anchor and embed these values, which are: Accountability, Collaboration, Simplicity, and Passion. Underpinning the efforts the company needs to make, and guiding the actions its management and employees need to take, these values are integral to Vestas' overall delivery and performance.

In striving to achieve its vision, Vestas benefits its customers, shareholders, and the planet.

Corporate governance principles

To the Board, corporate governance is an ongoing process which supports value creation and accountable management, thereby contributing to the company's long-term success. The Board believes that having an open and transparent corporate governance structure supports the company in being managed and monitored in a responsible manner, with a high focus on value creation. In addition, having clear governance structures in place enables the provision and publication of timely, reliable, accurate, and up-to-date information. This in turn builds confidence among investors, business partners, financial markets, customers, employees, and the public in general.

Vestas operates in a market where renewables generally, and wind power specifically, have been designated critical infrastructure. Within this market, which is characterised by high demand, changing mechanisms, and ongoing consolidation, clear and well-considered management is especially important.

In 2020, Vestas undertook an evaluation of its governance guidelines and processes. The evaluation included a review of the company's business model, strategy, goals, organisation, capital position, stakeholder relations, internal controls, and risks. For more information on financial reporting risks and control activities, see Vestas' Statutory Report on Corporate Governance 2020, page 007.

> " The Board is continuously vigilant of the guidelines and processes that are in place for the running of Vestas. This ensures that – at any given time – management has the necessary framework to be able to conduct business in the spirit of Vestas' values: Accountability, Collaboration, Simplicity, and Passion."
>
> **Bert Nordberg**
> Chairman of the Board of Directors

Sustainability governance

Solid governance structures are the backbone of Vestas' sustainability programmes and activities, and are highlighted in the company's new sustainability strategy, Sustainability in Everything We Do.

Vestas' sustainability governance structures include the Sustainability Strategy Office, a dedicated Sustainability Committee, Executive Management, and the Board. The Sustainability Committee prioritises, oversees, and coordinates cross-functional sustainability initiatives across the entire organisation. It also ensures that the company conforms with and lives up to its responsibilities as a signatory to the UN Global Compact.

Demonstrating its commitment to the highest standards of health, safety and the environment, Vestas' operations are also built on the global certificates ISO 9001 for Quality, ISO 14001 for Environment, and OHSAS 18001 for Health and Safety.

Vestas' commitments are reflected in Vestas' Code of Conduct and supporting policies, guidelines, and procedures. They are also rooted, along with governance structures and actions, in Vestas' organisational values. These values are essential to retaining customers' trust and delivering solutions and services without compromising ethical judgement.

For more information, see the Vestas Sustainability Report 2020, pages 042-043.

Business ethics and human rights

Vestas remains committed to the principles of responsible business conduct and has been a signatory to the UN Global Compact since 2009. As a global company, Vestas aligns its strategies and operations with universal principles on human rights, labour, the environment, and anti-corruption.

Vestas is dedicated to the Ten Principles of the UN Global Compact, which are an integral part of its sustainability agenda and the Vestas Management System. The latest update on how Vestas implements the Ten Principles into practice is available in the Vestas Sustainability Report 2020, with an overview document on Vestas' corporate website.

Human rights approach

Vestas is committed to respecting human rights throughout its organisation and operations. For the past decade, Vestas has worked to develop and promote a unique approach to respecting human rights, anchored in its due diligence framework. The approach focuses on working closely with all stakeholders involved in any given wind project, identifying risks at an early stage to ensure the project can earn and maintain a social license to operate.

In September 2020, Vestas took its approach to corporate social responsibility (CSR) and human rights to a new level. The company launched a new and strengthened CSR approach, offering a blueprint for navigating business-related human rights in connection with the development of wind energy projects. The approach places a special emphasis on essential collaboration with suppliers, customers, local communities, and other stakeholders.

EthicsLine, whistle-blower mechanism

EthicsLine is Vestas' whistle-blower mechanism. It facilitates the reporting of violations of the Vestas Code of Conduct, applicable laws, and Vestas' policies and procedures. Since 2007, EthicsLine has helped to ensure that such violations are always brought forward and dealt with appropriately.

EthicsLine cases

Number

	2020	2019	2018	2017	2016
Compliance cases reported	287	224	165	105	103
– of which substantiated	54	44	42	31	19
– of which unsubstantiated	199	145	92	74	68

Approach to the SDGs

Vestas is committed to supporting the UN Sustainable Development Goals (SDGs). The SDGs are integrated into Vestas' sustainability approach, which allows it to identify the goals where Vestas can add most value. Out of the 17 SDGs, Vestas has identified six which support development for Vestas, its stakeholders, and the many communities where Vestas plays a role. For more information, see the Vestas Sustainability Report 2020, pages 046-047.

Tax Governance

At Vestas, tax governance means having clear controls and processes within the corporate governance framework to support tax decision making. The purpose of the Vestas Group Tax Policy is to outline the company's general approach to tax issues, including governance, structuring, and risk management. The policy applies to all decisions that directly or indirectly affect the reporting and/or payment of taxes, notwithstanding the nature of the tax, as long as it falls or could fall under the liability of any Vestas company.

Vestas' tax practice is governed by a global headquarter function. This function outlines the overall tax policy and strategy, together with global controlling functions and subject matter experts providing support to local management. Local tax compliance and tax filing is the responsibility of local management, who seek guidance from the global policy and available guidelines.

In support of the company's approach to tax, the Vestas Code of Conduct helps to ensure integrity and compliance in all corporate decisions.

Vestas' tax policy was updated in 2020, and makes a clear link with sustainable development and responsible tax practices. The policy is available at the corporate website, while additional information can be found in the Vestas Sustainability Report 2020.

Governance structure

A fundamental element of Vestas Wind Systems A/S' corporate governance system is its two-tier management structure. This structure provides a clear, transparent, and effective separation between the responsibilities of the Board and Executive Management, and between

Human rights journey

2009 UN Global Compact signatory
Vestas embarks on its human rights journey by signing up to the Ten Principles

2010 Human Rights Policy
Vestas' first Human Rights Policy is developed and launched

Responsible supplier management
Management tool updated with human rights and labour self-assessment questions

2012 Social Due Diligence tool
Tool developed and implemented on Supply-and-installation and EPC wind power projects

2013 Embedding Social Due Diligence
Social Due Diligence framework embedded into the regional Sales Business Units in high risk markets

Launch of the Operational Grievance Mechanism
A channel is launched for local community members to raise concerns or grievances

2015 Review of policies and procedures
Vestas' Human Rights Policy, Social Due Diligence tool, and procedures reviewed by external experts

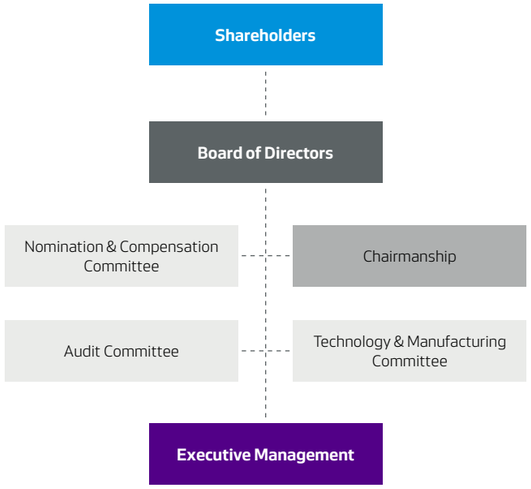
2018 Corporate-wide Human Rights Impact Assessment
HRIA conducted by third party to map salient human rights. Recommendations given to advance due diligence processes across the business

2019 Social Management System
Developed as approach to obtain and maintain Social License to Operate

2020 Launch of upgraded CSR approach
Commitment to respect human rights and endorsing mandatory Human Rights Due Diligence

Recommitment to UN Global Compact
Vestas renews its commitment to the UN Global Compact

Vestas' management structure



their tasks in connection with the management of the company's affairs. Documents relating to policies, regulations, and governing principles, to which Vestas adheres, are available at the corporate website.

Shareholders

Vestas' shareholders have ultimate authority over the company. They exercise their rights of co-administration and supervision at general meetings, which usually take place within the first four months of the business year. All shareholders are, with a few formal requirements, entitled to submit proposals, attend, vote, and speak at general meetings.

In 2020, the Annual General Meeting took place in April. The minutes of the meeting and an overview of the votes cast are available at the corporate website.

Shareholder rights

The right of a shareholder to attend a general meeting is determined by the holding of shares at the record date. Shareholders who wish to attend a general meeting must notify Vestas no later than three days before the meeting in question.

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

The company's auditor

Each year, Vestas' annual report is audited by an independent external audit firm appointed annually by the shareholders at the Annual General Meeting. Retiring auditors are eligible for re-election. The auditor is obligated to act in the interest of the shareholders, as well as the public. The Board maintains a regular dialogue with the auditor. However, it is the responsibility of the Audit Committee to make arrangements for the necessary exchange of information.

In 2020, the external auditor participated in one meeting with the Board and in four meetings with the Audit Committee. For the Independent auditor's report and the Independent assurance report on the Sustainability key figures 2020, see page 129 and 132, respectively.

In April 2020, the Annual General Meeting re-elected PricewaterhouseCoopers as Vestas' external auditor for the financial year 2020.

Policy for audit and non-audit services

The independence of the company's auditor is a key focus area within corporate governance. Vestas' auditor may be used, within certain parameters, for certain non-audit services, and may often be the preferable choice due to business knowledge, confidentiality, and cost considerations.

Vestas has a policy for non-audit services, ensuring that the additional services do not impair the auditor's independence or objectivity. The Audit Committee is responsible for the development and maintenance of this policy.

During 2020, audit and non-audit services provided by Vestas' auditor globally totalled EUR 4m. For more details about the audit fee, see note 6.1 in the consolidated financial statements on page 108. Once a year, the Audit Committee assesses the need for an internal audit function; in 2020, the committee found it was not necessary to establish such a function.

Board of Directors

The Board is responsible for the overall and strategic management of the company's affairs, and must ensure proper organisation of the company's business in accordance with the Articles of Association and applicable law.

The Board's most important duties are, among others: appointing the Executive Management; laying down guidelines for and exercising control of the work performed by Executive Management; ensuring responsible organisation of the company's business; defining the company's business concept and strategy; ensuring satisfactory financial organisation and reporting; ensuring the necessary procedures for risk management and internal controls; and ensuring that an adequate capital contingency programme is in place at all times.

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

Nomination and diversity

Board members elected by the general meeting may be recommended for election by the shareholders or by the Board. They serve for a one-year term and may be re-elected. The board members elected by employees serve for a four-year term.

When proposing candidates for board membership, the Board seeks to ensure that it is possible for the general meeting to elect a board that has the right attitude, competences, and experience. The Board should:

- be able to act independently of special interests;
- represent a balance between continuity and renewal;
- match the company's situation;
- demonstrate knowledge of the industry and the business and financial competencies necessary to ensure that the Board can perform its duties in the best way possible; and
- reflect the competencies and experience required in order to manage a company with shares registered for trade on a stock exchange and fulfil its obligations as a listed company.

The Board continuously works to increase board membership diversity. When proposing new candidates, it pursues the goal of diversity in gender, nationality, and age. However, this goal must not compromise the other recruitment criteria. For Vestas' reporting on underrepresented gender, see the Vestas Sustainability Report 2020, page 026.

In April 2020, the Annual General Meeting re-elected Bert Nordberg, Bruce Grant, Carsten Bjerg, Eva Berneke, Helle Thorning-Schmidt, and Lars Josefsson as members of the Board. Furthermore, the Board recommended the election of Anders Runevad to deepen the Board's knowledge of the renewable energy industry, and Karl-Henrik Sundström to strengthen its expertise in financial accounting and financial issues. Given his experience in finance, Karl-Henrik Sundström was also eligible to be appointed chairman of the Audit Committee. The two candidates were duly elected as new members.

After the Annual General Meeting, the Board held a statutory board meeting. At the meeting, Bert Nordberg was re-elected as Chairman of the Board, and Lars Josefsson was re-elected as Deputy Chairman of the Board. On 30 April 2020, employee representative Peter Lindholst stepped down from the Board. He was replaced by Pia Kirk Jensen, who had up until then served as an alternate.

Board committees

The Board has established three committees: an Audit Committee, a Technology & Manufacturing Committee, and a Nomination & Compensation Committee. All members of these committees are elected by the Board from among its members. Information about the committees' members and terms of reference (charter), as well as an overview of the committees' most important activities, are available at the corporate website.

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

For an overview of board members, meetings, independence, and participation in 2020, see the table below.

Assessment of the work performed by the Board

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

In October and November 2020, the three board committees evaluated their performance for 2020. The evaluations were conducted as an open dialogue among committee members and facilitated internally by the chairmen. An online evaluation form was made available to guide the members in their preparation, and to make sure that all relevant issues were touched upon in connection with the evaluations. The assessment included an evaluation of the working climate and cooperation, competence, board work, and the role of the chairman. The self-assessment revealed a good collaboration in each of the committees, and between the committees and Executive Management.

Duties of the board committees

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

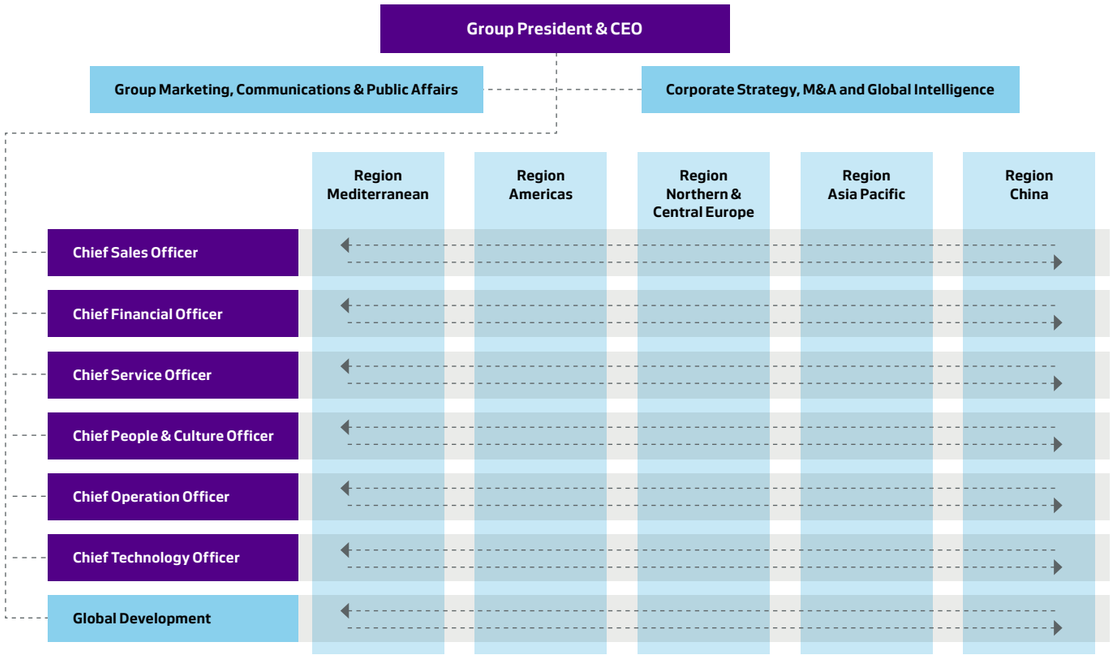
The Nomination & Compensation Committee – supports the Board in relation to overall staff-related topics, including assessment of remuneration, and in the evaluation of the performance and achievements of the Board and Executive Management.

The Technology & Manufacturing Committee – assists the Board in assessing technological matters, IPR strategy, and product development plans. The committee also supports the Board in matters concerning production, monitors and evaluates the short- and long-term manufacturing footprint, evaluates sustainability performance, and gives support to various forums within technology and manufacturing.

						Meeting participation in 2020*					
							Board committees				
	Born	Nationality	First elected	Term	Independence	Board	Audit	Nomination & Compens.	Technology & Manufact.	Share trading in 2020	Number of shares end 2020**
Number of meetings in 2020						12	4	6	4		
Elected by shareholders											
Anders Erik Runevad	1960	Swedish	2020	2021	No	9/10		3/3	3/3	0	8,096
Bert Nordberg	1956	Swedish	2012	2021	Yes	12/12	4/4	6/6		0	14,600
Bruce Grant	1959	American	2019	2021	Yes	11/12			3/4	0	0
Carsten Bjerg	1959	Danish	2011	2021	Yes	12/12	4/4		4/4	0	4,019
Eva Berneke	1969	Danish	2019	2021	Yes	11/12	3/3	6/6		+1,159	2,159
Helle Thorning-Schmidt	1966	Danish	2019	2021	Yes	10/12		6/6		0	0
Jens Hesselberg Lund	1969	Danish	2018	2020	-	2/2	1/1			-	-
Karl-Henrik Sundström	1960	Swedish	2020	2021	Yes	9/10	3/3			+1,640	1,640
Lars Josefsson	1953	Swedish	2012	2021	Yes	12/12		3/3	4/4	0	3,500
Elected by employees											
Kim Hvid Thomsen	1963	Danish	1996	2024	No	12/12				-1,000	2,060
Michael Lisbjerg	1974	Danish	2008	2024	No	11/12				0	834
Peter Lindholst	1971	Danish	2016	2024	-	4/4				-	-
Pia Kirk Jensen	1966	Danish	2020	2024	No	7/8				0	158
Sussie Dvinge Agerbo	1970	Danish	2005	2024	No	12/12				0	800

* The first figure represents attendance and the second figure the possible number of meetings. In cases where a board member was appointed or stepped down during the year, only meetings in that member's active board period are shown.
** The mentioned number of shares includes both own and related parties' total shareholdings.

Vestas' operating model



■ Members of Executive Management

The Board also conducted a self-assessment in November 2020, following the same procedure. The self-assessment revealed a good collaboration in the Board and between the Board and Executive Management as well as satisfaction with the conduction of the meetings, meeting materials, and the engagement from the Board members. The results of the assessments are used by the Nomination & Compensation Committee when they nominate members to the Board and its committees.

Executive Management

Executive Management is responsible for overall day-to-day management of the company, observing the guidelines and recommendations issued by the Board, and ensuring timely reporting and provision of information to the Board and the company's shareholders and stakeholders. Furthermore, Executive Management is responsible for presenting proposals for the company's overall objectives, strategies, and action plans. It also makes proposals for the overall operating, investment, financing, and liquidity budgets to the Board, and monitors compliance with relevant legislation and other financial reporting regulations and provisions.

Executive Management strives to be visible globally to all Vestas' stakeholders – customers, shareholders, partners and suppliers, leaders, and colleagues – demonstrating the company's values and conveying its vision and strategy. Executive Management gathers at least once a month and often more frequently.

Composition of Executive Management

The Executive Management of Vestas Wind Systems A/S is appointed by the Board. The Board also appoints a Chief Executive Officer who manages the day-to-day work of Executive Management. Moreover, the Board allocates roles and responsibilities among the members of Executive Management and determines their remuneration.

As of 10 January 2020, Kerstin Knapp entered the new position as Executive Vice President of People & Culture (Chief People & Culture Officer) and member of Executive Management, reemphasising the importance of Vestas employees as the company's strongest asset.

On 12 May 2020, Anders Nielsen was appointed Executive Vice President of Power Solutions (Chief Technology Officer) and member of Executive Management. His remit will be to implement and accelerate modularisation and modular product development across the entire Vestas value chain. Anders Nielsen came with more than 30 years of industrial experience from the automotive industry, including executive roles, and has a proven track record within innovation, modularisation, technology partnerships, and collaboration. He took over from Anders Vedel, who continued as Chief Scientific Advisor, serving as executive advisor to the Group President & CEO. He also advises the boards of both Vestas Wind Systems A/S and Vestas Offshore Wind A/S, leveraging his unique experience in technology, science, and renewables.

At the same time, Tommy Rahbek Nielsen, who had served as interim Executive Vice President of Manufacturing and Global Procurement (Chief Operating Officer) since 1 January 2020, was announced as the permanent Executive Vice President of Manufacturing & Global Procurement. Together, they will take Vestas' technology and manufacturing to a higher level, and leverage Vestas' industry-leading technology investments beyond past performance.

As of 31 December 2020, Executive Management consisted of seven members, of which the CEO and CFO are registered as executives with the Danish Business Authority.

Assessment of Executive Management's work

The Nomination & Compensation Committee is responsible for conducting an annual evaluation of the contributions and performance of Executive Management, as individual members and as a collective body. They also evaluate the cooperation between the Board and Executive Management. The assessment conducted in 2020 revealed good collaboration between the Board and Executive Management.

Vestas' operating model

Vestas' organisation is structured around six functional areas, representing all key disciplines of the company and all employees, as follows:

- Finance, headed by Marika Fredriksson (CFO)
- Technology, headed by Anders Nielsen (CTO)
- Manufacturing & Global Procurement, headed by Tommy Rahbek Nielsen (COO)
- Sales, headed by Juan Araluce (CSO Sales)
- Service, headed by Christian Venderby (CSO Service)
- People & Culture, headed by Kerstin Knapp (CPCO)

These functional areas are headed by members of Executive Management, who ensure Vestas' all-round operational and organisational performance. As a structurally lean organisation, Vestas has offices in more than 30 countries, and five strong regional sales business units: Northern & Central Europe, Americas, Mediterranean, Asia Pacific, and China.

The operating model has two dimensions:

- Applying a regional focus to implementing and living Vestas' strategy
- Securing global alignment and best practices to be shared and implemented, with a view to achieving 'one enterprise' thinking across the global functions.

Transactions with related parties

A related party transaction is defined as any transaction, direct or indirect, between Vestas or any of its subsidiaries and/or affiliates and a related party. According to Vestas' Policy for Transactions with Related Parties, a related party transaction having a value of more than the lowest of 10 percent of Vestas' total assets, and 25 percent of Vestas operating profit/loss, shall be published at the corporate website.

For 2020, the threshold corresponds to a value of EUR 250m. During the year, there were no significant transactions between Vestas and members of the Board or Executive Management, their close family members, or companies in which these persons have significant influence. In 2020, Vestas had no significant transactions with its associates or joint ventures.

An EnVentus V162-5.6 MW™ nacelle produced for the German market. The red background on the Vestas logo is used according to German legislation regarding flight safety.

Members of Executive Management from left: Anders Nielsen (CTO), Juan Araluce (CSO, Sales), Kerstin Knapp (CPCO), Henrik Andersen (CEO), Marika Fredriksson (CFO), Tommy Rahbek Nielsen (COO), and Christian Venderby (CSO, Service).

Fiduciary positions of the members of the Board

Name and title	Fiduciary positions and positions of trust	Special competencies
Mr Bert Nordberg Professional board member · Chairman of the Board · Chairman of the Nomination & Compensation Committee · Member of the Audit Committee	Chairman of the board of Sigma Connectivity AB. Member of the boards of Essity AB[1], Saab Group AB[1], and Svenska Cellulosa Aktiebolaget SCA[1].	Restructuring, services, and infrastructure business; several years of international business experience; development market knowledge.
Mr Lars Josefsson Independent consultant · Member of the Board · Chairman of the Technology & Manufacturing Committee	Chairman of the board of TimeZynk AB. Member of the boards of Holmen AB[1] and Ouman Oy.	In-depth knowledge of managing international companies including research and development, technology and production.
Mr Anders Erik Runevad Professional board member · Member of the Board · Member of the Nomination & Compensation Committee · Member of the Technology & Manufacturing Committee	Chairman of the board of PGA Sweden National AB. Member of the boards of Nilfisk Holding A/S[1], Schneider Electric SE[1], and Peab AB[1].	In-depth knowledge of the renewable energy industry. Experience from leading an international listed company. Knowledge in international business, strategy development and implementation, corporate management, sales, product development, and operation.
Mr Bruce Grant Executive Chairman, Applied Value LLC · Member of the Board · Member of the Technology & Manufacturing Committee	Chairman of the boards of Applied Invest LLC, Applied VenCap LLC, and Human Care Corporation. Deputy chairman of the board of CosmosID, Inc. Member of the boards of RiverMeadow LLC and Swedish-American Chamber of Commerce, Inc. Chairman of the board of Hand in Hand International.	In-depth knowledge of strategy and turn-around implementation in the renewable industry and large, global industrial companies. Expert on sourcing in the steel market and in-depth knowledge of the US market.
Mr Carsten Bjerg Professional board member · Member of the Board · Member of the Technology & Manufacturing Committee · Member of the Audit Committee	Chairman of the boards of Hydrema Holding ApS, Bogballe A/S, and Bogballe Investment A/S, Ellepot A/S, and Ellegaard Investment I ApS, Guldager A/S and CapHold Guldager ApS, Robco Engineering A/S and Robco Engineering Investment A/S, Arminox A/S and Arminox Investment A/S, Bjerringbro-Silkeborg Håndbold A/S - and PCH Engineering A/S and PCH Investment A/S. Deputy chairman of the board of Rockwool International A/S[1]. Member of the boards of Agrometer A/S, Agrometer Investment A/S, Dansk Smede- og Maskinteknik A/S and IBP H ApS - and TCM Group A/S[1], and TMK A/S.	In-depth knowledge of managing an international group including thorough knowledge of R&D, manufacturing, and strategic management.
Ms Eva Merete Søfelde Berneke CEO, KMD A/S · Member of the Board · Member of the Audit Committee · Member of the Nomination & Compensation Committee	Deputy chairman of the board of Edlund A/S. Member of the boards of Danmarks Nationalbank, Ecole Polytechnique, KMD Venture A/S, and LEGO A/S.	In-depth knowledge of corporate management, including knowledge of strategy execution, management of a listed company, digitalisation, and IT.
Ms Helle Thorning-Schmidt Professional board member · Member of the Board · Member of the Nomination & Compensation Committee	Chair of the board of SelectionF ApS. Member of the boards of Carsoe Group A/S, DJE Holdings Limited, SafeLane Global Limited, and The Fertility Partnership Limited. Chair of the board of Danish Football Union's (DBU) Governance and Development Committee. Member of the boards of Islamic Development Bank and Schwab Foundation for Social Entrepreneurship. Members of the advisory boards of Algebris Research & Policy Forum, Atlantic Council, Council on Foreign Relations, and US Council on Foreign Relations. Members of the councils of 21st Century Council – The Bergguen Institute and European Council on Foreign Relations. Member of the board trustee of the International Crisis Group. Member of the International Commission of Financing Global Education Opportunity.	In-depth knowledge of governmental affairs and political environments as well as strategic management of international and political organisations.
Mr Karl-Henrik Sundström[2] Professional board member · Member of the Board · Chairman of the Audit Committee	Chairman of the boards of Baffin Bay Networks AB and TrackLib AB. Member of the boards of Mölnlycke Health Care AB, NXP Semiconductors N.V.[1], Sustainable Energy Angels AB, and Tellus Fonder AB. Chairman of the tax delegation for Swedish Business and Commerce, the Committee for Swedish participation in Expo 2020, and Climate Leadership Coalition. Member of the board of the Marcus Wallenberg Foundation.	In-depth knowledge of sustainability, strategy, accounting, and finance. International experience of marketing and sales of capital goods.
Mr Kim Hvid Thomsen HR Business Partner, People & Culture, Vestas Wind Systems A/S · Member of the Board		Knowledge of production processes and human resources, etc. of Vestas.
Mr Michael Abildgaard Lisbjerg Skilled Worker - Production and Shop Steward, Vestas Manufacturing A/S · Member of the Board	Deputy chairman of the boards of DM Skjern-Ringkøbing P/S and DMSR af 24. oktober 2016 ApS.	Knowledge of production processes and human resources, etc. of Vestas.
Ms Pia Kirk Jensen Global Travel Manager, People & Culture, Vestas Wind Systems A/S · Member of the Board		In depth insights into the mobility patterns of the organisation and the supporting processes across functions.
Ms Sussie Dvinge Agerbo Management Assistant, Technology & Service Solutions, Vestas Wind Systems A/S · Member of the Board		In-depth knowledge of project management and organisational structures including human resources and staff development.

1) Company listed on a stock exchange.
2) Fulfils the demand for qualifications within financial accounting as set out in the Danish Auditors' Act.

Fiduciary positions of the registered members of Executive Management

Name and position	Born	Nationality	Appointment	Fiduciary positions and positions of trust
Mr Henrik Andersen Group President & CEO	1967	Danish	2019	Chairman of the board of Vestas Offshore Wind A/S. Member of the board of H. Lundbeck A/S[1]. Chairman of the audit committee of H. Lundbeck A/S[1]. Member of the investment committee of Maj Invest Equity 4 & 5 K/S.
Ms Marika Fredriksson Executive Vice President & CFO	1963	Swedish	2013	Member of the boards of AB Industrivärden[1], Sandvik AB[1], and SSAB[1]. Chairman of the audit committee of SSAB[1].

1) Company listed on a stock exchange.

Additional reports

Together with the Annual Report, the following publications constitute Vestas' statutory reporting for the year 2020.

The Vestas Sustainability Report 2020

A comprehensive report on Vestas' sustainability approach and 2020 performance in ESG areas (combined with the Annual Report, this constitutes Vestas' COP report). The report further covers Vestas' statutory reporting on diversity and on the underrepresented gender in management for 2020.

Regulatory requirement Sections 99a, 107d, and 99b of the Danish Financial Statements Act.

The report can be found here:
vestas.com/en/investor/financial_reports#!esg_related

Statutory Report on Corporate Governance 2020

Vestas' position with regard to each of the recommendations issued by the Danish Committee on Corporate Governance.

Regulatory requirement Section 107b of the Danish Financial Statements Act.

The report can be found here:
vestas.com/en/investor/corporate_governance#!statutory-reports

Remuneration Report 2020*

An overview of the remuneration received by the Board and Executive Management during the financial year 2020 with comparative figures for the past five years in compliance with the Remuneration Policy approved by the Annual General Meeting.

* Not a part of the Annual Report.

Regulatory requirement
Section 139b of the Danish Companies Act.

The report can be found here:
vestas.com/en/investor/corporate_governance#!remunerationreports

Risk management

Risk management at Vestas provides a transparent portfolio view on Vestas' strategic and operational risk position and direction, with the aim of assessing and adjusting the company's risk exposure.

Being a multinational company and global leader in wind power, Vestas is exposed to a variety of risks in its daily business. In order for Vestas to protect and create shareholder value and achieve its strategic objectives, it needs to manage the broad spectrum of risks its faces, which include operational risks relating to the design and manufacture of wind turbines, execution risks linked to the transportation, installation, and servicing of wind turbines, and risks of a macroeconomic and regulatory nature. Vestas strives to ensure that such risks are understood, monitored, and managed, with a view to minimising any negative impact on the realisation of the company's strategic and financial ambitions.

Risk management is an integral part of the decision-making process at Vestas, and is supported by the corporate Enterprise Risk Management (ERM) framework. The ERM framework is a holistic, consistent, and continuous approach to managing Vestas' risk exposure, covering risks across the entire organisation.

It is important to note that ERM is not only about identifying, evaluating, and managing individual risks, but is also about communication and establishing the necessary foundation for business decisions.

Governance

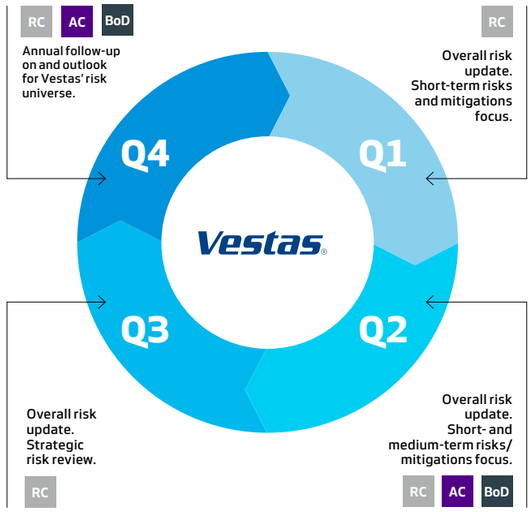
At Vestas, risk management is the responsibility of everyone. All parts of the organisation engage with risk management on a daily operational basis. Vestas works systematically with risks and follows a plan for the year, which is known as 'the ERM annual wheel'. According to this plan, each region, corporate function and selected support functions identify, assess, prioritise, and report on relevant risks on a quarterly basis in line with the ERM framework.

The assessment of risks is carried out using Vestas' Group Risk Criteria based on probability and impact as illustrated in the risk matrix on page 061. The potential impact can be either financial and/or non-financial parameters – i.e. reputational, environmental, regulatory or safety. Conceptually, risks may be considered enterprise risks if mapped in upper areas of the risk matrix and the Vestas' Group Risk Criteria is thereby determining prioritisation of key enterprise risks.

The identified risks are mapped as either being short-term, medium-term, or of a strategic nature, as follows:

- Short-term risks typically have financial impact within the current year and are therefore often related to execution and single events.
- Medium-term risks have a time horizon of one-to-three years, and are often characterised as emerging risks.
- Strategic risks are linked to the execution of Vestas' strategy and are defined as future uncertainties – internal as well as external – that have the potential to significantly impact Vestas' ability to achieve its long-term vision.

Enterprise Risk Management annual wheel



RC Risk Committee AC Audit Committee BoD Board of Directors

All risks are consolidated by Global Risk Management and signed off by relevant risk owners throughout the organisation. Each quarter, key risks are presented and discussed by the Risk Committee, including the status and exposure of those risks, in order to support decisions on mitigating actions. The Risk Committee currently consists of all members of Executive Management, with the exception of the Group President & CEO, and is chaired by the Executive Vice President & CFO. Twice a year, the risks are reported to the Audit Committee as well as the Board of Directors (the Board).

The illustration above of the ERM annual wheel shows the frequency of the Risk Committee meetings and higher-level reporting on ERM at Vestas. The sequence of the annual wheel is repeated throughout the organisation.

In accordance with the annual wheel, Vestas conducted a strategic risk review in the third quarter of 2020, engaging all parts of the organisation. The strategic risk review serves several purposes, including managing strategic risks through identification, assessment, and consolidation. It also supports mitigation through integration into the strategy process, and promotes awareness among Executive Management and the Board.

Climate-related risks and opportunities are addressed as an integral part of the daily business as they are directly linked to the company's business model and strategy. Vestas has not defined any climate-related risks among its principal risks, however such risks are continuously monitored and evaluated by the Risk Committee, the Audit Committee, and the Board. The most significant sustainability risks, including climate-related risks, are addressed in the Vestas Sustainability Report 2020.

Financial risks, including risks related to currency, interest rates, tax, credit, and commodity exposures, are addressed in the notes to the consolidated financial statements, see an overview on page 064.

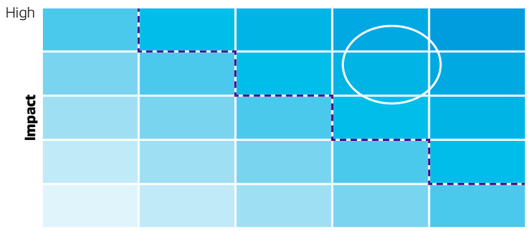
Main risks

The five key risks for Vestas identified in 2020, based on their potential impact and probability, are:

- operating in complex markets,
- trade barriers,
- execution of high volumes,
- cyber risks, and
- increased complexity leading to faster product cycles and challenged quality.

All five risks are identified as placed in the upper, right corner of the risk matrix. A description of each risk, its impact, and the current mitigation actions follows below.

Risk matrix



Operating in complex markets

Description
Several of the markets, in which Vestas is operating and exploring business opportunities, have complex characteristics differing from the more mature markets in Europe and the USA. Some of the main risk areas to be understood and addressed are:

- Security in relation to employees and subcontractors
- Impacts on local communities near construction sites
- Corruption in the country or sector
- Sanctions and export control according to international law
- Protection of intellectual property rights

Impact
The adverse impacts relating to risks in complex markets are many and different. Adverse reputational impacts or legal implications may occur if risks are not mitigated.

Risks relating to intellectual property rights may impact competitiveness, lead to adverse claims, or limit freedom to operate.

Mitigation
To prevent and mitigate potential risks within these areas, Vestas uses a stage gate-based process to systematically evaluate and adapt the product and project offering during contracting, construction, and servicing. There is an increased focus on identifying risks of a non-technical nature in complex markets, with mitigations identified and managed via Vestas' Social Due Diligence process. For more information, see the Vestas Sustainability Report 2020, page 040.

Trade barriers

Description
Local content requirements and other trade protectionist measures, such as the imposition of tariffs and duties on traded goods and commodities, continued to be barriers to trade on a global level in 2020. This situation is expected to continue in the coming years. Vestas has a global supply chain and is naturally not immune to the increase in trade barriers and trade defence instruments in its largest markets.

Impact
Excessively strict local content requirements and rules, together with the increasing imposition of tariffs and duties, lead to cost increases on sourced material and components, which impacts final product price. These circumstances also decrease flexibility in the supply chain and bring more uncertainty to supply chain planning. This can result in higher costs for wind turbine manufacturing, and could lead to higher cost of energy for societies.

Mitigation
Vestas continuously monitors and works to minimise the impact of existing and potential local content rules and trade tariffs and duties. It does this by leveraging its global footprint, buying power and procurement options, as well as ensuring flexibility in the value chain. Success in this area has been achieved through close collaboration with suppliers, and Vestas will continue its efforts to find and optimise various avenues to mitigate the impact of trade restrictions going forward.

Execution of high volumes

Description
Vestas manufactures, delivers, and installs significant volumes of wind turbines. A significant proportion of deliveries are typically concentrated in the second half of the year. Some of the main risks here are linked to the ramp-up of manufacturing internally at Vestas, as well as with Vestas' vendors. These risks relate to constraints on the sourcing of materials, components, and transportation, as well as on installation equipment and personnel. In the fourth quarter in particular, weather conditions in the Northern Hemisphere can impact Vestas' ability to execute commitments on time.

Impact
Financial impact expressed as costs related to liquidated damages and budget overrun is an evident potential impact. Utilisation of Vestas' manufacturing footprint and the flexibility it provides may expose Vestas to exchange rate fluctuations. Maintaining quality levels in a high-volume scenario is a challenge and poses a risk to the company.

Mitigation
In the contracting phase, Vestas works to ensure a certain flexibility in delivery schedules to mitigate delay impacts on its revenue stream. Vestas has a continuous high internal focus on execution in every part of the organisation and value chain.

Cyber risks

Description
Vestas' dependence on its commercial, technical, and operational IT infrastructure is significant and hence, Vestas is exposed to potential loss or harm relating to this.

Impact
Risks include inability to meet contractual obligations, brand damage and theft of intellectual property or personal data. These risks could result in monetary losses in the form of lost business opportunities, contractual fines or penalties from authorities. Losses can also be caused by malicious hacking activities, unintentional human error, and system failures.

Mitigation
With a focus on heightening and strengthening the cyber security position at Vestas, a cross-organisational cyber security programme has been designed. Elements of the programme include developing systematic methods to address exposure, and continuously improving the technical ability to protect against, detect, and respond to any attempts to penetrate Vestas' commercial, technical, or operational IT infrastructure.

These objectives are well under way, and with the hiring in 2020 of a Chief Information Security Officer to lead the cyber security programme, Vestas has taken appropriate steps to further strengthen its performance in this area.

Increased complexity leading to faster product cycles and challenged quality

Description
The competitive landscape has in the past years driven wind turbine manufacturers towards the fast-paced development of new technology. OEMs are now offering new technologies at an earlier stage in the design and market phases, and this puts new demands on the organisation throughout the value chain. The rapid pace of innovation has allowed a rapid reduction in the Levelised Cost of Electricity (LCoE) for wind power, but has forced OEMs to take more technical risk on the products being brought to market. As a result, products are being installed and commissioned with a lower level of maturity than in the past, which has led to increased rework and repairs as the quality on Vestas' turbines has not lived up to usual standards.

Impact
This creates financial and reputational risk for Vestas in the form of a less mature cost position during production ramp-up, leading to reduced contribution margins and likely reduced quality in the effort to achieve full production rate. This in turn results in provisions relating to the cost of poor quality. Delays in product certification can also occur as a result of a shorter product development cycle, and this can lead to liquidated damages (LDs) when impacting the customer Commercial Operations Date (COD).

Mitigation
Vestas is addressing existing and potential future challenges across the value chain and develops a plan for how to overcome these. By finding, analysing, and addressing the root causes and ensuring focus on successful handovers in the value chain, Vestas will be better at getting things right the first time by adhering to processes and fast identify, correct, and learn from mistakes when they occur. It has been Vestas' strategy to achieve shorter design and product introduction cycles through the modular wind turbine platform, EnVentus™. This platform enables a large variety of product configurations while re-using as many components as possible. It requires the adoption of robust design principles and virtual testing tools.

As modularisation evolves, Vestas expects to expand its product application range while reducing the number of active parts.

COVID-19

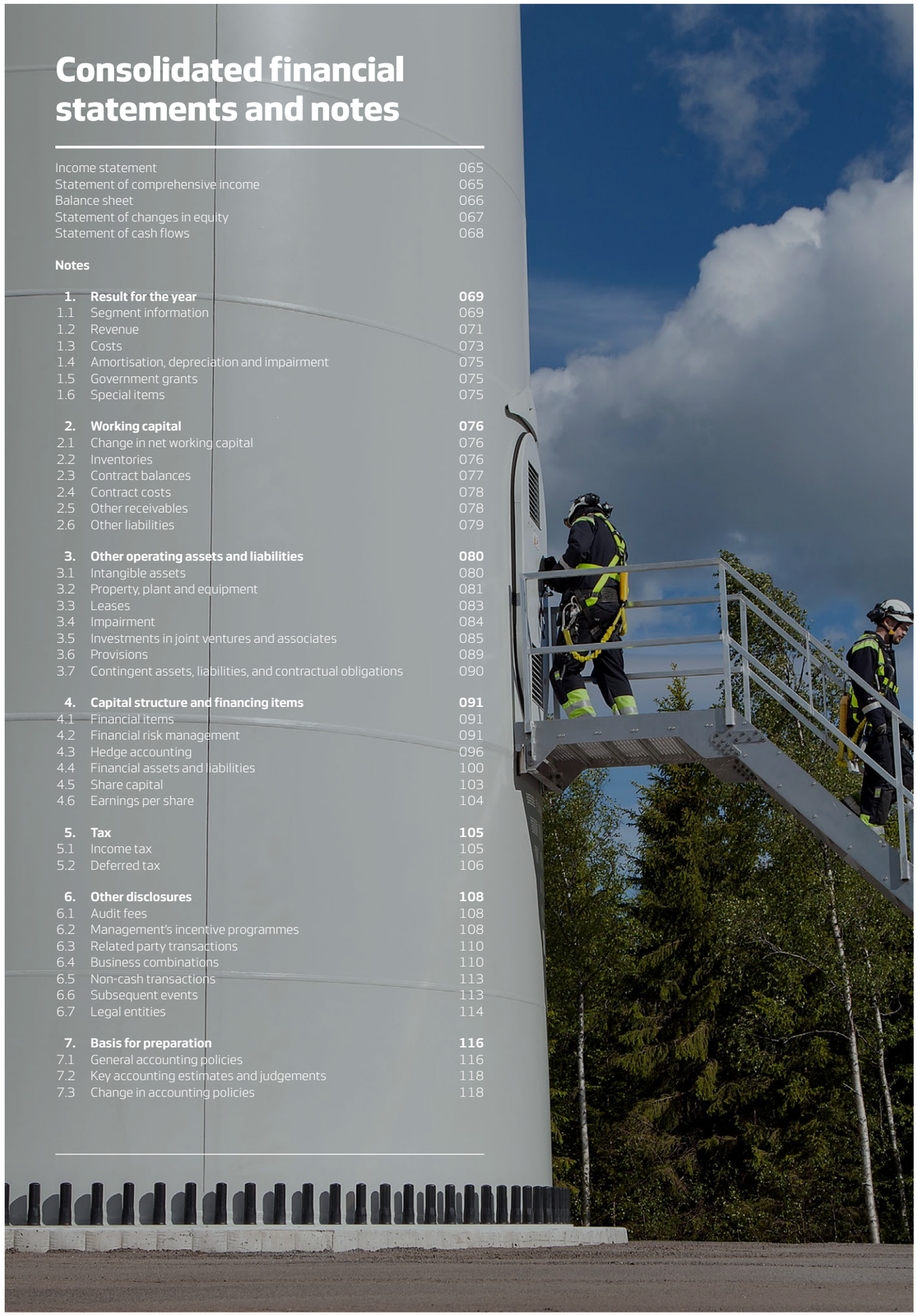
The outbreak of COVID-19 left its mark on the Vestas risk management landscape in 2020. Presenting additional challenges and risks to Vestas' operations and revenue streams, the pandemic and its consequences are expected to continue in 2021.

From the beginning of 2020 and throughout the year, Vestas took specific measures to ensure the health and safety of its employees globally. Such measures were the primary focus of Vestas' Corporate Crisis Management team.

The rapid spread of the virus put an increasing pressure on the whole value chain. However, through the continuous guidance and leadership provided by the Corporate Crisis Management team, as well as local crisis management teams, Vestas achieved a high level of resilience. As a result, the Vestas supply chain remained operational at a high level, ensuring a constant flow of production and delivery in some of the world's worst affected regions.

Financial statements

Consolidated financial statements and notes



Income statement 1 January – 31 December

mEUR	Note	2020	2019
Revenue	1.1, 1.2	14,819	12,147
Production costs	1.3, 1.4, 2.2	(13,281)	(10,386)
Gross profit		**1,538**	**1,761**
Research and development costs	1.3, 1.4	(265)	(268)
Distribution costs	1.3, 1.4	(281)	(222)
Administration costs	1.3, 1.4	(242)	(267)
Operating profit (EBIT) before special items		**750**	**1,004**
Special items	1.6	(52)	-
Operating profit (EBIT)		**698**	**1,004**
Income/(loss) from investments in joint ventures and associates	3.5	331	3
Financial income	4.1	18	40
Financial costs	4.1	(113)	(138)
Profit before tax		**934**	**909**
Income tax	5.1	(163)	(209)
Profit for the year		**771**	**700**
Profit is attributable to:			
Owners of Vestas Wind Systems A/S		765	704
Non-controlling interests		6	(4)
Earnings per share (EPS)	4.6		
Earnings per share (EUR)		3.90	3.57
Earnings per share (EUR), diluted		3.89	3.55

Statement of comprehensive income 1 January - 31 December

mEUR	Note	2020	2019
Profit for the year		**771**	**700**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		(133)	27
Exchange rate adjustments relating to foreign entities transferred to the income statement		14	(8)
Fair value adjustments of derivative financial instruments	4.3	114	(23)
Gain/(loss) on derivative financial instruments transferred to the income statement	4.3	(104)	(50)
Exchange rate adjustments relating to joint ventures and associates	3.5	1	1
Share of fair value adjustments of derivatives financial instruments of joint ventures and associates	3.5	22	(58)
Share of fair value adjustments of derivative financial instruments transferred to the income statement of joint ventures and associates	3.5	25	1
Tax on fair value adjustments that may be subsequently reclassified to the income statement		(6)	18
Other comprehensive income after tax		**(67)**	**(92)**
Total comprehensive income		**704**	**608**

Balance sheet 31 December

Assets

mEUR	Note	2020	2019
Intangible assets	3.1, 3.4	2,888	1,208
Property, plant and equipment	3.2, 3.3	2,022	1,671
Investments in joint ventures and associates	3.5	57	169
Other investments	4.4	69	65
Tax receivables	5.1	201	156
Deferred tax	5.2	335	324
Other receivables	2.5, 4.4	241	85
Financial investments	4.4	100	211
Total non-current assets		**5,913**	**3,889**
Inventories	2.2	5,289	4,098
Trade receivables	4.2, 4.4	1,538	1,460
Contract assets	2.3, 4.4	775	528
Contract costs	2.4	369	418
Tax receivables	5.1	121	125
Other receivables	2.5, 4.4	981	752
Financial investments	4.4	111	173
Cash and cash equivalents	4.2, 4.4	3,063	2,888
Total current assets		**12,247**	**10,442**
Total assets		**18,160**	**14,331**

Liabilities

mEUR	Note	2020	2019
Share capital	4.5	27	27
Other reserves		(146)	(67)
Retained earnings		4,773	3,333
Equity attributable to Vestas		4,654	3,293
Non-controlling interests		49	52
Total equity		**4,703**	**3,345**
Provisions	3.6	696	459
Deferred tax	5.2	158	147
Financial debts	3.3, 4.2, 4.4	867	661
Tax payables	5.1	331	296
Other liabilities	2.6, 4.4	173	76
Total non-current liabilities		**2,225**	**1,639**
Financial debts	3.3, 4.2, 4.4	487	159
Contract liabilities	2.3	5,613	5,020
Trade payables	4.4	3,608	3,119
Provisions	3.6	580	221
Tax payables	5.1	86	128
Other liabilities	2.6, 4.4	858	700
Total current liabilities		**11,232**	**9,347**
Total liabilities		**13,457**	**10,986**
Total equity and liabilities		**18,160**	**14,331**

Statement of changes in equity 1 January – 31 December

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	Total
Equity as at 1 January 2020	**27**	**(4)**	**(4)**	**(59)**	**(67)**	**3,333**	**52**	**3,345**
Profit for the year	-	-	-	-	-	765	6	771
Other comprehensive income for the year	-	(110)	4	48	(58)	-	(9)	(67)
Total comprehensive income for the year	-	(110)	4	48	(58)	765	(3)	704
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items, net	-	-	(21)	-	(21)	-	-	(21)
Transactions with owners:								
Capital increase [1]	1	-	-	-	-	860	-	861
Reduction of share capital [1]	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(213)	-	(213)
Dividends distributed related to treasury shares	-	-	-	-	-	4	-	4
Share-based payment	-	-	-	-	-	16	-	16
Tax on equity transactions	-	-	-	-	-	7	-	7
Total transactions with owners	-	-	-	-	-	675	-	675
Equity as at 31 December 2020	**27**	**(114)**	**(21)**	**(11)**	**(146)**	**4,773**	**49**	**4,703**

1) During 2020, the share capital was reduced by 1,977,848 shares of DKK 1.00, due to cancellation of treasury shares. In December 2020, the share capital was increased by 5,049,337 shares of DKK 1.00 and used as consideration for acquiring MHI Vestas Offshore Wind A/S. Ref. note 4.5 for changes on share capital in the period 2016-2020.

A dividend of DKK 8.45 (EUR 1.14) per share, corresponding to EUR 230m in total, is proposed for the financial year 2020. The proposed dividends are included in retained earnings. For proposed distribution of profit, ref. to note 4.5. Dividends of EUR 209m, net of treasury shares, have been paid in 2020 relating to the financial year 2019.

Ref. to the parent company's statement of changes in equity on page 121 for information about which reserves are available for distribution.

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	Total
Equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**3,042**	**12**	**3,104**
Effect of initially applying IFRIC 23	-	-	-	-	-	(43)	-	(43)
Adjusted equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**2,999**	**12**	**3,061**
Profit for the year	-	-	-	-	-	704	(4)	700
Other comprehensive income for the year	-	18	(55)	(56)	(93)	-	1	(92)
Total comprehensive income for the year	-	18	(55)	(56)	(93)	704	(3)	608
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	4	-	4	-	-	4
Transactions with owners:								
Transactions with non-controlling interests	-	-	-	-	-	-	-	-
Reduction of share capital [1]	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(205)	-	(205)
Dividends distributed related to treasury shares	-	-	-	-	-	8	-	8
Acquisitions of treasury shares	-	-	-	-	-	(201)	-	(201)
Acquisition of minorities interest	-	-	-	-	-	-	43	43
Share-based payment	-	-	-	-	-	25	-	25
Tax on equity transactions	-	-	-	-	-	2	-	2
Total transactions with owners	(1)	-	-	-	-	(370)	43	(328)
Equity as at 31 December 2019	**27**	**(4)**	**(4)**	**(59)**	**(67)**	**3,333**	**52**	**3,345**

1) During 2019, the share capital was reduced by 6,794,040 shares of DKK 1.00, due to cancellation of treasury shares.

Statement of cash flows 1 January – 31 December

mEUR	Note	2020	2019
Profit for the year		771	700
Adjustments for non-cash transactions	6.5	803	831
Interest received		16	27
Interest paid		(40)	(47)
Income tax paid	5.1	(219)	(251)
Cash flow from operating activities before change in net working capital		1,331	1,260
Change in net working capital	2.1	(588)	(437)
Cash flow from operating activities		**743**	**823**
Purchase of intangible assets	3.1	(309)	(325)
Purchase of property, plant and equipment	3.2	(379)	(451)
Net purchase of other financial assets		(1)	-
Disposal of property, plant and equipment		1	4
Disposal of other financial assets		-	2
Proceeds from investment in joint venture	3.5	-	52
Purchase of shares in joint ventures and associates	3.5	(3)	(11)
Disposal of investment in joint ventures and associates	3.5	32	-
Cash flow from investing activities before acquisition of subsidiaries and financial investments		**(659)**	**(729)**
Free cash flow before acquisition of subsidiaries and financial investments		**84**	**94**
Acquisition of subsidiaries	6.4	218	(3)
Purchase of financial investments		-	(303)
Disposal of financial investments		174	544
Cash flow from investing activities		**(267)**	**(491)**
Free cash flow		**476**	**332**
Acquisition of treasury shares		-	(201)
Dividends paid		(209)	(197)
Payment of lease liabilities	4.4	(82)	(61)
Proceeds from borrowings	4.4	94	100
Payment of financial debt	4.4	(37)	(8)
Cash flow from financing activities		**(234)**	**(367)**
Net increase in cash and cash equivalents		**242**	**(35)**
Cash and cash equivalents as at 1 January		2,888	2,918
Exchange rate adjustments on cash and cash equivalents		(67)	5
Cash and cash equivalents as at 31 December	4.2	**3,063**	**2,888**

1. Result for the year

1.1 Segment information

Reportable segments
Vestas operates in the two business segments, Power Solutions and Service within both the onshore and the offshore market .

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

Vestas accounting policies
The reportable segments are determined based on Vestas' management structures and the consequent reporting to the Chief Operating Decision Maker (CODM), which is defined as the Executive Management. Following the acquisition of MHI Vestas Offshore Wind A/S on 14 December 2020, a new offshore operating segment has been established. Vestas' reportable segment 'Power Solutions' includes respectively onshore and offshore operating segments. The onshore and offshore activities are combined in one reportable segment, as the nature of the businesses and the financial impact from the activities are similar in respect of product categories, production, distribution and customers. In addition, the long-term EBIT margins and investment requirements relatively to revenue are expected at the same level.

The total external revenue is derived from the two reportable segments and comprise sale of wind turbines and associated service activities, respectively Power Solutions and Service. Certain income and costs relating to Vestas functions, investing activities, tax, etc. are managed on Vestas level. These items are not included in the reportable segments, and therefore, presented as 'Not allocated'.

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

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

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

2020 mEUR	Power Solutions[2]	Service	Not allocated	Total
Revenue	12,764	2,055	-	14,819
Total revenue	**12,764**	**2,055**	**-**	**14,819**
Total costs	**(12,367)**	**(1,487)**	**(215)**	**(14,069)**
Operating profit (EBIT) before special items	**397**	**568**	**(215)**	**750**
Special items, ref. note 1.6[1]	(52)	-	-	(52)
Operating profit (EBIT)	**345**	**568**	**(215)**	**698**
Income/(loss) from investments in joint ventures and associates, ref. note 3.5, 6.4			331	331
Financial income			18	18
Financial costs			(113)	(113)
Profit before tax				**934**
Amortisation and depreciation included in total costs, ref. note 1.4	(499)	(70)	(62)	(630)
Investments in joint ventures and associates, ref. note 3.5				57

1) During 2020, total impairment losses of EUR 54m have been recognised. Impairment losses of EUR 43m have been recognised in special items as well as provision for purchase commitments of EUR 6m and staff costs of EUR 3m related to the discontinuation of development projects, impacting the Power Solutions segment.
2) Power Solutions is impacted with revenue of EUR 100m in 2020 following the acquisition of MHI Vestas Offshore Wind A/S on 14 December 2020. The impact on operating profit is zero.

1.1 Segment information (continued)

2019 mEUR	Power Solutions	Service	Not allocated	Total
Revenue	10,276	1,871	-	12,147
Total revenue	**10,276**	**1,871**	**-**	**12,147**
Total costs	**(9,534)**	**(1,389)**	**(220)**	**(11,143)**
Operating profit (EBIT) before special items	**742**	**482**	**(220)**	**1,004**
Special items				-
Operating profit (EBIT)	**742**	**482**	**(220)**	**1,004**
Income/(loss) from investments in joint ventures and associates, ref. note 3.5			3	3
Financial income			40	40
Financial costs			(138)	(138)
Profit before tax				**909**
Amortisation and depreciation included in total costs, ref. note 1.4	(429)	(65)	(52)	(546)
Investments in joint ventures and associates, ref. note 3.5				169

During 2019, reversal of write-downs on inventory of EUR 120m related to development and construction activities in prior years has been recognised and consequently positively impacted the Power Solution EBIT.

Revenue specified by country

mEUR	2020	2019
Denmark	827	394
USA	5,787	3,871
Other countries	8,205	7,882
Total	**14,819**	**12,147**

The revenue split is based on geographical supply point.

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

Intangible assets and property, plant and equipment specified by country

mEUR	2020	2019
Denmark	3,509	1,434
USA	500	590
Other countries	901	855
Total	**4,910**	**2,879**

Intangible assets and property, plant and equipment are based on the physical location of the assets.

The intangible assets and property, plant and equipment in all other countries did not individually exceed 10 percent of total intangible assets and property, plant and equipment.

1.2 Revenue

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

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

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

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

Supply-and-installation projects (over time)
Revenue from sale of wind power plants based on non-standard solutions to the customer, where there is no alternative use for the wind power plant to be delivered and where we have an enforceable right to payment for the work completed is recognized over time using the percentage-of-completion method. Revenue excludes amounts collected on behalf of third parties.

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

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

Transaction price
The transaction price for sale of wind turbines and wind power plants normally includes a fixed consideration. The transaction price for service contracts includes a fixed consideration and often a variable consideration. The estimated amount of variable consideration will be included in the transaction price only to the extent that a significant reversal in revenue recognised is highly unlikely to occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price recognised as revenue is furthermore reduced by penalties and payment of liquidated damages related to project and service contracts.

All wind turbines and wind power plant contracts include a standard warranty clause. For further details on warranty, ref. note 3.6 Provisions.

Key accounting estimates and judgements
Estimate regarding recognition of contract elements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, Supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future. Management has assessed that the project specific margin is a fair estimate of a reasonable margin used to allocate consideration under a contract to the contract elements. Significant estimate is also involved in assessing whether project or service contracts contain multiple performance obligations which should be accounted for separately.

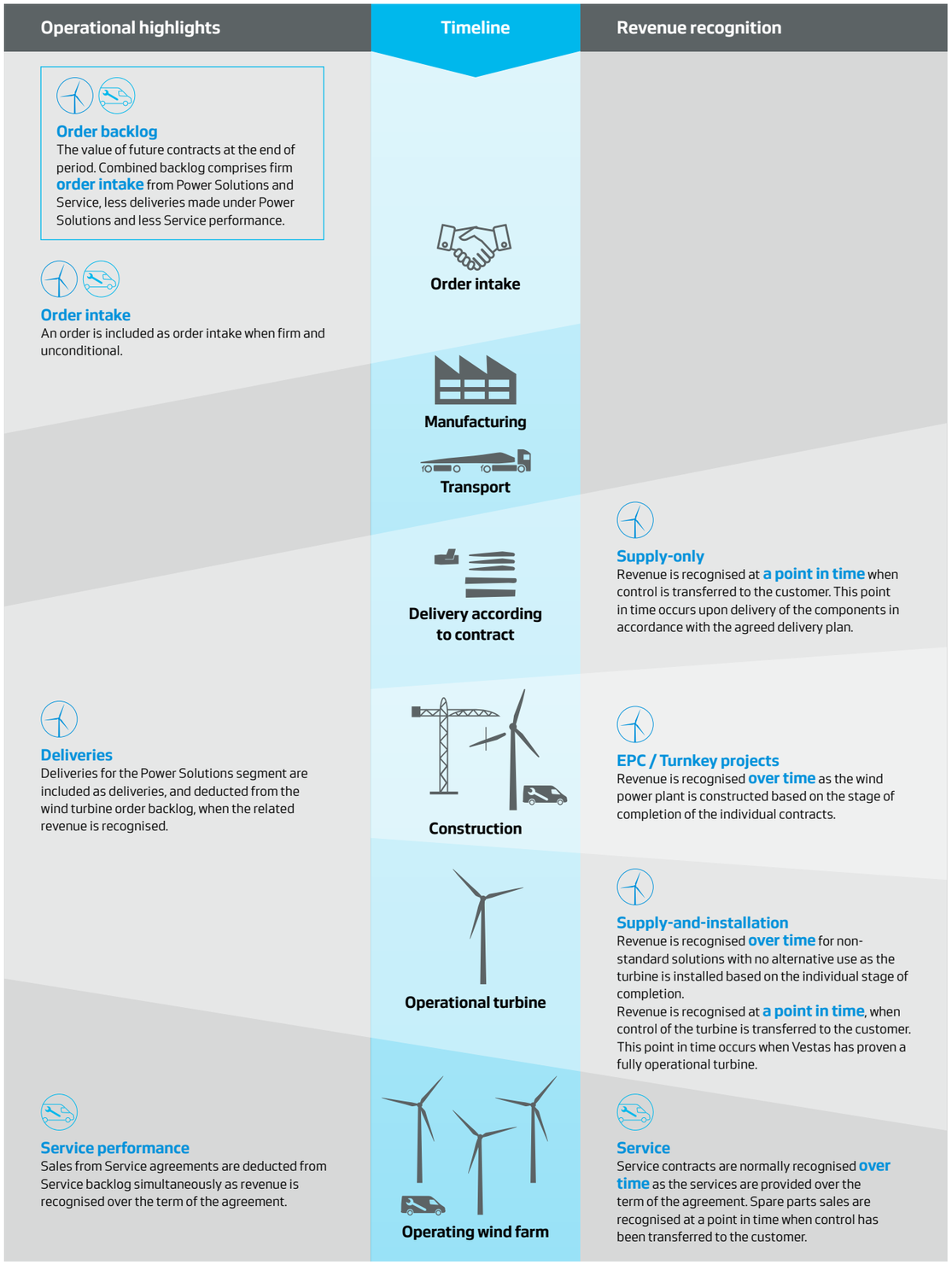
Judgement regarding method for recognition of revenue from Supply-and-installation contracts
Management applies judgement when determining whether revenue from Supply-and-installations contracts shall be recognised at a point in time or over time.

Management has determined that Supply-and-installation projects based on standard solutions have an alternative use. Consequently, revenue of such contract is recognised at the point in time when the turbine is fully operational and control is transferred to the customer.

For certain projects, Vestas agrees to delivery of wind power plants based on non-standard solutions to the customer. Management assesses whether such non-standard solutions have an alternative use. The judgements made takes into consideration technology used and the degree of customization including remoteness of the wind power plant. Revenue from sale of non-standard solutions, which are judged to have no alternative use is recognised over time (percentage-of-completion).

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

Recognition of revenue and operational highlights



Disaggregation of revenue
In the following section, revenue is disaggregated by sale of projects and sale of service, by primary geographical market, major contract types and timing of revenue recognition.

As disclosed in the Annual report 2019, the increased demand for site-specific and remote wind power plants and customization of wind turbines have increased the Supply-and-installation projects with no alternative use, and consequently the revenue recognised over time for Supply-and-Installation projects. For the financial year 2020, Supply-and-installation projects recognised over time (Percentage-of-completion) constituted 35 percent of the total Supply-and-installation revenue compared to 9 percent in 2019. The projects are mainly located in Brazil, but also include projects in other countries such as Chile, Russia and Turkey.

	Power Solutions		Service		Total	
mEUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Timing of revenue recognition						
Products and services transferred at a point in time	9,853	8,629	374	308	10,227	8,937
Products and services transferred over time	2,911	1,647	1,681	1,563	4,592	3,210
Total	**12,764**	**10,276**	**2,055**	**1,871**	**14,819**	**12,147**
Revenue from contract types						
Supply-only	6,600	4,200	-	-	6,600	4,200
Supply-and-installation (at a point in time)	3,253	4,429	-	-	3,253	4,429
Supply-and-installation (over time)	1,781	450	-	-	1,781	450
Turnkey (EPC)	1,130	1,197	-	-	1,130	1,197
Service	-	-	2,055	1,871	2,055	1,871
Total	**12,764**	**10,276**	**2,055**	**1,871**	**14,819**	**12,147**
Primary geographical markets						
EMEA	4,163	4,397	1,141	1,045	5,304	5,442
Americas	6,588	4,626	703	633	7,291	5,259
Asia Pacific	2,013	1,253	211	193	2,224	1,446
Total	**12,764**	**10,276**	**2,055**	**1,871**	**14,819**	**12,147**

Transaction price allocated to the remaining sales contracts (Order backlog)
The following table includes revenue expected to be recognised in the future related to performance obligations that are unfulfilled (or partially unfulfilled) at the end of the financial year.

bnEUR	**2020**	**2019**
Order backlog - wind turbines	19.0	16.0
Order backlog - Service	23.9	17.8
Total	**42.9**	**33.8**

All considerations from contracts with customers are included in the amounts presented above.

At the end of 2020, the average remaining duration in the service order backlog is approx. nine years (2019: eight years), with a range up to 30 years (2019: 30 years). For the Power Solutions segment, projects are normally to be delivered within 1-3 years (2019: 1-3 years).

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect the timing of the satisfaction of the future performance obligations within the backlog.

Furthermore, it should be emphasised that the order backlog is forward-looking in nature and a subset of Vestas' potential future revenue.

1.3 Costs

Vestas accounting policies

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

Furthermore, provisions for loss-making construction contracts are included in production costs.

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

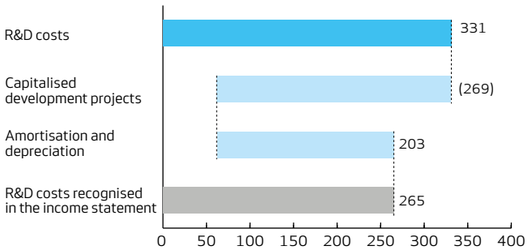
Distribution costs
Distribution costs comprise costs incurred for the sale and distribution of products, etc. sold during the year. Also included are costs relating to employees and depreciation.

Administration costs
Administration costs comprise costs incurred during the year for management and administration of Vestas and includes costs for administrative staff, management, office premises, office costs, and depreciation.

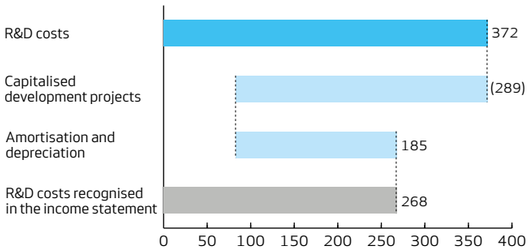
1.3 Costs (continued)

Research and development costs

Research and development costs 2020
mEUR



Research and development costs 2019
mEUR



Staff costs

mEUR	2020	2019
Staff costs are specified as follows:		
Wages and salaries, etc.	1,240	1,322
Share-based payment, ref. note 6.2	16	25
Pension schemes, defined contribution schemes	68	63
Other social security costs	178	189
	1,502	**1,599**
Average number of employees	26,121	24,964
Number of employees as at 31 December	29,378	25,541

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

mEUR	2020	2019
Attributable to:		
Board of Directors		
Board remuneration	1	1
	1	**1**
Executive Management		
Wages and bonus	6	9
Share-based payment	4	9
Social security costs	0	0
	10	**18**

The Board of Directors and Executive Management are not covered by any pension schemes. In the event of change in control, members of the Executive Management do not receive any additional compensation. Wages and bonus to Executive Management in 2019 include impact from changes of members in Executive Management.

In 2020, share-based payment and wages to the registered members of the Executive Management amounted to EUR 4m (2019: EUR 12m).

1.4 Amortisation, depreciation and impairment

2020 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	16	177	4	49	-	246
Depreciation, property, plant and equipment, ref. note 3.2	256	26	88	14	-	384
Impairment loss, intangible assets ref. note 3.1	-	-	-	-	24	24
Impairment loss, property, plant and equipment ref. note 3.2	11	-	-	-	19	30
Total	**283**	**203**	**92**	**63**	**43**	**684**

2019 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	15	159	1	37	-	212
Depreciation, property, plant and equipment, ref. note 3.2	234	26	57	17	-	334
Total	**249**	**185**	**58**	**54**	**-**	**546**

1.5 Government grants

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

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

Vestas has received government grants of which EUR 3m (2019: EUR 6m) has been offset against direct cost and EUR 4m (2019: EUR 0m) against finance cost and EUR 1m (2019: EUR 1m) against non-current assets.

1.6 Special items

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

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

Optimising and simplifying the product portfolio
With reference to the press release dated 20 April 2020, Vestas has decided to optimise and simplify the product portfolio for the coming years to ensure Vestas' long-term success and to ensure that it, despite the COVID-19 situation, exits 2020 in the position of strength with which it was entered. This event qualifies as special items in accordance with Vestas' accounting principles. In total, special items of EUR 52m has been recognised. EUR 43m as impairment of intangible and tangible fixed assets, EUR 6m recognised as provision for purchase commitments and EUR 3m related to staff costs.

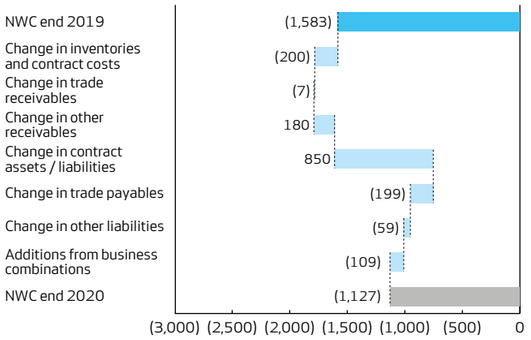
Basis for impairment test
The decision to optimise and simplify the product portfolio includes the discontinuation of certain development projects including the V138-3.0 MW™ turbine. This has led to the recognition of an impairment loss of EUR 43m in 2020. The impairment loss is allocated to the Power Solutions segment and is the result of the impairment loss of development projects in progress and other equipment.

mEUR	2020	2019
Impairment loss on intangible and tangible assets	(43)	-
Staff costs	(3)	-
Purchase commitments	(6)	-
Special Items	**(52)**	**-**

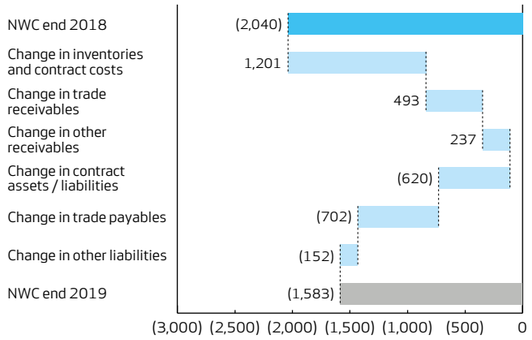
2. Working capital

2.1 Change in net working capital

NWC change 2020
mEUR



NWC change 2019
mEUR



Included in the change in net working capital (NWC) are non-cash adjustments and exchange rate adjustments with a total amount of EUR (132)m (2019: EUR 20m). Consequently, the cash flow impact of change in NWC is EUR (588)m (2019: EUR (437)m).

Vestas is facilitating a supply chain financing program funded by credit institutions. Use of this programme by suppliers takes place in the ordinary course of business and it fulfills the criteria as trade payables in the balance sheet with a total amount of EUR 381m (2019: EUR 293m).

2.2 Inventories

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

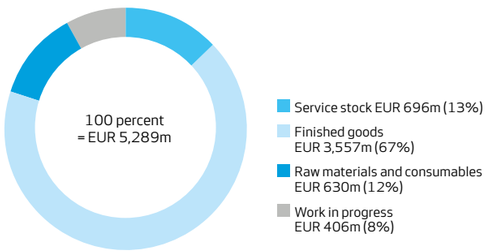
The cost of raw materials and service stock comprise purchase price of materials, consumables, duties, and transportation costs.

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

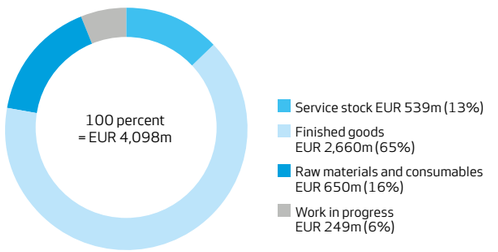
The NRV of inventories is measured at sales price less costs of completion and selling costs. NRV is determined taking into account marketability, obsolescence, and development in the expected selling price.

Key accounting estimate
Estimate of net realisable value
Vestas estimates the net realisable value at the amount at which inventories are expected to be sold. Inventories are written down to net realisable value when the cost of inventories is estimated to be non-recoverable due to obsolescence, damage or declining selling prices. Estimates are used when accounting for or measuring inventory provisions, and these estimates depend upon subjective and complex judgements about certain circumstances, taking into account fluctuations in prices, excess quantities, condition of the inventory, nature of the inventory, and the estimated variable costs necessary to make the sale.

Inventories 2020
mEUR and percent



Inventories 2019
mEUR and percent



2.2 Inventories (continued)

mEUR	2020	2019
Inventories consumed		
Inventories consumed for the year, which are included in production costs	8,545	6,456
Write-downs of inventories		
Write-downs of inventories in the year	11	28
Utilised write-downs in the year	(9)	(9)
Reversal of write-downs in the year[1)]	(13)	(145)

1) The reversal of write-downs in the year are due to goods previously written down being used or sold at or above original cost. In 2019, reversal of write-downs was impacted by EUR 120m related to the sale of 80 percent shares in subsidiaries that own three wind power plants in Romania.

2.3 Contract balances

Vestas accounting policies
Contract assets/liabilities comprise agreements to deliver wind power plants based on non-standard solutions (supply-and-installation projects over time) and wind power plants with a high degree of customisation (turnkey projects), as well as service and maintenances agreements. Contract liabilities also comprise prepayments from customers for supply-only and supply-and-installation projects ordered but not yet delivered.

Vestas receives payments from customers based on a billing schedule, as established in the contracts and generally represents Vestas' engagements. Contract assets relates to Vestas' conditional right to consideration for Vestas' completed performance under the contract. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) Vestas performs under the contract.

Contract assets/liabilities are measured at the selling price of the work performed based on the stage of completion less progress billing and expected losses.

The stage of completion is measured as the proportion at the costs on the contract incurred relatively to the estimated total costs on the contract. Where it is probable that total costs will exceed total revenues from a contract, the expected loss is recognised immediately as a cost and a provision.

The value of self-constructed components is recognised as contract assets/liabilities upon installation of the components to the specific wind power plant's construction site.

If the selling price of the work performed exceeds progress billings and expected losses it is recognised as an asset. If interim billings and expected losses exceed the selling price it is recognised as a liability.

Costs relating to sales work and the pursuing of contracts are recognised in the income statement as incurred, if the costs are not incremental.

Contract balances
The following table provides information about contract assets and contract liabilities from contracts with customers.

mEUR	Contract assets	Contract liabilities
1 January 2020	**528**	**5,020**
Additions from business combinations	66	1,262
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	(3,409)
Increases as a result of changes in the measure of progress and other adjustments	422	-
Payments received, excluding amounts recognised as revenue during the period (prepayments)	-	3,121
Transfers from contract assets recognised at the beginning of the period to receivables	(221)	-
Exchange rate adjustments	(20)	(381)
31 December 2020	**775**	**5,613**
Contract assets and liabilities comprise the following:		
Construction contract in progress (turnkey)	72	230
Service contracts	647	801
Supply-only contracts	-	642
Supply-and-installation contracts point in time	-	3,139
Supply-and-installation over time	56	801

2.3 Contract balances (continued)

mEUR	Contract assets	Contract liabilities
1 January 2019	**330**	**4,202**
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	(3,096)
Increases as a result of changes in the measure of progress and other adjustments	365	-
Payments received, excluding amounts recognised as revenue during the period (prepayments)	-	3,888
Transfers from contract assets recognised at the beginning of the period to receivables	(164)	-
Exchange rate adjustments	(3)	26
31 December 2019	**528**	**5,020**
Contract assets and liabilities comprise the following:		
Construction contract in progress (turnkey)	74	513
Service contracts	450	683
Supply-only contracts	-	1,668
Supply-and-installation contracts	4	2,156

2.4 Contract costs

Vestas accounting policies
Costs incurred for supply-only and supply-and-installation projects in fulfilling the contracts with customers that are directly associated with the contract, comprising installation cost and transportation cost, are recognised as an asset (contract costs), if those costs are expected to be recoverable.

Contract costs

mEUR	2020	2019
Asset recognised from costs to fulfill a contract[1)]	369	418
Total Contract costs	**369**	**418**

1) Costs incurred in fulfilling contracts with customers are recoverable, as the costs are directly related to the contract.

Capitalised costs as a result of fulfilling sales contracts are recognised as part of production cost in the income statement, when related revenues are recognised. In 2020, EUR 1,710m (2019: EUR 740m) was recognised.

2.5 Other receivables

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

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

Derivative financial instruments are measured at fair value.

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

mEUR	2020	2019
Prepayments	177	135
Supplier claims	14	17
VAT[1)]	399	274
Derivative financial instruments	314	182
Other receivables[2)]	318	229
	1,222	**837**
Specified as follows:		
0–1 year	981	752
> 1 year	241	85
	1,222	**837**

1) Includes loss provisions on VAT receivables of EUR 52m as at 31 December 2020 (2019: EUR 49m).
2) Other receivables mainly comprise other financial receivables.

2.6 Other liabilities

Vestas accounting policies
Other liabilities are measured at amortised cost.

Derivative financial instruments are measured at fair value.

Obligations relating to defined contribution plans, where Vestas continuously makes fixed pension contributions to independent pension funds, are recognised in the income statement in the period to which they relate. Any contributions outstanding are recognised in the balance sheet under other liabilities.

mEUR	2020	2019
Staff costs	307	272
Taxes and duties	215	218
Derivative financial instruments	393	184
Other liabilities	116	102
	1,031	**776**
Specified as follows:		
0-1 year	858	700
> 1 year	173	76
	1,031	**776**

3. Other operating assets and liabilities

3.1 Intangible assets

Vestas accounting policies

Goodwill

Goodwill is initially recognised in the balance sheet as described in business combinations, ref. note 6.4. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill has been allocated to Vestas' operating segments. Identification of operating segments is based on management structure and internal financial reporting.

The carrying amount of goodwill is tested at least annually for impairment, together with the other non-current assets of the operating segment to which goodwill has been allocated. If the recoverable amount is lower than the carrying amount of the operating segment, goodwill is written down to its lower recoverable amount in the income statement.

The recoverable amount is usually calculated as the net present value of expected future net cash flows from the operating segments to which the goodwill has been allocated. Alternatively, the recoverable amount is calculated as fair value less costs to sell. Impairment losses on goodwill are recognised in the income statement, either in production costs, research and development costs, distribution costs or administration costs.

Impairment losses on goodwill are not reversed.

Development projects

Projects for the development and testing of new wind turbines are recognised as intangible assets when they are clearly defined, identifiable, and for which technical feasibility, sufficient resources and a potential future market or application in the enterprise can be demonstrated. In addition, it is the intention with these projects to manufacture, market or use the project for future commercial purposes. This applies if cost can be measured reliably and sufficient certainty exists that future earnings or the net selling price can cover production costs, distribution costs, and administration costs as well as research and development costs. At Vestas this is underpinned by a gate process, where these judgements are made at specific gates. Other development costs not qualifying for capitalization are recognised in the income statement as research and development costs.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses. Development costs comprise salaries, amortisation and other costs attributable to Vestas' development activities.

Following completion of the development work, development projects are amortised on a straight-line basis over their estimated useful lives. The amortisation period is two to five years. The basis of amortisation is calculated net of any impairment losses.

The carrying amount of development projects in progress is tested for impairment at least annually, and where the carrying amount exceeds the net present value of the future net cash flows expected to be generated by the development project, the project is written down to its recoverable amount in the income statement. Finished development projects are tested for impairment if there is indication of impairment from the annual review.

Patents and licences included in development projects are measured at cost less accumulated amortisation and impairment losses. Patents and licences are amortised over the patent period or term of agreement, the life of the development project or the estimated useful life, whichever is shorter. The basis of amortisation is calculated net of any impairment losses.

Software

Acquired software licences and internally developed software is measured at cost less accumulated amortisation and impairment losses. Cost includes both direct internal and external costs. Software is amortised on a straight-line basis over three to five years. The basis of amortisation is calculated net of any impairment losses.

Other intangible assets

Customer relationship, knowhow, and trademarks with a finite useful life acquired from third parties, either separately or as part of the business combination, are capitalised at cost and amortised over their remaining useful lives. Other intangible assets that are not Customer relationship, knowhow, or trademarks are measured at cost less amortisation and impairment losses.

2020 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	489	1,883	458	74	261	3,165
Exchange rate adjustments	(8)	8	-	(3)	-	(3)
Additions	-	-	1	1	307	309
Additions from business combination	896	95	15	497	144	1,647
Transfers	-	341	61	(7)	(395)	-
Cost as at 31 December	1,377	2,327	535	562	317	**5,118**
Amortisation and impairment losses as at 1 January	103	1,509	301	44	-	1,957
Exchange rate adjustments	-	6	1	(4)	-	3
Amortisation for the year	-	168	69	9	-	246
Impairment losses for the year	-	23	-	1	-	24
Amortisation and impairment losses as at 31 December	103	1,706	371	50	-	**2,230**
Carrying amount as at 31 December	**1,274**	**621**	**164**	**512**	**317**	**2,888**
Internally generated assets included above		525	103		165	793
Amortisation period		2–5 years	3–5 years	3–7 years		

3.1 Intangible assets (continued)

2019 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	482	1,627	370	88	277	2,844
Exchange rate adjustments	2	1	-	-	(2)	1
Additions	-	-	2	4	319	325
Additions from business combination	5	-	-	-	-	5
Transfers	-	255	86	(18)	(333)	(10)
Cost as at 31 December	**489**	**1,883**	**458**	**74**	**261**	**3,165**
Amortisation and impairment losses as at 1 January	103	1,357	252	36	-	1,748
Exchange rate adjustments	-	-	-	1	-	1
Amortisation for the year	-	152	49	11	-	212
Transfers	-	-	-	(4)	-	(4)
Amortisation and impairment losses as at 31 December	**103**	**1,509**	**301**	**44**	**-**	**1,957**
Carrying amount as at 31 December	**386**	**374**	**157**	**30**	**261**	**1,208**
Internally generated assets included above	-	374	111	-	261	746
Amortisation period		2–5 years	3–5 years	3–7 years		

3.2 Property, plant and equipment

Vestas accounting policies

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the cost of acquisition and costs directly related to the acquisition up until the time when the asset is ready for use. In the case of construction of own assets, cost comprises direct and indirect costs for materials, components, sub-suppliers, and labour. Estimated costs for dismantling and disposing of the asset and for re-establishment are added to cost to the extent that they are recognised as a provision. Where individual components of an item of property, plant and equipment have different useful lives, the cost of the item is decomposed into separate components which are depreciated separately.

Subsequent costs, e.g. in connection with the replacement of components of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that the costs incurred will result in future economic benefits to Vestas. The carrying amount of the replaced components is derecognised in the balance sheet and recognised as costs in the income statement. All other costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Installations capitalised as land and buildings which are related to leased assets are depreciated over the term of the related lease contract. Such lease contracts range with a lease term from 10 to 20 years.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings (including installations) ..... 10–40 years
Plant and machinery ..... 3–10 years
Other fixtures and fittings, tools and equipment ..... 3–5 years
Right-of-use assets ..... 2-20 years
Land is not depreciated.

The basis of depreciation is calculated taking into account the residual value of the asset less any impairment losses. The residual value is determined at the time of acquisition and is reassessed annually. Where the residual value exceeds the carrying amount of the asset, depreciation is discontinued.

The depreciation periods are determined based on estimates of the expected useful lives and future residual value of the assets. The estimates are based on historical experience. A reassessment is made once a year to ascertain that the depreciation basis reflects the expected life and future residual values of the assets.

If the depreciation period or the residual value has changed, the effect on depreciation is recognised prospectively as a change in accounting estimate.

Depreciation is recognised in the income statement as either production costs, research and development costs, distribution costs or administration costs to the extent that depreciation is not included in the cost of assets of own construction.

The carrying amounts of non-current assets are reviewed on an annual basis to determine whether there is any indication of impairment. If so, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the asset less estimated costs to sell and value in use.

Value in use is calculated as the net present value of expected future net cash flows from the asset or a group of assets.

An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.

Impairment losses are reversed only to the extent that the new carrying amount of the asset does not exceed the carrying amount of the asset after depreciation/amortisation had the asset not been impaired.

3.2 Property, plant and equipment (continued)

2020 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Right-of-use assets	Total
Cost as at 1 January	1,202	1,036	1,351	139	265	3,993
Exchange rate adjustments	(52)	(43)	(49)	(5)	(11)	(160)
Additions	4	8	161	206	165	544
Additions from business combinations	0	25	73	33	169	300
Disposals	(5)	(63)	(60)	-	(7)	(135)
Transfers	17	133	54	(204)	-	-
Cost as at 31 December	1,166	1,096	1,530	169	581	**4,542**
Depreciation and impairment losses as at 1 January	549	698	1,006	-	69	2,322
Exchange rate adjustments	(22)	(29)	(37)	-	(6)	(94)
Depreciation for the year	45	109	151	-	79	384
Impairment losses for the year	-	25	1	-	4	30
Transfers	-	15	(15)	-	-	-
Reversal of depreciation of disposals in the year	(4)	(58)	(57)	-	(3)	(122)
Depreciation and impairment losses as at 31 December	568	760	1,049	-	143	**2,520**
Carrying amount as at 31 December	**598**	**336**	**481**	**169**	**438**	**2,022**
Depreciation period	10–40 years	3–10 years	3–5 years		2–20 years	

2019 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Right-of-use assets	Total
Cost as at 1 January	1,205	915	1,206	130	-	3,456
Initial application of IFRS 16	-	-	-	-	208	208
Adjusted cost as at 1 January	1,205	915	1,206	130	208	3,664
Adjustments to opening balances/previous year	-	-	2	-	-	2
Exchange rate adjustments	13	4	7	2	-	26
Additions	6	27	171	245	66	515
Disposals	(49)	(65)	(72)	-	(19)	(205)
Transfers	27	155	37	(238)	10	(9)
Cost as at 31 December	**1,202**	**1,036**	**1,351**	**139**	**265**	**3,993**
Depreciation and impairment losses as at 1 January	543	657	938	-	-	2,138
Exchange rate adjustments	6	4	6	-	-	16
Depreciation for the year	45	94	130	-	65	334
Transfers	-	-	-	-	4	4
Reversal of depreciation of disposals in the year	(45)	(57)	(68)	-	-	(170)
Depreciation and impairment losses as at 31 December	**549**	**698**	**1,006**	**-**	**69**	**2,322**
Carrying amount as at 31 December	**653**	**338**	**345**	**139**	**196**	**1,671**
Depreciation period	10–40 years	3–10 years	3–5 years		2–20 years	

3.3 Leases

Vestas accounting policies

Vestas as Lessee

Vestas assesses whether a contract is or contains a lease at inception of the contract. Vestas recognises right-of-use assets and corresponding lease liabilities at the lease commencement date, except for short-term leases and leases of low value. For these leases, Vestas normally recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are from the commencement date depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted in accordance with lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vestas' incremental borrowing rate. Generally, Vestas uses its incremental borrowing rate taking into account the specific countries.

Lease payments included in the measurement of the lease liabilities comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if Vestas is reasonably certain to exercise the options; and
- amounts expected to be payable under residual value guarantees.

The lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if Vestas changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

mEUR	Property	Vehicles	Equipment	Vessels	Total
Right-of-use assets as at 1 January 2020	**132**	**50**	**14**	**-**	**196**
Exchange rate adjustments	(4)	(1)	-	-	(5)
Depreciation charge for the year including transfers	(36)	(29)	(14)	-	(79)
Impairment charge for the year	(4)	-	-	-	(4)
Addition of right-of-use assets for the year including transfers	84	43	39	-	166
Additions from business combinations	70	4	2	93	169
Disposal of right-of-use assets for the year	(1)	(4)	(0)	-	(5)
Right-of-use assets as at 31 December 2020	**241**	**63**	**41**	**93**	**438**

mEUR	Property	Vehicles	Equipment	Vessels	Total
Right-of-use assets as at 1 January 2019	**137**	**41**	**30**	**-**	**208**
Depreciation charge for the year including transfers	(33)	(24)	(12)	-	(69)
Addition of right-of-use assets for the year including transfers	29	36	11	-	76
Disposal of right-of-use assets for the year	(1)	(3)	(15)	-	(19)
Right-of-use assets as at 31 December 2019	**132**	**50**	**14**	**-**	**196**

Vestas leases several assets including properties, vehicles and equipment. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, index-regulations, maintenance, deposits and guarantees etc.

Lease liabilities

Lease liabilities are included in Financial debts which amounted to EUR 446m as at 31 December 2020 (2019: 198m). The lease liabilities included in financial debts can be specified as follows:

Maturity analysis - contractual undiscounted cash flow

mEUR	2020	2019
Less than one year	110	65
One to five years	242	112
More than five years	116	37
Total undiscounted lease liabilities as at 31 December	**468**	**214**
Lease liabilities included in the statement of financial position as at 31 December	**446**	**198**
Current	103	58
Non-current	343	140

Some property leases contain variable payment terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas' entire lease payments.

Extension and termination options may be included in leases. These terms are used to maximise operational flexibility in terms of managing contracts.

3.3 Leases (continued)

Total lease expenses recognised in the income statement

mEUR	2020	2019
Interest expense on lease liabilities	7	7
Variable lease payments not included in the measurement of lease liabilities	0	0
Expenses relating to short-term leases and leases of low-value	16	35

Total leases recognised in the statement of cash flows

mEUR	2020	2019
Short-term leases and leases of low value	16	35
Payment of lease liability including interest	89	68
Total cash outflow for leases	**105**	**103**

3.4 Impairment

Valuation of goodwill
As at 30 September 2020, Management performed the annual impairment tests of the carrying amount of goodwill. No basis for impairment was found for 2020 (2019: EUR 0m). In the impairment tests, the carrying amount of the assets are compared to the discounted value of future expected cash flows.

The annual tests of goodwill were performed on the two operating segments: Power Solutions and Service, these being the lowest level of cash-generating units as defined by Management. The annual impairment test, performed in September did not include the goodwill acquired as part of the acquisition of MHI Vestas Offshore Wind A/S, as the acquisition was completed just prior to year end.

The main part of the carrying amount of goodwill in Vestas subject to impairment testing in 2020 arose in connection with the acquisition of NEG Micon A/S in 2004, and the goodwill is allocated to Vestas' two operating segments Power Solutions (EUR 180m) and Service (EUR 35m). In relation to the acquisition of UpWind Solutions, Inc. in 2015, Vestas has recognised goodwill of EUR 40m, which is allocated to the Service segment. In relation to the acquisition of Availon GmbH in 2016, Vestas has recognised goodwill of EUR 56m, which is allocated to the Service segment.

In 2018, Vestas acquired Utopus Insights, Inc. and recognised goodwill of EUR 70m, which was allocated to the Service segment. With the acquisition of SoWiTec Group GmbH in 2019, Vestas has recognised goodwill of EUR 5m, which is allocated to the Power Solutions segment.

As at 14 December 2020, Vestas acquired the remaining 50 percent shares in MHI Vestas Offshore Wind A/S, and recognised goodwill of EUR 896m, ref. note 6.4. The goodwill arising from the acquisition will be allocated to a new, Power Solutions offshore cash-generating unit and the service unit in 2021. The acquired goodwill has been assessed as recoverable at 31 December 2020, as no events occurred from acquisition until 31 December 2020, which impacts the fair value less costs to sell.

Assumptions underpinning impairment test of goodwill
Budgets and business plans for the next three years are based on Vestas' investments in progress and contracted investments, and the risks relating to the key parameters have been assessed and incorporated in the expected future cash flows underpinning the impairment test of goodwill. In addition, the budgets and business plans are based on management's expectations of the current market conditions and future growth expectations. Projections for year four and onwards are based on general market expectations and risks. More specifically, the following main information is used in determining revenue, EBIT and capital expenditure.

Power Solutions	Service
Power Solution order backlog of EUR 19.0bn as at 31 December 2020	Service order backlog of EUR 23.9bn as at 31 December 2020
Expectations on changing market environment, including future market prices and future development in cost reductions	Expectations on changing market environment, including future market prices and future development in cost reductions
Expectations on future orders received, among other things based on expected market share of the global market outlook	Expectations on continued servicing of the existing installed base of wind turbines as well as future service contracts received, among other things based on expected market share of the global market for all major wind turbine technologies
Expectations on continuing developments in mature and emerging markets, including result from development through acquisition of SoWiTec	Capture full potential and accelerate profitable growth strategy from acquisition of UpWind Solution, Inc., Availon GmbH and Utopus Insight, Inc.
Expectations on support schemes in both mature and emerging markets	Growth supported by market developments and organic growth

3.4 Impairment (continued)

Recoverable amount
The terminal value beyond the projections is determined taking into account general growth expectations for the segments in question. Long-term growth rate has been estimated at 2 percent.

The table below specifies the key parameters used in the impairment model:

	2020			2019		
	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)
Power Solutions	8.9	2	185	9.8	2	185
Service	8.9	2	193	9.8	2	201

3.5 Investments in joint ventures and associates

Vestas accounting policies
Associates is an entity over which Vestas has significant influence, but not control. A joint venture is an arrangement in which Vestas has joint control. Joint ventures and associates are accounted for using the equity method. Under the equity method, interests in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise Vestas' share of the post-acquisition profits or losses and movements in other comprehensive income. When Vestas' share of losses in a joint venture and associate equals or exceeds its interests in the joint ventures and associates (which includes any long-term interests that, in substance, form part of Vestas' net investment in the joint ventures and associates), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures and associates.

Timing in revenue recognition may be different between Vestas and joint ventures and associates where Vestas recognises revenue when control of the wind turbines have been transferred to joint ventures and associates but joint ventures and associates do not recognise revenue until they have transferred the risk of the same wind turbines to the end customer. Such timing difference results in part of Vestas' profit from wind turbines delivered being eliminated in the net result from joint ventures and associates, until joint ventures and associates have recognised their revenue. This timing difference may vary between quarters and year end but will even out over time.

Unrealised gains on transactions between Vestas and its joint ventures and associates are eliminated to the extent of Vestas' interest in the joint ventures and associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by Vestas.

The amounts recognised in the balance sheet are as follows:

mEUR	2020	2019
Investments in joint ventures	19	112
Investments in associates	38	57
Carrying amount as at 31 December	**57**	**169**

The amounts recognised in the income statement are as follows:

mEUR	2020	2019
Joint ventures	(60)	5
Gain from disposal of joint venture	383	-
Associates	(1)	(2)
Gain from disposal of associate	9	-
Income/(loss) from investments in joint ventures and associates	**331**	**3**

The proportionate share of the results of investments accounted for using the equity method after tax and elimination of the proportionate share of intercompany profits/losses is recognised in the consolidated income statement.

3.5 Investments in joint ventures and associates (continued)

Investments in joint ventures and associates

	Joint ventures		Associates	
mEUR	**2020**	**2019**	**2020**	**2019**
Cost as at 1 January	260	290	69	45
Additions	3	64	4	24
Disposals	(206)	(94)	(21)	-
Effect of exchange rate adjustment	(4)	-	-	-
Carrying amount at 31 December	**53**	**260**	**52**	**69**
Value adjustments as at 1 January	(148)	(101)	(12)	(1)
Proceeds from sale of projects	-	(68)	-	-
Dividends received	(1)	-	-	-
Share of profit/(loss)	(60)	5	(1)	(2)
Share of other comprehensive income	26	(46)	(1)	(9)
Effect of exchange rate adjustment	-	(1)	-	-
Disposals	149	63	-	-
Value adjustments as at 31 December	**(34)**	**(148)**	**(14)**	**(12)**
Carrying amount as at 31 December	**19**	**112**	**38**	**57**

Blakilden Fäbodberget Holding AB is material to Vestas and has share capital consisting solely of ordinary shares, which are held directly by Vestas. Vestas has acquired 50 percent shares in MHI Vestas Offshore Wind A/S (MVOW) on 14 December 2020, where after Vestas has obtained 100 percent of the shares in MVOW. The investment is therefore fully consolidated into Vestas' financial statements from 14 December 2020, ref. to note 6.4 for further information. The transaction is treated as a disposal of a joint venture and an acquisition of a subsidiary.

Name of entity	Place of business	% of ownership	Measurement method	Investment type
MHI Vestas Offshore Wind A/S (Subsidiary as of 14 December 2020)	Aarhus, Denmark	50	Equity	Joint venture
Blakilden Fäbodberget Holding AB	Solna, Sweden	40	Equity	Associate

MHI Vestas Offshore Wind A/S
The share of profit from MHI Vestas Offshore Wind A/S on a standalone basis amounts to EUR (46)m (2019: EUR 3m).

3.5 Investments in joint ventures and associates (continued)

Commitments and contingent liabilities in respect of joint ventures
Ref. to note 3.7 Contingent assets and liabilities for significant commitments and/or contingent assets and liabilities relating to Vestas' interest in the joint ventures.

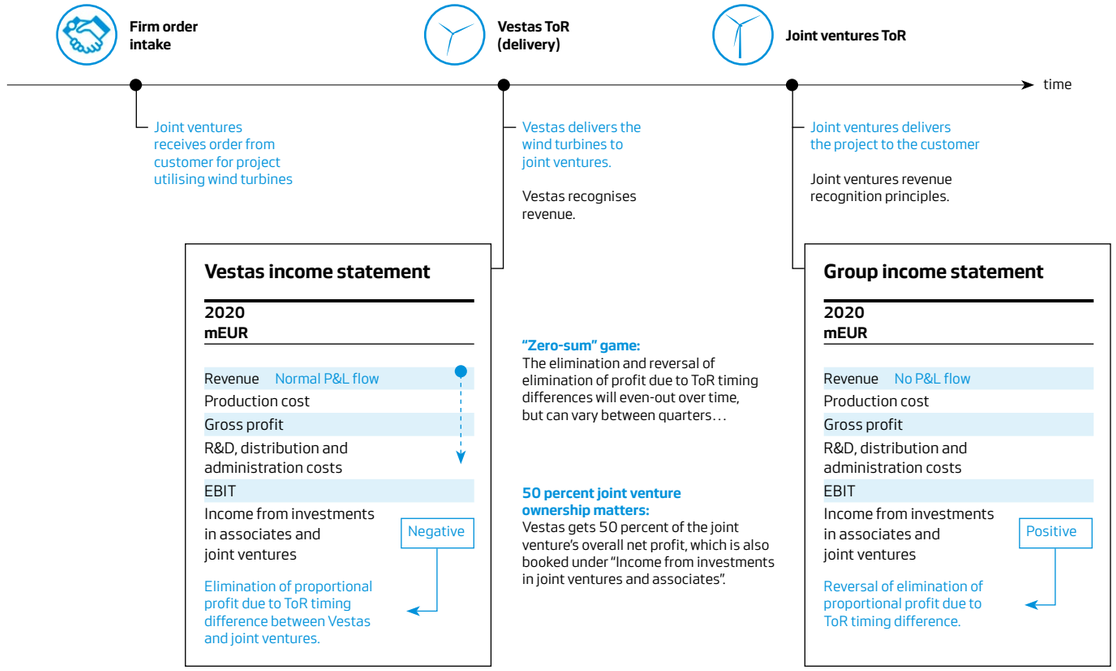
Summarised financial information for joint ventures and associates
Set out below is the summarised financial information for MHI Vestas Offshore Wind A/S as of 14 December 2020 and Blakilden Fäbodberget Holding AB, which are accounted for using the equity method. The information below reflect the amounts presented in the financial statements of the entities (and not Vestas' share of those amounts) material to Vestas in 2020. Other joint ventures and associates that are individually and aggregated immaterial to Vestas, have not been included in the summarised financial information.

Summarised balance sheet

	Joint venture		Associate, 40 percent	
	MHI Vestas Offshore Wind A/S		Blakliden Fäbodberget Holding AB	
mEUR	**2020**	**2019**	**2020**	**2019**
Current				
Cash and cash equivalents	218	84	6	3
Other current assets (excluding cash)	1,535	1,052	3	0
Total current assets	1,753	1,136	9	3
Other current liabilities (including trade and other payables and provisions)	(2,062)	(1,480)	(38)	(38)
Total current liabilities	(2,062)	(1,480)	(38)	(38)
Non-current				
Total non-current assets	770	651	126	81
Total non-current liabilities	(355)	(159)	(131)	(75)
Net assets	**106**	**148**	**(34)**	**(29)**

Illustrative example of how income statement is impacted by joint ventures

Transfer of risk (ToR) timing differences between Vestas and joint ventures may result in fluctuations in income statements annually, which will even-out over time.



3.5 Investments in joint ventures and associates (continued)

Summarised statement of comprehensive income

	Joint venture		Associate, 40 percent	
	MHI Vestas Offshore Wind A/S		Blakliden Fäbodberget Holding AB	
mEUR	**2020**	**2019**	**2020**	**2019**
Revenue	1,279	1,435	-	-
Depreciation and amortisation	(115)	(124)	-	-
Interest income	0	-	0	-
Interest cost	(6)	(2)	(2)	(4)
Profit before tax	(82)	25	(2)	(5)
Income tax	(10)	(19)	-	0
Post-tax profit from continuing operations	**(92)**	**6**	**(2)**	**(5)**
Other comprehensive income	50	(94)	(3)	(22)
Total comprehensive income	**(42)**	**(88)**	**(5)**	**(27)**

Reconciliation of summarised financial information
Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures and associates.

	Joint venture		Associate, 40 percent	
	MHI Vestas Offshore Wind A/S		Blakliden Fäbodberget Holding AB	
mEUR	**2020**	**2019**	**2020**	**2019**
Opening net assets as at 1 January	148	236	(29)	(2)
Profit/(loss) for the year	(92)	6	(2)	(5)
Other comprehensive income	50	(94)	(3)	(22)
Closing net assets	**106**	**148**	**(34)**	**(29)**
Interest in joint venture and associate (ownership of net assets)	53	74	(13)	(12)
Re-assessment of milestone payments, gain consideration and other adjustments	-	(3)	50	47
Interest in joint venture disposed	(53)	-	-	-
Carrying value	**-**	**71**	**37**	**35**

3.6 Provisions

Vestas accounting policies
Provisions are recognised when as a consequence of a past event Vestas has a legal or constructive obligation and it is probable that there will be an outflow of Vestas' financial resources to settle the obligation.

Provisions are measured at management's best estimate of the costs required to settle the obligation. Discounting is applied where relevant.

Vestas accrues for the estimated cost of the warranty upon recognition of the sale of the product. The costs are estimated based on actual historical costs incurred and on estimated future costs related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

Restructuring costs are recognised as liabilities when a detailed, formal restructuring plan has been announced to those affected no later than the balance sheet date.

A provision for loss-making contracts is made where the expected benefits to Vestas from the contract are lower than the unavoidable costs of meeting obligations under the contract. Loss making construction contracts in progress are, however, recognised in construction contracts in progress.

Provision for legal disputes are recognised where a legal or constructive obligation has been incurred as a result of past events and it is possible that there will be an outflow of resources that can be reliably estimated. In this case, Vestas arrives at an estimate on the basis of an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities, ref. note 3.7.

Key accounting estimates
Provisions for warranties
The product warranties, which in the great majority of cases includes component defects and functional errors and agreed financial losses suffered by the customer in connection with unplanned suspension of operations, are usually granted for a two-year period from legal transfer of the wind turbine. In certain cases, a warranty of up to five years is provided. For the customer, the specific warranty period and the specific warranty terms are part of the basis of the individual contract.

Warranty provisions include only standard warranty, whereas services purchased in addition to the standard warranty are included in the service contracts.

In addition to the above, provisions are made for upgrades of wind turbines sold due to defects, etc. Such provisions will also include wind turbines sold in prior years, but where serial defects, etc. are identified later. Moreover, it should be emphasised that the complexity of some of the serial defects, etc. identified may lead to adjustments of previous estimates, upwards as well as downwards, in light of factual information about population size, costs of repair and the timing of such repairs.

It is estimated that 35-40 percent of the warranty provisions made for the year relate to adjustments of previous years' estimates of provisions for defects, etc. Included in this, is the cost of upgrades of wind turbines sold in the previous year, commercial settlements and proactive upgrading as well as new information about the type faults in question.

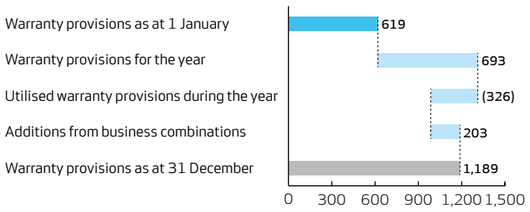
Total warranty provisions of EUR 693m have been made in 2020 (2019: EUR 291m), corresponding to 4.7 percent (2019: 2.4 percent) of Vestas' revenue. Warranty provision includes an extraordinary provision of EUR 175m relating to a repair and upgrade of blades already installed.

Management assesses the likely outcome of pending and future negotiations with sub-suppliers for compensation. Compensation from sub-suppliers may be recognised only when it is virtually certain that we will receive compensation from the sub-suppliers.

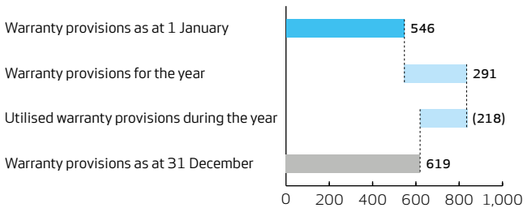
The carrying amount of warranty provisions was EUR 1,189m as at 31 December 2020 (2019: EUR 619m), including addition of EUR 203m from the acquisition of MHI Vestas Offshore Wind.

mEUR	**2020**	**2019**
Non-current provisions		
Warranty provisions	665	405
Other provisions	31	54
	696	**459**
Current provisions		
Warranty provisions	524	214
Other provisions	56	7
	580	**221**
Total provisions	**1,276**	**680**

Warranty provisions 2020
mEUR



Warranty provisions 2019
mEUR



3.6 Provisions (continued)

mEUR	2020	2019
The warranty provisions are expected to be consumed as follows:		
0–1 year	524	214
>1 year	665	405
	1,189	**619**

In line with accounting policies, potential product warranties are recognised as warranty provisions when revenue from the sale of wind turbines and wind power plants is recognised.

Product risks
Vestas invest significant resources in improving products and increasing their reliability to mitigate major warranty provisions. This work comprises design, production, installation, and continuous maintenance.

The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, and increase the competitiveness of the products.

OTHER PROVISIONS	2020	2019
Other provisions as at 1 January	61	71
Exchange rate adjustments	(1)	0
Other provisions for the year	56	8
Utilised other provisions during the year	(10)	(9)
Reversed other provisions during the year	(19)	(9)
Other provisions as at 31 December	**87**	**61**

Other provisions consist of various types of provisions, including provisions for legal disputes and provisions for onerous service contracts.

OTHER PROVISIONS ARE EXPECTED TO BE PAYABLE AS FOLLOWS	2020	2019
0–1 year	56	7
> 1 year	31	54
	87	**61**

3.7 Contingent assets, liabilities, and contractual obligations

Guarantees and indemnities
Vestas provides indemnities and guarantees to third parties on behalf of non-Vestas entities and joint ventures with a notional amount of EUR 52m (2019: EUR 4,445m including EUR 4,389m of indemnities on behalf of MVOW). No guarantees have been utilised during 2020 or in previous years and none of the indemnities are expected at the balance sheet date to be utilised.

Contingent liabilities
Vestas has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2020 and future periods at a value of EUR 105m (2019: EUR 43m). In addition, the company has a contractual commitment to pay on average EUR 3m annually until 2022 for the use of certain technology rights owned by a third party.

Vestas is involved in a number of litigation proceedings. However, it is Management's opinion that settlement or continuation of these proceedings will not have a material effect on the financial position of the Group.

Ref. note. 5.2 concerning contingent liabilities on transfer pricing.

Contingent assets
Vestas has made supplier claims for faulty deliveries. However, it is Management's opinion that settlement of these are not virtually certain, and therefore not recognised in the financial position of Vestas, except for supplier claims accounted for as other receivables, ref. note 2.5.

4. Capital structure and financing items

4.1 Financial items

Vestas accounting policies
Financial items comprise interest income and costs, realised and unrealised foreign exchange gains and losses, gains and losses related to derivatives used to hedge assets and liabilities and ineffective part of derivatives used to hedge future cash flows.

Financial income

mEUR	2020	2019
Interest income	16	39
Hedging instruments	-	1
Other financial income	2	0
	18	**40**

Financial costs

mEUR	2020	2019
Interest costs	33	40
Interest on lease liabilities	7	7
Foreign exchange losses	40	75
Hedging instruments	12	-
Other financial costs	21	16
	113	**138**

4.2 Financial risk management

Vestas' policy for managing financial risks
Managing financial risks are an inherent part of Vestas' operating activities through its international operations. Vestas is exposed to a number of financial risks, why the monitoring and control of financial risks is important for Vestas. Management has assessed the following as Vestas' key financial risks.

Financial risk	How Vestas manages the risk
Liquidity risk	Availability of committed credit lines and borrowing facilities
Credit risk	Diversification of bank exposure, credit limits and guarantees
Market risk, foreign exchange	Currency forward contracts and currency swaps
Market risk, interest risk	Fixed interest loans
Market risk, commodity price	Fixed price agreements with suppliers and financial commodity contracts

The financial risks are managed centrally and the overall objectives and policies for Vestas' financial risk management are outlined in the Treasury Policy. The Treasury Policy is approved by the Board, and revised on a continuous basis to adapt to the changing financial risks and market situation.

The Treasury Policy sets the limits for the various financial risks as well as Vestas policy of only hedging commercial exposures and not entering into any speculative transactions.

For information on Vestas' financial and capital structure strategy, please ref. to page 018.

Liquidity risks
Vestas manages its liquidity risks according to the Treasury Policy and ensures to have sufficient financial resources to service its financial obligations. Financial resources are managed through a combination of cash on bank account and money market deposits, committed credit facilities, and highly rated marketable securities. The liquidity is managed and optimised centrally by using cash pools and in-house bank solutions.

Vestas' main credit facility, a EUR 1,150m revolving credit facility, was refinanced in June 2017. The facility has a five-year duration with an option, at the lenders' discretion, to extend the maturity one additional year at a time. The facility was extended in 2018 and 2019. It has a sublimit of EUR 550m for cash drawings, while the total of EUR 1,150m is available for guarantees. The revolving credit facility is subject to a change of control clause resulting in repayment of the credit facility in the event of change in control. The revolving credit facility is subject to covenants and no breaches have been encountered throughout the year. During 2020, Vestas also entered into bilateral revolving credit facilities of in total EUR 1,000m, all available for cash drawings. The facilities are subject to the same covenants and change of control clauses as the main facility and matures during 2021. On 14 December 2020 Vestas completed the acquisition of MHI Vestas Offshore Wind A/S, ref. note 6.4. As part of the acquisition Vestas took over bilateral credit facilities in MHI Vestas Offshore Wind A/S amounting to EUR 350m of which 245 was utilised. This credit facility was terminated in January 2021.

Vestas' liquidity position and available credit facilities are shown on the next page.

mEUR	2020	2019
Liquidity position		
Financial investments	211	384
Cash and cash equivalents without disposal restrictions	3,039	2,864
Cash and cash equivalents with disposal restrictions	24	24
Cash and cash equivalents as at 31 December	3,063	2,888
Credit facilities		
Main credit facility	550	550
Other credit facilities	1,105	-
Total available financial resources	**4,929**	**3,822**

Vestas accounting policies
Cash and cash equivalents included in Vestas' cash management comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Cash and cash equivalents with disposal restrictions are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents. Cash with disposal restrictions include cash pledged to guarantee providers as security for guarantee obligations in order to obtain lower commission rates and thereby obtain yield pick up on Vestas' cash holdings.

The following table details Vestas's contractual maturities of financial assets and liabilities including interests at the reporting date.

	Contractual cash flows				
2020 mEUR	0-1 year	1-2 years	>2 years	Total	Carrying amount financial instruments
Financial assets, non-current and current					
Total financial assets, non-current and current	**6,206**	**62**	**149**	**6,417**	**6,393**
Financial liabilities, non-current and current					
Financial debts	509	613	285	1,407	1,354
Foreign currency derivatives	333	46	14	393	393
Commodity derivatives	-	-	-	-	-
Other liabilities	58	46	-	104	104
Other liabilities and derivative financial instruments	391	92	14	497	497
Trade payables	3,604	-	-	3,604	3,604
Contingent consideration	4	-	-	4	4
Financial guarantee contracts [1]	52	-	-	52	-
Total financial liabilities, non-current and current	**4,560**	**705**	**299**	**5,564**	**5,459**

1) Financial guarantee contracts comprise the maximum amounts Vestas would have to settle if the guaranteed amount is claimed by the counterparty. Based on management expectations, it is assessed highly likely that the amount will not be payable as of the end of the reporting period. See note 3.7 for further information.

	Contractual cash flows				
2019 mEUR	0-1 year	1-2 years	>2 years	Total	Carrying amount financial instruments
Financial assets, non-current and current					
Total financial assets, non-current and current	**5,316**	**166**	**195**	**5,677**	**5,649**
Financial liabilities, non-current and current					
Financial debts	181	62	640	883	820
Foreign currency derivatives	154	31	0	185	185
Commodity derivatives	-	-	-	-	-
Other liabilities	59	-	48	107	99
Other liabilities and derivative financial instruments	213	31	48	292	284
Trade payables	3,101	-	-	3,101	3,101
Contingent consideration	-	18	-	18	18
Financial guarantee contracts[1]	4,839	-	-	4,839	-
Total financial liabilities, non-current and current	**8,334**	**111**	**688**	**9,133**	**4,223**

1) Financial guarantee contracts comprise the maximum amounts Vestas would have to settle if the guaranteed amount is claimed by the counterparty. Based on management expectations, it is assessed highly likely that the amount will not be payable as of the end of the reporting period. See note 3.7 for further information.

Credit risks
Vestas ensures that the credit risks are managed according to the Treasury Policy. Vestas is exposed to credit risks arising from cash and cash equivalents, including money market deposits and money market funds, investments in marketable securities, derivative financial instruments, and trade and other receivables. The Treasury Policy sets forth limits for the credit risk exposure based on the counterparty's credit rating for financial institution counterparties and mitigating actions for other counterparties.

As at 31 December 2020, Vestas considers the maximum credit risk to financial institution counterparties to be EUR 3,299m (2019: EUR 3,303m). The total credit risk is considered to be EUR 6,035m (2019: EUR 5,489m).

Trade receivables and contract assets
Trade receivables are mainly with counterparties within the energy sector. The credit risk is among other things dependent on the development within this sector and the country in which the individual customer operates.

Upon signing a contract for individual wind turbines and wind power plants with a customer, a prepayment is received. The remaining contract amounts are usually based on instalments during different stages of the project.

Payment terms for service contracts with customers are usually based on equal instalments over the duration of the contract. Payments are typically due one month after issuance of the invoice. Contract assets are by nature not overdue. Vestas does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Therefore, Vestas does not adjust any of the transaction prices for the time value of money.

Trade receivables from customers are grouped based on loss patterns in assessing expected credit losses. Contract assets are grouped with trade receivables as these relate to unbilled work in progress with same credit risk as trade receivables. An allowance matrix based on past due dates is used in measuring expected lifetime credit losses, where current and forward-looking information including geographical risk, the level of security obtained and an individual assessment has been applied together with historical loss rates.

The past due analysis and determined write-downs of Vestas' trade receivables and contracts assets are set out in the following tables.

mEUR	2020	2019
Not overdue	1,982	1,709
0-60 days overdue	173	184
61-120 days overdue	84	33
121-180 days overdue	27	28
More than 180 days overdue	72	66
Gross trade receivables and contract assets	2,338	2,020
Write-downs as at 31 December	(25)	(32)
Net trade receivables and contract assets as of 31 December	**2,313**	**1,988**

mEUR	2020	2019
Write-downs as at 1 January	(32)	(25)
Reversal of write-downs	30	9
Write-downs realised	0	0
Write-downs in the year	(23)	(16)
Write-downs as at 31 December	**(25)**	**(32)**

As at 31 December 2020, Vestas' trade receivables and contract assets divided on geographical areas can be specified as follow: 35 percent in America, 52 percent in EMEA and 14 percent in Asia Pacific.

No single customer accounts for more than 10 percent of Vestas' total trade receivables as of 31 December 2020 (2019: 0).

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December was mitigated by EUR 448m (2019: EUR 254m) received as security, such as third party guarantees. Historically, Vestas has not incurred significant losses on trade receivables.

Financial instruments and cash deposits

Group Treasury manages balances with financial institutions and the associated credit risk in accordance with Vestas' Treasury Policy assessing the individual counterparty's credit rating.

90 percent of Vestas' exposure towards financial institutions are with counterparties with a credit rating in the range of A to AAA.

Vestas has entered into ISDA agreements with all financial institution counterparties used for trading derivative financial instruments under which Vestas has a right to set-off should certain credit events occur, which means that Vestas' actual credit risk is limited to the net assets per counterparty.

The following table details financial assets and liabilities which are subject to netting in case of certain credit events.

	2020			2019		
mEUR	Carrying amount balance sheet	Netting agreements not offset in the balance sheet	Net amount	Carrying amount balance sheet	Netting agreements not offset in the balance sheet	Net amount
Foreign currency derivatives	314	(226)	88	179	(127)	52
Financial assets	**314**	**(226)**	**88**	**179**	**(127)**	**52**
Foreign currency derivatives	393	(226)	167	185	(127)	58
Financial liabilities	**393**	**(226)**	**167**	**185**	**(127)**	**58**

Market risks

Vestas is exposed to various market risks with the main risks comprising foreign currency risks, interest rate risks and commodity price risks. All market risks are managed in accordance with the Treasury Policy.

Foreign currency risks

The international business activities of Vestas involve foreign currency risks, meaning that Vestas's income statement, balance sheet and cash flows are exposed to foreign currency risks. The foreign currency exposures arise primarily from purchases of materials and sale of wind turbines and service agreements where these transactions are not made in the functional currency of the entity making the transaction.

Vestas objective when managing foreign currency risks is to reduce the shorter fluctuations in the income statement and to increase the predictability of the financial results. The foreign currency risks are reduced by purchasing and producing in local markets and by hedging the exposure in each individual currency according to the Treasury Policy.

Vestas hedge foreign currency exposures related to our firm wind turbine order backlog. It is Vestas aim to hedge between 80 percent and 100 percent of the consolidated committed exposure. For committed exposure with duration after 18 months, hedging is done with shorter maturity. Vestas furthermore hedge foreign on balance currency exposure, where it is Vestas' aim to hedge between 90 percent and 100 percent of all exposures.

Vestas distinguish between entities in restricted and un-restricted countries, when determining the level of exposure to be hedged. Foreign currency risks related to long-term investments and our service business are not hedged based on an overall risk, liquidity and cost perspective.

Foreign currency exposures are primarily hedged through foreign currency forward contracts and foreign currency swaps. Vestas hedge strategy is to centralise foreign currency exposure in Vestas Wind Systems A/S through internal contracts and trade the net currency exposures in the market.

The majority of Vestas's sales are in USD and EUR. The EUR exchange rate risk is regarded as low in Danish entities due to Denmark's fixed exchange rate policy towards EUR. EUR sales outside Europe are limited. Despite the significant sales in USD, Vestas' currency exposure in USD has decreased as a result of increased sourcing of materials and components in USD. As a result of Vestas' acquisition of MHI Vestas Offshore Wind A/S as at 14 December 2020, Vestas' currency exposure in GBP increased significantly compared to 2019. The nature of the project business changes the foreign currency risk picture towards specific currencies from one year to another, depending on in which geographical areas Vestas has activity.

The sensitivity analysis below shows the gain/(loss) on net profit for the year and other comprehensive income of a 10 percent increase in our most significant currencies towards EUR. The analysis includes the impact from cash flow hedging instruments on equity before tax but does not comprise the impact from the hedged exposures such as future purchases or sales since these are not recognised in the balance sheet. If the hedged exposures were included the impact from hedge instruments would be offset in their entirety. The below analysis is based on the assumption that all other variables, interest rates in particular, remain constant.

		2020		2019	
mEUR	Change	Effect on profit/ (loss) before tax	Effect on equity before tax	Effect on profit/ (loss) before tax	Effect on equity before tax
USD	10%	7	90	(9)	(74)
SEK	10%	(13)	(92)	(2)	(80)
NOK	10%	(1)	(34)	1	(92)
GBP	10%	0	(250)	(3)	(22)
CNY	10%	(14)	105	(6)	137

Interest rate risks

Vestas ensures that the interest rate risk is managed according to the Treasury Policy. Interest rate risk relates to cash flows from interest-bearing short-term investments in cash and cash equivalents as well as from marketable securities with floating interest rate as well as outstanding interest-bearing debt with floating interest rates.

Vestas has no significant outstanding interest-bearing debt with floating interest, why fluctuations in the market interest rates will not have a significant impact on Vestas.

Commodity price risks

Commodity price risks in Vestas mainly relate to global market fluctuations in prices of raw materials such as copper, which are used directly or indirectly in the production of wind turbines. The commodity price risk can be divided into a direct exposure and an indirect exposure, where the direct exposure is related to purchase of the raw material while the indirect exposure arises from the purchase of a component where the price is linked to raw material prices. The risk is managed in accordance with the Treasury Policy and mainly managed through the procurement process through fixed price agreements with suppliers. Furthermore, Vestas mitigates the commodity exposure by entering into forward contracts to a limited extent.

4.3 Hedge accounting

Risks which were managed by derivative financial instruments in 2020 comprise foreign currency risk and commodity price risk.

Hedging of risks with derivative financial instruments are made with a ratio of 1:1. Any ineffectiveness arising from hedging of foreign currency risks and commodity risks are recognised in financial items. Recognised sources of ineffectiveness are mainly derived from differences in the timing of the cash flows of the hedged items and hedging instruments and changes to the forecasted amount of cash flows of hedged items.

Foreign currency risk
Derivative financial instruments considered as cash flow hedges are designated hedges of forecasted sales and purchases. Cash flow hedges are measured at fair value with changes in the effective part of any gain or loss recognised in other comprehensive income. Any ineffective portions of the cash flow hedges are recognised in the income statement as financial items. Gains or losses on cash flow hedges are upon realisation of the hedged item transferred from the equity hedging reserve into the initial carrying amount of the hedged item.

Firm commitments in foreign currency are designated as fair value hedges and measured with changes in fair value in the income statement as financial items.

In some sales agreements, a foreign currency element is incorporated. In cases where the sales currency is not closely related to the functional currency nor a commonly used currency in the country in which the sales takes place, the foreign currency element is treated as an embedded financial derivative. The embedded financial derivative is designated as a cash flow hedge and included as forward contracts in the tables below.

Commodity price risk
As a part of the turbine production Vestas directly or indirectly purchases raw materials such as copper on an ongoing basis. Due to volatility in the commodity prices, Vestas enters into commodity forward contracts for forecasted purchases.

Vestas held at 31 December 2020 the following derivative financial instruments with the net contract notional amounts for each instrument comprising future purchases and (sales) of foreign currencies:

2020 mEUR	Contract notional amount	Expected recognition 2021	 2022	 After 2022
Foreign currency risk				
Cash flow hedges	**(3,738)**	**(2,849)**	**(313)**	**(576)**
USD	325	215	109	1
GBP	(2,496)	(2,077)	(153)	(266)
NOK	(330)	(324)	(6)	-
SEK	(786)	(601)	(185)	-
CNY	1,197	958	240	(1)
Other	(1,648)	(1,020)	(318)	(310)
Fair value hedges	**(515)**	**(553)**	**23**	**15**
USD	(309)	(309)	-	-
GBP	42	18	9	15
NOK	19	19	-	-
SEK	112	112	-	-
CNY	75	66	9	-
Other	(454)	(459)	5	-
Commodity price risk				
Cash flow hedges	**29**	**29**	**-**	**-**
Copper	29	29	-	-
Total	**(4,224)**	**(3,373)**	**(290)**	**(561)**

4.3 Hedge accounting (continued)

2019 mEUR	Contract notional amount	Expected recognition 2020	 2021	 After 2021
Foreign currency risk				
Cash flow hedges	**(2,678)**	**(2,268)**	**(374)**	**(36)**
USD	(1,201)	(1,372)	171	-
NOK	(926)	(737)	(189)	-
SEK	(777)	(384)	(357)	(36)
CNY	1,424	1,136	288	-
Other	(1,198)	(911)	(287)	-
Fair value hedges	**(451)**	**(451)**	**(16)**	**16**
USD	(298)	(298)	-	-
NOK	38	38	-	-
SEK	(8)	(8)	-	-
CNY	4	4	-	-
Other	(187)	(187)	(16)	16
Commodity price risk				
Cash flow hedges	**58**	**58**	**-**	**-**
Copper	53	53	-	-
Steel	5	5	-	-
Total	**(3,071)**	**(2,661)**	**(390)**	**(20)**

In the table below the effect from hedging instruments on the balance sheet is shown:

2020 mEUR	Carrying amount of hedging instruments Assets	 Liabilities	Contract notional amount	Line item in the statement of financial position	Change in fair value
Foreign currency risk					
Cash flow hedges	294	387	(3,738)	Other receivables, Other payables	100
Fair value hedges	16	6	(515)	Other receivables, Other payables	104
Commodity price risk					
Cash flow hedges	4	-	29	Other receivables, Other payables	1
Total	**314**	**393**	**(4,224)**		**205**

In the table below the effect from hedged items on the balance sheet is shown:

2020 mEUR	Carrying amount of the hedged item Assets	 Liabilities	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve
Foreign currency risk				
Highly probable forecasted sales and purchases			113	(24)
Monetary items [1]	1,963	1,819	104	-
Commodity price risk				
Commodity purchases			1	3
Total	**1,963**	**1,819**	**218**	**(21)**

1) Monetary items comprise intra-group positions in a currency different from the functional currency. The intra-group positions are included in the hedged monetary items above, but are eliminated in the consolidated statements and therefore cannot be disclosed as a line item in the statement of financial position.

4.3 Hedge accounting (continued)

The impact from hedge accounting in profit or loss and other comprehensive income is shown below for the year.

2020 mEUR	Total hedging gain/(loss) recognised in OCI	Ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss	Line in the statement of profit or loss
Foreign currency risk					
Cash flow hedges, forward contracts	113	(13)	Financial items	(41)	Revenue
				(61)	Production costs
Commodity price risk					
Cash flow hedges, forward contracts	1	-		-	
Total	**114**	**(13)**		**(102)**	

In the table below the effect from hedging instruments on the balance sheet is shown:

2019 mEUR	Carrying amount of hedging instruments Assets	 Liabilities	Contract notional amount	Line item in the statement of financial position	Change in fair value
Foreign currency risk					
Cash flow hedges	173	181	(2,678)	Other receivables, Other payables	(28)
Fair value hedges	9	1	(451)	Other receivables, Other payables	(29)
Commodity price risk					
Cash flow hedges	3	-	58	Other receivables, Other payables	5
Total	**185**	**182**	**(3,071)**		**(52)**

In the table below the effect from hedged items on the balance sheet is shown:

2019 mEUR	Carrying amount of the hedged item Assets	 Liabilities	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve
Foreign currency risk				
Highly probable forecasted sales and purchases			(28)	(6)
Firm commitments [1)]	2,884	2,494	(29)	
Commodity price risk				
Commodity purchases			5	2
Total	**2,884**	**2,494**	**(52)**	**(4)**

1) Firm commitments comprise financial instruments related to intra-group positions in a currency different from the functional currency. The intra-group positions are included in the hedged firm commitments above, but are eliminated in the consolidated statements and therefore cannot be disclosed as a line item in the statement of financial position.

4.3 Hedge accounting (continued)

The impact from hedge accounting in profit or loss and other comprehensive income is shown below for the year.

2019 mEUR	Total hedging gain/(loss) recognised in OCI	Ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss	Line in the statement of profit or loss
Foreign currency risk					
Cash flow hedges, forward contracts	(28)	0	Financial items	(50)	Revenue
				0	Production costs
Commodity price risk					
Cash flow hedges, forward contracts	5	-		-	
Total	**(23)**	**0**		**(50)**	

The risk categories recognised in the cash flow hedge reserve is reconciled in the table below with items impacting other comprehensive income for the period.

Cash flow hedge reserve mEUR	2020	2019
Carrying amount as at 1 January	(4)	47
Changes in fair value:		
Foreign currency risk, cash flow hedges	113	(28)
Commodity price risk, cash flow hedges	1	5
Amount reclassified to profit or loss:		
Foreign currency risk, cash flow hedges	(104)	(50)
Commodity price risk, cash flow hedges	-	-
Amount transferred to the initial carrying amount of non-financial items:		
Foreign currency risk, cash flow hedges of inventory purchases	(38)	(1)
Foreign currency risk, cash flow hedges of received prepayments from customers	10	6
Commodity price risk, cash flow hedges of inventory	-	-
Tax effect	1	17
Carrying amount as at 31 December	**(21)**	**(4)**

4.4 Financial assets and liabilities

Carrying amounts of Vestas' financial assets and liabilities are presented below according to their nature.

2020 mEUR	Note	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Categories of financial instruments: Fair value - hedging instruments	Categories of financial instruments: Fair value through profit or loss	Categories of financial instruments: Amortised cost
Financial assets, non-current and current							
Other investments [1]		69	-	69	-	49	20
Financial investments [2]		211	-	211	-	100	111
Foreign currency derivatives [3]		310	-	310	310	-	-
Commodity derivatives [3]		4	-	4	4	-	-
Other receivables		908	485	423	-	-	423
Other receivables and derivative financial instruments	2.5	1,222	485	737	314	-	423
Trade receivables		1,538	-	1,538	-	-	1,538
Contract assets	2.3	775	-	775	-	-	775
Cash and cash equivalents		3,063	-	3,063	-	-	3,063
Total financial assets, non-current and current		**6,878**	**485**	**6,393**	**314**	**149**	**5,930**
Financial liabilities, non-current and current							
Financial debts [4]		1,354	-	1,354	-	-	1,354
Foreign currency derivatives [3]		393	-	393	393	-	-
Other liabilities		638	534	104	-	-	104
Other liabilities and derivative financial instruments	2.6	1,031	534	497	393	-	104
Trade payables		3,604	-	3,604	-	-	3,604
Contingent consideration		4	-	4	-	4	-
Total financial liabilities, non-current and current		**5,993**	**534**	**5,459**	**393**	**4**	**5,062**

1) Other investments include investments in non-listed equity shares and rental deposits. The equity investments were irrevocably designated at fair value through profit and loss.
2) Financial investments comprise marketable securities managed on a fair value basis with a continuously observation of their performance and short-term deposits.
3) Foreign currency and commodity derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments. Foreign currency forward contracts also comprise fair value hedges of firm commitments.
4) Financial debts comprise the green corporate eurobond with a fixed interest rate of 2.75 percent (EUR 498m), SoWiTec bond with a fixed interest rate of 6.75 percent (EUR 15m), leasing liabilities (EUR 446m) and other credit facilities (EUR 395m).

Carrying amount of Vestas' financial debt and movement in 2020 are presented below.

mEUR	Lease liabilities	Issued bonds	Credit facilities	Total
Balances as at 1 January 2020	198	513	109	820
Addition from business combination	171	-	245	416
Proceeds from borrowings	170	-	94	271
Payments of financial debt	(82)	-	(37)	(126)
Exchange rate adjustments	(11)	-	(16)	(27)
Balances as at 31 December 2020	**446**	**513**	**395**	**1,354**

4.4 Financial assets and liabilities (continued)

Carrying amounts of Vestas' financial assets and liabilities are presented below according to their nature.

2019 mEUR	Note	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Categories of financial instruments: Fair value - hedging instruments	Categories of financial instruments: Fair value through profit or loss	Categories of financial instruments: Amortised cost
Financial assets, non-current and current							
Other investments [1]		65	-	65	-	51	14
Financial investments [2]		384	-	384	-	100	284
Foreign currency derivatives [3]		179	-	179	179	-	-
Commodity derivatives [3]		3	-	3	3	-	-
Other receivables		655	513	142	-	-	142
Other receivables and derivative financial instruments	2.5	837	513	324	182	-	142
Trade receivables		1,460	-	1,460	-	-	1,460
Contract assets	2.3	528	-	528	-	-	528
Cash and cash equivalents		2,888	-	2,888	-	-	2,888
Total financial assets, non-current and current		**6,162**	**513**	**5,649**	**182**	**151**	**5,316**
Financial liabilities, non-current and current							
Financial debts [4]		820	-	820	-	-	820
Foreign currency derivatives [3]		185	-	185	184	1	-
Other liabilities		591	492	99	-	-	99
Other liabilities and derivative financial instruments	2.6	776	492	284	184	1	99
Trade payables		3,101	-	3,101	-	-	3,101
Contingent consideration		18	-	18	-	18	-
Total financial liabilities, non-current and current		**4,715**	**492**	**4,223**	**184**	**19**	**4,020**

1) Other investments include investments in non-listed equity shares and rental deposits. The equity investments were irrevocably designated at fair value through profit and loss.
2) Financial investments comprise marketable securities managed on a fair value basis with a continuously observation of their performance and short-term deposits.
3) Foreign currency and commodity derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments. Foreign currency forward contracts also comprise fair value hedges of firm commitments.
4) Financial debts comprise the green corporate eurobond with a fixed interest rate of 2.75 percent (EUR 498m), SoWiTec bond with a fixed interest rate of 6.75 percent (EUR 15m), leasing liabilities (EUR 198m) and other credit facilities (EUR 109m).

Carrying amount of Vestas' financial debt and movement in 2019 are presented below.

mEUR	Lease liabilities	Issued bonds	Credit facilities	Total
Balances as at 1 January 2019	-	498	-	498
Impact on change in accounting policy (IFRS 16)	208	-	-	208
Adjusted balances as at 1 January 2019	208	498	-	706
Addition from business combination	-	15	19	34
Additions including transfers	72	-		72
Proceeds from borrowings	-	-	100	100
Payments	(61)	-	(8)	(69)
Lease liabilities terminated	(19)	-	-	(19)
Exchange rate adjustments	(2)	-	(2)	(4)
Balances as at 31 December 2019	**198**	**513**	**109**	**820**

4.4 Financial assets and liabilities (continued)

Fair value hierarchy
Financial instruments measured at fair value are categorised into the following levels of the fair value hierarchy:

Level 1: Observable market prices for identical instruments.
Level 2: Valuation techniques primarily based on observable prices or traded prices for comparable instruments.
Level 3: Valuation techniques primarily based on unobservable prices.

The table below sets out the carrying amounts and fair values of Vestas' financial instruments in the different levels of the fair value hierarchy. Financial instruments as trade receivables, trade payables and deposits where the carrying amount is a reasonable approximation of the fair value are not disclosed.

2020 mEUR	Valuation technique	Carrying amount	Fair value Total	Level 1	Level 2	Level 3
Other investments [2]	Market prices/Discounted cash flow	49	49	-	-	49
Financial investments	Market prices	100	100	100	-	-
Renewable energy certificates (RECs) [3]	Forward pricing	-	-	-	-	-
Foreign currency derivatives [1]	Forward pricing and swap models	310	310	-	310	-
Commodity derivatives [1]	Forward pricing	4	4	-	4	-
Other receivables and derivative financial instruments		314	314	-	314	-
Financial assets		**463**	**463**	**100**	**314**	**49**
Financial debts [4]	Market prices	513	524	524	-	-
Foreign currency derivatives [1]	Forward pricing and swap models	393	393	-	393	-
Other liabilities and derivative financial instruments		393	393	-	393	-
Contingent consideration	Discounted cash flow	4	4	-	-	4
Financial liabilities		**910**	**921**	**524**	**393**	**4**

2019 mEUR	Valuation technique	Carrying amount	Fair value Total	Level 1	Level 2	Level 3
Other investments [2]	Market prices/Discounted cash flow	51	51	-	42	9
Financial investments	Market prices	100	100	100	-	-
Renewable energy certificates (RECs) [3]		0	0	-	-	0
Foreign currency derivatives [1]	Forward pricing and swap models	179	179	-	179	-
Commodity derivatives [1]	Forward pricing	3	3	-	3	-
Other receivables and derivative financial instruments		182	182	-	182	0
Financial assets		**333**	**333**	**100**	**224**	**9**
Financial debts [4]	Market prices	513	542	542	-	-
Foreign currency derivatives [1]	Forward pricing and swap models	185	185	-	185	-
Other liabilities and derivative financial instruments		185	185	-	185	-
Contingent consideration	Discounted cash flow	18	18	-	-	18
Financial liabilities		**716**	**745**	**542**	**185**	**18**

1) Foreign currency contracts and embedded derivatives are measured as Level 2, as the fair value can be established directly based on exchange rates published and interest rate curves and prices specified at the balance sheet date.
2) Other investments on non-listed equity shares are measured at fair value based on level 3 input. In 2019 the investment based on level 2 as recent observable trades between independent parties had occurred. As no trades were executed in 2020 the fair value assessment is based on non-observable sales prices and supported by accepted valuation techniques. Therefore, the investment has moved to level 3 in 2020 from level 2 in 2019. There has been no new financial investments or disposals in 2020.
3) Vestas has a commitment in the US to purchase Renewable Energy Certificates (RECs) in 2022 and 10 years beyond based on production of MW in this period at a fixed price. It has been assessed that the contract qualifies as a financial instrument. The fair value measurement is based on level 3 input. The maximum nominal commitment under the contract is estimated at EUR 42m as of December 2020 (2019: EUR 45m). Market prices depend on which market the RECs are traded, ranging from an estimated average market price of USD 5.32/MWh to USD 29.09/MWh (2019: USD 25.46/MWh), hence the contract would have had an estimated value in the range of EUR (18)m to EUR 73m as at 31 December 2020 (31 December 2019: EUR 61m). Given the uncertainties underpinning the future market for selling RECs, Management has determined that the best evidence of fair value for the RECs is the transaction price. Consequently, the net fair value of the contract has been measured at EUR 0.
4) Financial debts comprise the green corporate eurobond with a fixed interest rate of 2.75 percent (EUR 498), Sowitec Group bond with a fixed interest rate of 6.75 percent (EUR 15m). Both are valued based on observable market prices.

4.5 Share capital

Vestas accounting policies
Treasury shares
Treasury shares are deducted from the share capital upon cancellation at their nominal value of DKK 1.00 per share. Differences between this amount and the amount paid to acquire or received for sale of treasury shares are deducted directly in equity.

Dividend
A proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (declaration date). The proposed dividend for the year is included in retained earnings.

For the financial year 2020, the Board of Directors of Vestas Wind Systems A/S (the Board) proposes to distribute a dividend of DKK 8.45 (EUR 1.14) per share, corresponding to total EUR 230m. Dividends of EUR 207m, net of treasury shares, have been paid in 2020, relating to the financial year 2019.

Share capital

	2020	2019
The share capital comprises 201,973,452 shares of DKK 1.00		
Number of shares as at 1 January	198,901,963	205,696,003
Cancellation	(1,977,848)	(6,794,040)
Increase	5,049,337	-
Number of shares as at 31 December	**201,973,452**	**198,901,963**
Shares outstanding	200,874,957	195,342,514
Treasury shares	1,098,495	3,559,449
Number of shares as at 31 December	**201,973,452**	**198,901,963**

During 2016, there was a reduction of share capital by DKK 2,529,786 nominally by cancelling 2,529,786 shares from Vestas' holding of treasury shares. During 2017 there was a reduction of share capital by DKK 6,047,780 nominally by cancelling 6,047,780 shares from Vestas' holding of treasury shares. During 2018 there was a reduction of share capital by DKK 9,800,944 nominally by cancelling 9,800,944 shares from Vestas' holding of treasury shares. During 2019, there was a reduction of share capital by DKK 6,974,040 nominally by cancelling 6,794,040 shares from Vestas' holding of treasury shares. During 2020, there was a reduction of share capital by DKK 1,977,848 nominally by cancelling 1,977,848 shares from Vestas' holding of treasury shares. Vestas Wind Systems A/S has completed a capital increase of nominally DKK 5,049,337, representing 5,049,337 shares of nominally DKK 1 each. Except for these six transactions, the share capital has not changed in the period 2016-2020.

All shares rank equally.

Treasury shares

	2020 Number of shares / Nominal value (DKK)	2019 Number of shares / Nominal value (DKK)	2020 % of share capital	2019 % of share capital
Treasury shares as at 1 January	3,559,449	8,418,860	1.8	4.2
Purchases	-	2,302,859	0.0	1.2
Cancellation	(1,977,848)	(6,794,040)	(1.0)	(3.4)
Vested treasury shares	(483,106)	(368,230)	(0.2)	(0.2)
Treasury shares as at 31 December	**1,098,495**	**3,559,449**	**0.5**	**1.8**

Pursuant to the Annual General Meeting on 7 April 2020, Vestas Wind Systems A/S adopted the proposal to reduce Vestas' share capital by nominally DKK 1,977,848 by cancelling 1,977,848 shares from Vestas' holding of treasury shares. The reduction of the share capital was completed and registered on 6 May 2020.

Pursuant to authorisation granted to the Board of Directors by the annual general meeting on 7 April 2020, Vestas has been authorised to acquire treasury shares at a nominal value not exceeding 10 percent of the share capital at the time of the authorisation.

4.5 Share capital (continued)

Vestas Wind Systems A/S has acquired treasury shares as follows:

	2020	2019
Average share price, purchases (DKK)	-	651
Purchase amount (mEUR)	-	201

Treasury shares are acquired to cover issues of shares under Vestas' incentive programmes or as part of its capital structure strategy.

The share capital has been fully paid.

Net proposed cash distribution to shareholders

mEUR	2020	2019
Dividend [1]	228	207

1) Dividend excluding treasury shares.

4.6 Earnings per share

	2020	2019
Profit for the year (mEUR) - owners of Vestas Wind Systems A/S	**765**	**704**
Weighted average number of ordinary shares	197,856,199	201,259,458
Weighted average number of treasury shares	(1,862,829)	(3,883,307)
Weighted average number of ordinary shares outstanding	195,993,370	197,376,151
Dilutive effect of restricted performance shares	597,607	791,145
Average number of shares outstanding including restricted performance shares	**196,590,976**	**198,167,296**
Earnings per share, EPS (EUR)	3.90	3.57
Earnings per shares, diluted, EPS-D (EUR)	3.89	3.55

5. Tax

5.1 Income tax

Vestas accounting policies

Tax for the year consists of current tax and deferred tax for the year including adjustments to previous years and changes in provision for uncertain tax positions. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax expense relating to items recognised in other comprehensive income is also recognised in other comprehensive income.

Following developments in ongoing tax disputes primarily related to transfer pricing cases, uncertain tax positions are assessed individually and presented as part of non-current tax receivables or non-current tax payables. The UTPs that materialize and become certain or virtually certain are classified as current tax.

Current tax liabilities and receivables are recognised in the balance sheet at the amounts calculated on the taxable income for the year adjusted for tax on taxable incomes for prior years and for taxes paid on account.

Key accounting estimates

Income taxes and uncertain tax position

The Group continuously wants to be a compliant corporate tax citizen in collaboration with our operations and stakeholders and to support shareholder interest and our reputation. To ensure compliance, national and international tax laws as well as the OECD Guidelines are acknowledged and followed throughout the world.

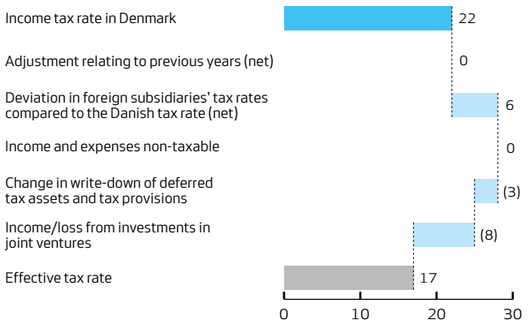
The Group is subject to income taxes around the world and therefore recognise that significant estimates and judgements is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities and provision for uncertain tax positions.

The global business implies that the Group may be subject to disputes on allocation of profits between different jurisdictions. Management judgement is applied to assess the expected outcome of such tax disputes which is provided for in provision for uncertain tax positions. Management believes that provisions made for uncertain tax positions not yet settled with local tax authorities at year end is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

mEUR	2020	2019
Current tax on profit for the year	158	228
Deferred tax on profit for the year	-	(24)
Tax on profit for the year	158	204
Change in income tax rate	-	3
Adjustments relating to previous years (net)	5	2
Income tax for the year recognised in the income statement, expense	**163**	**209**
Deferred tax on other comprehensive income for the year	(1)	(18)
Tax recognised in other comprehensive income, expense/(income)	**(1)**	**(18)**
Deferred tax on equity transactions	(7)	(2)
Tax recognised in equity	**(7)**	**(2)**
Total income taxes for the year, expense	**155**	**189**

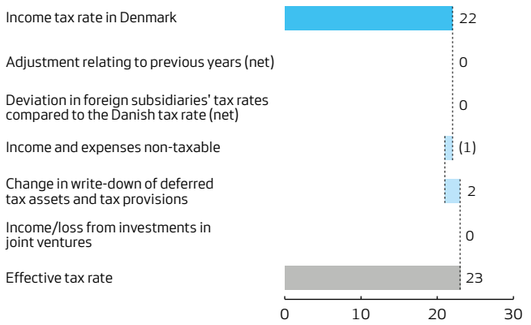
Computation of effective tax rate 2020

Percent



Computation of effective tax rate 2019

Percent



5.1 Income tax (continued)

mEUR	2020	2019
Income tax as at 1 January, net assets/(liabilities)	(143)	(138)
Exchange rate adjustments	(15)	(3)
Income tax for the year	(158)	(228)
Adjustments relating to previous years	19	14
IFRIC 23 effect	-	(43)
Addition as part of business combination	(40)	-
Settlements against VAT receivables	23	4
Income tax paid in the year	219	251
Income tax as at 31 December, net assets/(liabilities)	**(95)**	**(143)**
Receivables specified as follows:		
0-1 year	121	125
> 1 year	201	156
Income tax receivables	**322**	**281**
Liabilities specified as follows:		
0-1 year	(86)	(128)
> 1 year	(331)	(296)
Income tax liabilities	**(417)**	**(424)**

5.2 Deferred tax

Vestas accounting policies
Deferred tax is measured using the balance sheet liability method in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is, however, not recognised in respect of temporary differences on initial recognition of goodwill and other items, apart from business acquisitions, where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income. In cases where the computation of the tax base may be made according to different tax rules, deferred tax is measured on the basis of management's intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised in other non-current assets at the value at which the asset is expected to be realised, either by elimination of tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets are reviewed on an annual basis and are only recognised when it is probable that they will be utilised in future periods.

Adjustments are made to deferred tax to take account of the elimination of unrealised inter-company profits and losses.

Deferred tax is measured on the basis of the tax rules and tax rates of the respective countries that will be effective when the deferred tax is expected to crystallise as current tax based on the legislation at the balance sheet date. Changes to deferred tax due to changes to tax rates are recognised in the income statement except for items recognised directly in equity.

Key accounting estimates
Valuation of deferred tax assets
Vestas recognises deferred tax assets, including the tax value of tax loss carry-forwards, where Management assesses that the tax assets may be utilised in the foreseeable future for set-off against positive taxable income. The assessment is made on an annual basis and is based on the budgets and business plans for future years, including planned business initiatives, and thus involves significant estimates. Key parameters are expected revenue and EBIT development considering expected allocation of future taxable income based on the transfer pricing policy in place. Due to the uncertainties relating to allocation of profits Management has limited the forecast period used to determine the utilisation to three years.

Of the total tax loss carry-forwards, EUR 14m (2019: EUR 18m) is expected to be realised within 12 months, and EUR 65m (2019: EUR 23m) is expected to be realised later than 12 months after the balance sheet date.

The assessment in 2020 resulted in reversal of write-down of deferred tax assets by EUR 7m (2019 EUR 15m additional write-down) with the write down being primarily due to the fact that certain jurisdictions have more tax assets than what is expected to be utilised in the foreseeable future.

As at 31 December 2020, the value of recognised deferred tax assets amounted to EUR 335m (2019: EUR 324m), of which EUR 34m (2019: EUR 41m) relates to tax loss carry-forwards. The value of non-recognised tax assets totals EUR 69m (2019: EUR 76m), of which EUR 69m (2019: EUR 76m) relating to write-downs that are not expected to be utilised in the foreseeable future.

5.2 Deferred tax (continued)

mEUR	2020	2019
Deferred tax as at 1 January, net assets	177	161
Exchange rate adjustments	(1)	(9)
Deferred tax on profit for the year	-	24
Adjustment relating to previous years	(24)	(16)
Changes in income tax rate	-	(3)
Deferred tax on equity transactions	7	2
Addition as part of business combination	17	-
Tax on other comprehensive income	1	18
Deferred tax as at 31 December, net assets	**177**	**177**
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	34	41
Intangible assets	-	(1)
Property, plant and equipment	(22)	(38)
Current assets	112	208
Provisions	171	79
Write-down of tax assets	(69)	(76)
Other [1]	109	111
Deferred tax assets	**335**	**324**
Deferred tax provisions specified as follows:		
Tax value of tax loss carry-forwards (net)	(45)	(1)
Intangible assets	301	165
Property, plant and equipment	11	10
Current assets	(5)	15
Provisions	(63)	(28)
Other	(41)	(14)
Deferred tax provisions	**158**	**147**

1) Other mainly relates to deferred revenue and share-based payment and hedges.

No provision is made for deferred tax regarding undistributed earnings in subsidiaries, as Vestas controls the release of the obligation.

Deferred tax recognised on tax losses is mainly in jurisdictions where there are expiry limits. Out of total tax losses recognised EUR 14m (2019: EUR 20m) are subject to expiry limits. Following Vestas' transfer pricing policy, these losses are expected to be utilised within the foreseeable future.

Of the total deferred tax relating to tax loss carry-forwards written down, EUR 0m (2019: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 45m (2019: EUR 0m).

As many other multinational businesses, Vestas recognises the increased focus on the transfer pricing and the consequent allocation of profits to the relevant countries. Even though the Vestas' subsidiaries pay corporate tax in the countries in which they operate, Vestas is still part of a number of tax audits on different locations. Some of these disputes concern significant amounts and uncertainties. Vestas believes that the provisions made for uncertain tax positions not yet settled with the local tax authorities is adequate. However, the actual obligation may differ and is subject to the result of the litigations and settlements with the relevant tax authorities.

6. Other disclosures

6.1 Audit fees

mEUR	2020	2019
Audit:		
PricewaterhouseCoopers	3	3
Total audit	**3**	**3**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	1	1
Other services	0	2
Total non-audit services	**1**	**3**
Total	**4**	**6**

Vestas's policy is to follow the 70 percent fee cap restriction on non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, the auditor of the parent company. PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab complies with the 70 percent fee cap restriction in 2020.

Non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, amounted to EUR 1m, relating to compliance advices and other assurance opinions.

6.2 Management's incentive programmes

Vestas accounting policies
Vestas operates a number of share-based compensation schemes (restricted share programmes) under which it awards Vestas shares to members of the Executive Management and certain key employees in Vestas Wind Systems A/S or its subsidiaries.

The value of the services received in exchange for the issuance of shares is measured at the fair value of the shares.

Restricted shares issued to employees are measured at fair value at the time of granting and are recognised in staff expenses in the income statement over the vesting period. The opposite entry is recognised directly in equity.

On initial recognition of the restricted shares, the number of shares expected to vest is estimated. Subsequently, the estimate is revised so that the total expense recognised is based on the actual number of shares vested.

The fair value of restricted shares is determined based on Vestas quoted share price at grant.

Restricted performance share programme
The purpose of the restricted performance shares is to ensure common goals for management, certain key employees, and shareholders.

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

In May 2020, the Board of Directors of Vestas Wind Systems A/S (the Board) launched a new restricted performance share programme. The share-based incentive programme follows the structure of the previous programme from 2019 and will still be based on restricted performance shares. The programme has a performance period of three years and a performance measurement based on financial key performance indicators as well as Vestas' market share as defined by the Board of Directors. 50 percent of the programme has a vesting period of three years and remaining the 50 percent a vesting period of five years.

The terms and conditions governing the restricted performance share programme are as follows:

- Only participants employed by Vestas at the time of announcement of the programme or later in the financial year are eligible for participation in the restricted performance share programme.
- The number of restricted performance shares available for distribution depends on Vestas' performance as per table below.
- Depending on the performance, the total number of shares to be granted will range between 0 percent and 150 percent of the target level and is determined by Vestas' performance in the financial year.

6.2 Management's incentive programmes (continued)

	2020	2019	2018	2017	2016	2015
Year awarded:	May 2020	May 2019	April 2018	May 2017	April 2016	April 2015
Performance year [1]:	2020-2022	2019-2021	2018-2020	2017-2019	2016-2018	2015-2017
Vesting conditions (KPIs):	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share
Vesting years:	2023/25	2022/2024	2021/2023	2020/2022	2019/2021	2018/2020

1) Performance years defined as Vestas' financial year.

In 2020, the total number of shares issued amounts to 276,702 shares with a fair value of EUR 23m (out of which 93,298 shares with a fair value of EUR 8m were issued to the Executive Management). The fair value calculated is based on share price at measurement, close of Nasdaq Copenhagen on 20 May 2020, EUR 85.

Number of restricted performance shares	Executive Management pcs	Other executives pcs	Total pcs
Outstanding as at 1 January 2020	**274,810**	**920,749**	**1,195,559**
Adjusted [1]	(74,880)	92,078	17,198
Awards issued	93,298	183,404	276,702
Vested	(53,767)	(429,339)	(483,106)
Cancelled	(5,652)	(41,059)	(46,711)
Outstanding as at 31 December 2020	**233,809**	**725,833**	**959,642**
Outstanding as at 1 January 2019	**398,284**	**862,032**	**1,260,316**
Adjusted [1]	(66,209)	198,870	132,661
Awards issued	119,215	188,856	308,071
Vested	(136,530)	(231,700)	(368,230)
Cancelled	(39,950)	(97,309)	(137,259)
Outstanding as at 31 December 2019	**274,810**	**920,749**	**1,195,559**

1) Adjustments due to final calculation of entitlement based on performance in prior year. Allocation of performance shares for the 2018-2020, 2019-2021 and 2020-2022 performance programmes will be adjusted based on the level of target achievement in the measurement period. Change in Executive Management shares is included in the adjustment.

Employee elected members of the Board of Directors, had 0 restricted shares outstanding as at 31 December 2020 (2019: 1,732).

Ref. note 1.3 for the total expense recognised in the Income statement for restricted performance shares (share-based payment) granted to Executive Management and other executives.

6.3 Related party transactions

Vestas Wind Systems A/S has no shareholders with controlling influence.

Related parties are considered to be the Board and the Executive Management of Vestas Wind Systems A/S together with their immediate families. Related parties also include entities which are controlled or jointly controlled by the aforementioned individuals.

Transactions with the Board and Executive Management
Transactions with the Executive Management only consist of normal management remuneration, ref. note 1.3 and the transactions mentioned below.

Transactions with the Board and Executive Management in the year comprise the following:

Mr Anders Vedel has full and partly ownerships of wind turbines for which he has a service contract with Vestas. These transactions take place at arm's length and in total amounted to EUR 0.0m in 2020 (2019: EUR 0.1m). The outstanding amount of purchases as at 31 December 2020 amounted to EUR 0.0m (2019 EUR 0.0m). There have been no other transactions with members of the Board of Directors and the Executive Management during the year.

With the exception of the board members elected by the employees, no members of the Board of Directors have been employed by Vestas in 2020.

Transactions with joint ventures and associates
Vestas has had the following material transaction with joint ventures and associates:

mEUR	2020	2019
Joint ventures		
Revenue for the period	535	206
Proceeds from sale of projects	-	68
Capital contribution	1	-
Receivables as at 31 December	52	63
Prepayments balance as at 31 December	-	122
Other receivables balance as at 31 December	3	-
Associates		
Payable capital contribution as at 31 December	43	40
Revenue for the period	16	-

6.4 Business combinations

Vestas accounting policies
Newly acquired or newly founded subsidiaries are recognised from the date of obtaining control. Upon acquisition of subsidiaries, the acquisition method is applied.

Cost is stated as the fair value of the assets transferred, obligations undertaken and shares issued. Cost includes the fair value of any earn-outs.

Expenses related to the acquisition are recognised in the income statement in the period in which they are incurred. Identifiable assets, liabilities and contingent liabilities (net assets) relating to the entity acquired are recognised at the fair value at the date of acquisition calculated in accordance with Vestas accounting policies.

In connection with every acquisition, goodwill and a non-controlling interest (minority) are recognised according to one of the following methods:

1) Goodwill relating to the entity acquired comprises a positive difference, if any, between the total fair value of the entity acquired and the fair value of the total net assets for accounting purposes. The non-controlling interest is recognised at the share of the total fair value of the entity acquired (full goodwill).

2) Goodwill relating to the entity acquired comprises a positive difference, if any, between the cost and the fair value of Vestas' share of the net assets for accounting purposes of the acquired enterprise at the date of acquisition. The non-controlling interest is recognised at the proportionate share of the net assets acquired (proportionate goodwill).

Goodwill is recognised in intangible assets. It is not amortised, but reviewed for impairment once a year and also if events or changes in circumstances indicate that the carrying value may be impaired. If impairment is established, the goodwill is written down to its lower recoverable amount.

Sold or liquidated entities are recognised up to the date of disposal. Any gain or loss compared to the carrying amount at the date of disposal is recognised in the income statement to the extent the control of the subsidiary is also transferred.

Acquisition of MHI Vestas Offshore Wind A/S
On 29 October 2020, Vestas Wind Systems A/S (Vestas), and Mitsubishi Heavy Industries, Ltd. (MHI), signed an agreement that Vestas would acquire MHI's 50 percent shares in MHI Vestas Offshore Wind (MVOW) joint venture, against MHI acquiring 2.5 percent shares in Vestas, where after Vestas has obtained 100 percent of the shares in MVOW. Through this strengthened partnership, Vestas made an emphatic long-term move in offshore wind energy to become a leading player in offshore wind by 2025 and to expand the two companies' overall leadership in sustainable energy. The transaction between Vestas and MHI was subject to regulatory approvals by the competition authorities which were received on 27 November 2020. Following the approval and finalisation of the transaction, Vestas obtained control of MVOW on 14 December 2020.

Consideration transferred
The consideration transferred for the shares in MVOW has been made in Vestas equity instruments by offering a total of 5,049,337 shares in Vestas that were issued at closing of the transaction, corresponding to 2.5 percent of Vestas nominal share capital after the capital increase. The transaction has a value of approx. EUR 861m, based on the acquisition date share closing price of DKK 1,268.50 (EUR 170.5) quoted on Nasdaq Copenhagen. Upon closing MVOW effectively settled payable amounts of EUR 59m towards Vestas adjusted in net assets acquired and in consideration transferred, whereafter the consideration transferred amounted to EUR 920m. The cash impact from the transaction amount to EUR 218m obtained as part of the net assets acquired. No cash has been transferred to MHI.

6.4 Business combinations (continued)

Strategic rationale and synergies
The goodwill of EUR 896m arising from the acquisition is attributable to acceleration of MVOWs and Vestas' growth by integrating onshore and offshore platforms and leveraging Vestas' strengths in both segments. Specifically, this entails a stronger integration between onshore and offshore technology and modular frameworks. A new offshore wind turbine platform is expected to be introduced to improve efficiency and drive the levelized cost of energy further down. Furthermore, synergies are expected in sales, technology, manufacturing footprint and procurement.

None of the goodwill acquired is expected to be deductible for income tax purposes.

Transaction costs
Acquisition-related costs of EUR 1m have been charged to administration costs in the consolidated income statement for the year and less than a million have been recognised in Equity in relation to issuance of shares to settle the acquisition.

Earnings impact
Since the closing on 14 December 2020, MVOW has contributed with revenue of EUR 100m but no significant profit. Had the business been consolidated with Vestas' financial statements from 1 January 2020, Vestas consolidated income statement would have been impacted with additional revenue of EUR 1,279m and a loss after tax of additional EUR 46m. MVOWs total loss after tax amounts to EUR 92m in 2020.

Remeasurement of shares held before the acquisition of 50 percent shares
The carrying value of the 50 percent equity interest in MVOW as of 14th of December amounted to EUR 53m and the fair value has been assessed to EUR 461m. Based on the remeasurement of the existing 50 percent interest to fair value at the closing date and including reclassification of the exchange rate and hedge reserve in equity related to MVOW, a total gain of EUR 383m has been recognised as part of profit and loss from investments in joint ventures and associates.

Key accounting estimate
Estimate regarding fair value of shares held
The fair value of the 50 percent shares held before the acquisition is remeasured as the net present value of expected future cash flows. The expected cash flows are based on forecasts for a foreseeable period related to expected orders including firm orders, conditional orders, orders from reoccurring customers and new bids. Furthermore, cash flows from existing service contracts and service contracts from order backlog are forecasted in alignment with the contract terms in addition to projections for subsequent years based on assumptions on probability of the customers renewing the service contracts. The assumptions are based on sales and services coming from MVOW's current available technology, operating margin and expected future capital expenditures. The current available technology are expected to generate orders to be effectuated within the next five years and service contracts for a period of 30 years. The future cash flows are discounted using a weighted average cost of capital ("WACC") of 8 percent, as a high degree of the cash flows are related to firm orders and existing service contracts.

The fair value measurement of the 50 percent shares furthermore include a fair value assessment of lost cash flows related to a potential non-compete period, had a third party acquired Vestas' 50 percent shares in MVOW. The valuation is based on an assessment of cash flows from orders potentially lost to a competitor in a likely non-compete period of two years in which it has been assessed that expected orders of 5,000 MW in the offshore market potentially will be contracted by Vestas subject to the current market conditions. Furthermore, the estimate is based on a high discount rate, as a potential competitor would have assessed the expected cash flow highly uncertain. For this reason the cash flow are discounted using a WACC of 10 percent.

mEUR	MHI Vestas Offshore Wind A/S
Fair value of 50 percent interest in MVOW	461
Carrying amount of 50 percent interest in MVOW	(53)
Exchange rate and hedge reserve reclassified to the income statement	(25)
Gain recognised as part of the profit and loss from investments in joint ventures and associates	**383**

6.4 Business combinations (continued)

The fair value of the acquired identifiable net assets of EUR 1,381m is provisional pending final valuations of the net assets. The following table summarises the consideration transferred, the fair value of assets acquired and liabilities assumed at the acquisition date.

mEUR	MHI Vestas Offshore Wind A/S
Intangible assets	751
Property, plant & equipment	131
Right-of-use assets	169
Other equity investments	2
Deferred tax	17
Inventory / contract costs	1,342
Trade receivables / contract assets	152
Other receivables	49
Cash	218
Warranty provisions	(203)
Lease liabilities	(170)
Borrowings	(245)
Contract liabilities	(1,262)
Trade payables	(291)
Tax payables	(40)
Other liabilities	(135)
Total net assets	**485**
Goodwill	896
Net assets acquired	**1,381**
Fair value of joint venture on the acquisition date	461
Fair value of consideration transferred	920
Fair value of consideration transferred and joint venture at the acquisition date	**1,381**

Key accounting estimate

Estimate regarding fair value assessment of net assets acquired

Material net assets acquired for which estimates have been applied in the fair value assessment, including most significantly intangible assets and warranty provisions, have been recognised using the following valuation techniques.

Intangible assets

Intangible assets include development assets, order backlog and service contracts acquired.

Development assets

Development assets are related to the development of offshore wind turbine platforms . The measurement of the assets is based on a cost replacement approach. I.e. the measurement is based on expected costs to develop similar assets. Development assets of total EUR 239m have been recognised as intangible assets in the opening balance.

Order backlog and service contracts

Order backlog and preferred supplier asset related to the wind turbine business have been measured using a multi-period excess earnings model (MPEE) in which the present value of future expected cash flows from existing and expected contracts have been valued using a WACC of 7 percent. In total the order backlog together with the preferred supplier asset have been valued at EUR 118m based on expected orders of total 4,619 MW in a period of five years. In addition, existing and expected service contracts from orders have been valued at EUR 379m using a WACC of 7 percent and based on expected revenue from the service portfolio of EUR 5,825m over a period of approximately 30 years.

Further main value drivers in the MPEE model assessed include an assessment of the probability of contracting as well as the likelihood of renewal of service contracts. Direct and fixed costs are estimated based on experience within the wind turbine and service business.

Inventory

The inventory is measured at net realisable value less costs of disposal and a reasonable profit allowance.

Trade receivables

Fair value of trade receivables has been measured at the contractual amount expected to be received. The collectability has been taken into consideration but no significant provision for bad debt has been recognised based on low historical loss rates. The gross receivables have not been discounted as maturity on the receivables is generally very short.

Warranty provisions

The warranty provision of EUR 203m is measured as the amount expected to be paid to settle the obligation. The estimate is based on expectations in relation to both known and unknown warranty cases and include estimates on the costs related to work hours, hourly rate, raw materials as well as the likelihood of future warranty claims being raised. The estimates are based on historical experience from supply and installation of wind turbines.

Lease liabilities and right of use assets

Lease liabilities have been measured at the present value of the remaining lease payments discounted using incremental borrowing rate estimated at the acquisition date. A corresponding amount has been recognised as right-of-use assets.

Tax

Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the closing date. Deferred tax assets are recognised to the extent taxable profits are expected to be available to allow the benefit of the deferred tax asset to be utilised. Tax liabilities include provisions made for tax treatments potentially challenged by local tax authorities. The assessment is based on experience with disputes on allocation of profits between different jurisdictions.

Acquisition of SoWiTec in 2019

In 2019, Vestas gained control of SoWiTeC. The fair value of the identifiable assets and liabilities at the acquisition date were provisionally estimated and disclosed in the Annual Report for 2019. In 2020 the provisional values were finalised without any changes.

6.5 Non-cash transactions

mEUR	2020	2019
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	684	546
Gain from disposal of joint venture	(383)	-
Share of (profit)/loss from investments in joint ventures and associates, incl. other relating transactions	52	(3)
Warranty provisions in the year (net)	367	73
Other provisions in the year	26	(10)
Interest income	(16)	(39)
Interest expenses	40	47
Income tax for the year	163	209
Cost of share-based payments	16	25
Gains from property, plant and equipment	9	1
Adjustments for staff related accruals	(33)	115
Other adjustments for non-cash transactions incl. foreign currency adjustments	(122)	(133)
	803	**831**

6.6 Subsequent events

Acquisition of 25 percent stake in Copenhagen Infrastructure Partners P/S

On 18 December 2020 Vestas entered into an agreement to acquire a 25 percent minority stake in Copenhagen Infrastructure Partners P/S' ("CIP") parent companies, ref. Company Announcement no. 45/2020. With the investment, Vestas seeks to create value across a wider range of the renewable value chain and aims to further expand its presence in renewable project development, and invest within areas of the renewables value chain that lie beyond its existing activities.

The stake will be acquired at a price of EUR 500m, in the form of EUR 180m as upfront payment, and EUR 320m as an earnout.

The transaction was completed in the beginning of February 2021.

6.7 Legal entities[1]

Name and country	Ownership (%)
Parent company	
Vestas Wind Systems A/S, Denmark	100
Production units	
Vestas Nacelles America, Inc., USA	100
Vestas Towers America, Inc., USA	100
Vestas Blades America, Inc., USA	100
Vestas Manufacturing A/S, Denmark	100
Vestas Blades Deutschland GmbH, Germany[3]	100
WPT Nord GmbH, Germany	100
Vestas Blades Italia S.r.l., Italy	100
Vestas Wind Technology (China) Co. Ltd., China	100
Vestas Manufacturing Spain S.L.U., Spain	100
Vestas Control Systems Spain S.L.U., Spain	100
Vestas Nacelles Deutschland GmbH, Germany[3]	100
Vestas Offshore Wind A/S, Denmark	100
Vestas Manufacturing RUS OOO, Russia	51
Sales and service units	
Vestas Americas A/S, Denmark	100
Vestas America Holding Inc., USA	100
Vestas - American Wind Technology Inc., USA	100
Vestas - Canadian Wind Technology Inc., USA	100
Vestas - Portland HQ LLC, USA	100
Vestas Upwind Solutions Inc., USA	100
Availon Inc., USA	100
Steelhead Americas, LLC, USA	100
Steelhead Wind 1 LLC, USA	100
Steelhead Wind 2 LLC, USA	100
Steelhead Wind 2a LLC, USA	100
Vestas Asia Pacific A/S , Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd., Singapore	100
Vestas - Australian Wind Technology Pty. Ltd., Australia	100
Vestas Korea Wind Technology Ltd., South Korea	100
Vestas New Zealand Wind Technology Ltd., New Zealand	100
Vestas Taiwan Ltd., Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd., China	100
Vestas Wind Technology India Pvt Limited, India	100
Vestas Japan Co. Ltd., Japan	100
Vestas Wind Technology Pakistan (Private) Limited, Pakistan	100
Vestas Wind Technology (Thailand) Ltd., Thailand	100
Vestas Wind Technology Vietnam LLC, Vietnam	100
Vestas Mongolia LLC, Mongolia	100
Vestas Central Europe A/S, Denmark	100
Vestas Deutschland GmbH, Germany[3]	100
Vestas Services GmbH, Germany[3]	100
Vestas Benelux B.V., The Netherlands	100
Vestas Österreich GmbH, Austria	100
Vestas Czech Republic s.r.o., Czech Republic	100
Vestas Hungary Kft., Hungary	100
Vestas Bulgaria EOOD, Bulgaria	100
Vestas CEU Romania S.R.L, Romania	100
Vestas Central Europe-Zagreb d.o.o, Croatia	100
Vestas Slovakia spol S.r.o., Slovakia	100

Name and country	Ownership (%)
Sales and service units, continued	
Vestas RUS LLC, Russia	
Vestas Eastern Africa Ltd., Kenya	100
Vestas Southern Africa Pty. Ltd., South Africa	80
Vestas Ukraine LLC, Ukraine	100
Vestas Central Europe d.o.o. Beograd, Serbia	100
Vestas Belgium SA, Belgium	100
Vestas Georgia LLC, Georgia	100
Availon Holding GmbH, Germany	100
Availon GmbH, Germany[3]	100
Vestas Mediterranean A/S, Denmark	100
Vestas Italia S.r.l., Italy	100
Vestas Hellas Wind Technology S.A., Greece	100
Vestas Eólica S.A., Spain	100
Vestas France SAS, France	100
Vestas WTG Mexico S.A. de C.V., Mexico	100
Vestas Mexicana del Viento S.A. de C.V., Mexico	100
Vestas do Brasil Energia Eolica Ltda., Brazil	100
Vestas Argentina S.A., Argentina	100
Vestas Chile Turbinas Eólica Limitada Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A., Uruguay	100
Vestas MED (Cyprus) Ltd., Cyprus	100
Vestas Nicaragua SA, Nicaragua	100
Vestas CV Limitada, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L., Dominican Republic	100
Vestas Peru S.A.C., Peru	100
Vestas Middle East S.L.U., Spain	100
Vestas Costa Rica S.A., Costa Rica	100
Vestas Moroc SARLAV, Casablanca, Morocco	100
Vestas Jamaica Wind Technology Ltd., Jamaica	100
Vestas Guatemala, Guatemala	100
Availon LDA Portugal, Portugal	100
Availon Iberia S.L., Spain	100
Vestas Northern Europe A/S, Denmark	100
Vestas - Celtic Wind Technology Ltd., United Kingdom[2]	100
Vestas Northern Europe AB, Sweden	100
Vestas Poland Sp.z.o.o., Poland	100
Vestas Ireland Ltd., Ireland	100
Vestas Norway AS, Norway	100
Vestas Finland Oy, Finland	100
Vestas Mediterranean A/S Sucursal, Bolivia	100
UpWind Solutions Canada, Ltd., Canada	100
Vestas Kazakhstan LLP, Kazakhstan	100
Vestas Overseas Panamá S.A., Panama	100
Vestas Portugal, LDA, Portugal	100
Vestas Senegal S.A.R.L.U, Senegal	100
Vestas Wind Lanka (PVT) Ltd., Sri Lanka	100
Vestas Kompozit Kanat Sanayi Ve Ticaret Anonim Şirketi Şirketi, Turkey	100
UpWind Holdings, LLC, USA	100
Utopus Insights, Inc., USA	100
NEG Micon UK Ltd., United Kingdom	100

1) Companies of immaterial significance have been left out of the overview.
2) Vestas Celtic Wind Technology Ltd (CN: SC 216807) and Vestas Technology UK Ltd (CN: 2883652), a wholly owned subsidiary of Vestas Wind Systems A/S, is claiming exemption from audit pursuant to sections 479A to 479C of the Companies Act 2006.
3) Vestas Deutschland GmbH, Vestas Blades Deutschland GmbH, Vestas Nacelles Deutschland GmbH, Vestas Services GmbH and Availon GmbH, wholly owned subsidiaries of Vestas Wind Systems A/S, claiming not to prepare notes and management report to its financial statements pursuant to the relief provision of section 264 Abs. 3 HGB.

6.7 Legal entities[1] (continued)

Name and country	Ownership (%)
Sales and service units, continued	
NEG Micon Australia Pty. Ltd., Australia	100
Vestas Honduras, S.A. De C.V., Honduras	100
Vestas Colombia S.A.S, Colombia	100
Vestas Saudi Arabia Limited Co., Saudi Arabia	100
Vestas El Salvador, S.A. De C.V., El Salvador	100
Roaring Fork Wind, LLC, USA	100
Vestas Offshore Wind Sweden AB, Sweden	100
Vestas Offshore Wind Germany GmbH, Germany	100
Vestas Offshore Wind UK Ltd., United Kingdom	100
Vestas Offshore WInd Blades UK Ltd., United Kingdom	100
Vestas Offshore Wind France SAS, France	100
Portugal Unipessoal Lda.,Portugal	100
Vestas Offshore Wind The Netherlands BV, Netherlands	100
Vestas Offshore Wind Poland Z.O.O, Poland	100
Vestas Offshore Wind Belgium NV, Belgium	100
Vestas Offshore Wind US inc., USA	100
Vestas Offshore Wind Taiwan Ltd., Taiwan	100
Vestas Offshore Wind Japan Ltd, Japan	100
Other subsidiaries	
Vestas Wind Systems (China) Co. Ltd., China	100
Vestas Switzerland AG, Switzerland	100
Vestas Services Philippines Inc., Philippines	100
Vestas India Holding A/S, Denmark	100
Wind Power Invest A/S, Denmark	100
Vestas Technology (UK) Limited, United Kingdom[2]	100
Vestas Technology R&D Singapore Pte. Ltd., Singapore	100
Vestas Technology R&D Chennai Pte. Ltd., India	100
Vestas Technology R&D (Beijing) Co. Ltd., China	100
Vestas Shared Service (Spain), S.L.U., Spain	100
GREP Svenska AB, Sweden	100
Vestas BCP Philippines Inc., Philippines	100
Vestas Shared Service A/S, Denmark	100
Vestas Service Delivery Center - Szczecin sp Z.o.o., Poland	100
Vestas Cantabria Prototype SL	100
SoWiTec Group GmbH	25
Joint ventures	
Emerging Markets Power (Holdings) Limited, Ireland	50
Airpower Windfarms Private Ltd., India	50
North Fork Ridge Wind Holdings LLC, USA	30
Kings Point Wind Holdings LLC, USA	30
Neosho Ridge Wind LLC, USA	50
Associates	
Blakliden Fäbodberget Holding AB, Sweden	40

1) Companies of immaterial significance have been left out of the overview.
2) Vestas Celtic Wind Technology Ltd (CN: SC 216807) and Vestas Technology UK Ltd (CN: 2883652), a wholly owned subsidiary of Vestas Wind Systems A/S, is claiming exemption from audit pursuant to sections 479A to 479C of the Companies Act 2006.

7. Basis for preparation

7.1 General accounting policies

The Annual Report of Vestas Wind Systems A/S comprises the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries and separate financial statements of the parent company, Vestas Wind Systems A/S.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional Danish disclosure requirements for listed companies, the Danish Statutory Order on Adoption of IFRS issued pursuant to the Danish Financial Statements Act.

Basis of preparation
The consolidated financial statements have been prepared under the historical cost method, except for the derivative financial instruments and marketable securities, which are measured at fair value and non-current assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

The accounting policies remain unchanged for the consolidated financial statements compared to 2019.

The consolidated financial statements are presented in million Euro.

This note describes the general accounting policies. Other accounting policies are described in the separate notes to the consolidated financial statements.

Materiality in the financial reporting
For the preparation of the consolidated financial statements, Vestas discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

A judgement is made of whether more detailed specifications are necessary in the presentation of Vestas' assets, liabilities, financial position, and results. All judgements are made with due consideration of legislation and the consolidated financial statements as a whole presenting a true and fair view.

Consolidated financial statements
The consolidated financial statements comprise Vestas Wind Systems A/S (the parent company) and the subsidiaries over which Vestas Wind Systems A/S exercises control. Vestas Wind Systems A/S and its subsidiaries together are referred to as the Group.

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Vestas has assessed the nature of its joint arrangements and determined them to be joint ventures.

An overview of Vestas legal entities is provided on pages 114-115.

The consolidated financial statements are prepared from the Financial statements of the parent company and subsidiaries by combining accounting items of a uniform nature, with subsequent elimination of intercompany income and expenses, shareholdings, intercompany balances and dividends as well as unrealised profits and losses on transactions between consolidated entities.

The consolidated financial statements are based on financial statements prepared under the accounting policies of Vestas.

Translation policies
Functional currency and presentation currency
Assets, liabilities and transactions of each of the reporting entities of Vestas are measured in the currency of the primary economic environment in which the entity operates (the functional currency). Transactions in currencies other than the functional currency are transactions in foreign currencies. The functional currency of the parent company is Danish kroner (DKK); however, due to Vestas' international relations, the consolidated financial statements are presented in Euro (EUR).

Translation into presentation currency
The balance sheet is translated into the presentation currency at the Euro rate at the balance sheet date. In the income statement the transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transactions.

Translation of transactions and amounts
Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the dates of transaction. Exchange adjustments arising due to differences between the transaction date rates and the rates at the dates of payment are recognised as financial income or financial costs in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognised as financial income or financial costs in the income statement.

Translation of Vestas entities
On recognition in the consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency of Vestas, income statements are translated at transaction date rates, and balance sheet items are translated at the exchange rates at the balance sheet date. The transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transaction. Exchange adjustments arising on the translation of the opening equity of foreign entities at exchange rates at the balance sheet date and on the translation of income statements from transaction date rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

Exchange adjustments of balances with foreign entities that are treated as part of the total net investment in the entity in question are recognised in other comprehensive income in the consolidated financial statements.

On recognition in the consolidated financial statements of investments accounted for using the equity method with functional currencies that differ from the presentation currency of Vestas, the shares of results for the year are translated at average exchange rates. The shares of equity including goodwill are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the share of the opening equity of foreign investments accounted for using the equity method at exchange rates at the balance sheet date and on the translation of the share of results for the year from average exchange rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

On full or partial disposal of foreign entities, resulting in a loss of control or on repayment of balances treated as part of the net investment, the share of the accumulated exchange adjustments recognised in other comprehensive income, is recognised in the income statement at the same time as any profit or loss on the disposal.

Income statement
Financial investments
Financial investments consist of interest-bearing investments which do not meet the definition for cash and cash equivalents. On initial recognition financial investments are recognised in the balance sheet at fair value. Subsequently assets held within the business model hold to collect are re-measured at amortised cost and assets hold to sell are remeasured at fair value through profit or loss. Any changes in the fair values of financial investments remeasured at fair value are recognised in the income statement as financial items.

Equity
Translation reserve
The translation reserve in the consolidated financial statements comprises exchange rate adjustments arising on the translation of the financial statements of foreign entities from their functional currencies into the presentation currency of Vestas (EUR).

Upon full or part realisation of the net investment in foreign entities, exchange adjustments are recognised in the income statement.

Cash flow hedging reserve
The cash flow hedging reserve in the consolidated financial statements comprises gains and losses on fair value adjustments of forward exchange contracts concerning future transactions as well as hedging in connection with commodities.

Cash flow statement
The cash flow statement shows Vestas' cash flows for the year, broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as Vestas' cash and cash equivalents at the beginning and end of the year. Cash flows relating to acquired entities are recognised from the date of acquisition. Cash flows relating to entities disposed of are recognised until the date of disposal.

7.1 General accounting policies (continued)

Cash flows from operating activities
Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, provisions, changes in working capital, interest received and paid and income tax paid. Working capital comprises current assets less short-term debt, which does not include current bank loans.

Cash flows from investing activities
Cash flows from investing activities comprise cash flows from business acquisitions and disposals and from acquisitions and disposals of intangible assets, property, plant and equipment as well as other non-current assets. The cash flow effect of business acquisitions and sales is shown separately. The establishment of leases is treated as non-cash transactions.

Cash flows from financing activities
Cash flows from financing activities comprise changes to the amount or composition of Vestas' share capital and related expenses as well as the raising of loans, repayment of interest-bearing debt, repayment of lease liabilities, acquisition and sale of treasury shares together with distribution of dividends to shareholders.

Reporting under the ESEF Regulation
The Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) has introduced a single electronic reporting format for the annual financial reports of issuers with securities listed on the EU regulated markets.

The ESEF Regulation sets out the following main requirements: (1) Issuers shall draw up and disclose their annual financial reports using the XHTML format; and (2) issuers that draw-up their primary consolidated financial statements in accordance with IFRS as endorsed by the EU shall tag those consolidated financial statements using inline eXtensible Business Reporting Language (iXBRL) and with effect from the 2022 Annual Report block-tag the notes to the consolidated financial statements.

The combination of the XHTML format with the iXBRL tags makes the annual financial reports both human-readable and machine-readable, thus enhancing accessibility, analysis and comparability of the information included in the annual financial reports.

iXBRL tags shall comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation.

As part of the tagging process financial statement line items are marked up to elements in the ESEF taxonomy. If a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxonomy is created. Extensions have to be anchored to elements in the ESEF taxonomy, except for extensions which are subtotals.

The Annual Report submitted to the Danish Financial Supervisory Authority (The Officially Appointed Mechanisms) consists of the XHTML document together with some technical files all included in a ZIP file named VWS-2020-12-31.zip.

Key definitions
XHTML (eXtensible HyperText Markup Language) is a text-based markup language used to structure and mark up content such as text, images, and hyperlinks in documents that are displayed as Web pages in an updated standard Web browser like Chrome and Internet Explorer.

iXBRL tags (or Inline XBRL tags) are hidden meta-information embedded in the source code of an XHTML document in accordance with the Inline XBRL 1.1 specification, which enables the conversion of XHTML-formatted information into a machine-readable XBRL data record by appropriate software.

The tagging process is a process where iXBRL tags are applied to financial statement line items, etc.

Taxonomy is an electronic dictionary of business reporting elements used to report business data. A taxonomy element is an element defined in a taxonomy that is used for the machine-readable labeling of information in an XBRL data record.

7.2 Key accounting estimates and judgements

When preparing the consolidated financial statements of Vestas, Management makes several accounting estimates and assumptions, which impacts the recognition and measurement of Vestas' financial statements.

The key accounting estimates and judgements, which may have a significant impact on the financial statements are listed below. The nature of accounting impact of key accounting estimates and judgements is described in the relevant notes.

The impact of key accounting estimates and judgements is divided into three categories from low to high. The rating is based on a combined assessment of materiality, complexity, subjectivity and estimation uncertainty and indicates the impact on amounts recognised and carrying values of assets or liabilities:

●○○ Low ●●○ Medium ●●● High

Key accounting estimates
The key accounting estimates made are based on assumptions, that are supported by experience, historical trends and other factors that Management assesses to be reasonable, but that by nature are associated with inherent uncertainty and unpredictability.

The estimates and underlying assumptions are reviewed on an ongoing basis. If necessary, changes are recognised in the period in which the estimate is revised. Management considers the key accounting estimates to be reasonable and appropriate based on currently available information.

Key accounting judgements
Key accounting judgments are made when applying certain accounting policies. Management considers the accounting judgements made are consistent and reflect the most fair and true view of Vestas' financial position and results of the Group's operations.

Note	Key accounting estimates and judgements	Estimate/ judgement	Impact of accounting estimates and judgements
1.2 Revenue	Estimate regarding recognition of contract elements	Estimate	●●
	Judgement regarding method for recognition of revenue from Supply-and-installation contracts	Judgement	●●
	Estimate of stage of completion	Estimate	●●●
1.6 Special items	Judgement regarding classification in the income statement	Judgement	●
2.2 Inventories	Estimates of net realisable value	Estimate	●
2.5 Other receivables	Estimates of allowance for doubtful VAT receivables	Estimate	●●
3.6 Provisions	Estimates for warranty provisions	Estimate	●●●
5.1 Income tax	Estimates included in income tax assessment and uncertain tax position	Estimate	●●●
5.2 Deferred tax	Estimate of deferred tax assets valuation	Estimate	●●
6.4 Business combinations	Estimates regarding fair value assessment of shares held	Estimate	●●●
	Estimates regarding fair value assessment of net assets acquired	Estimate	●●

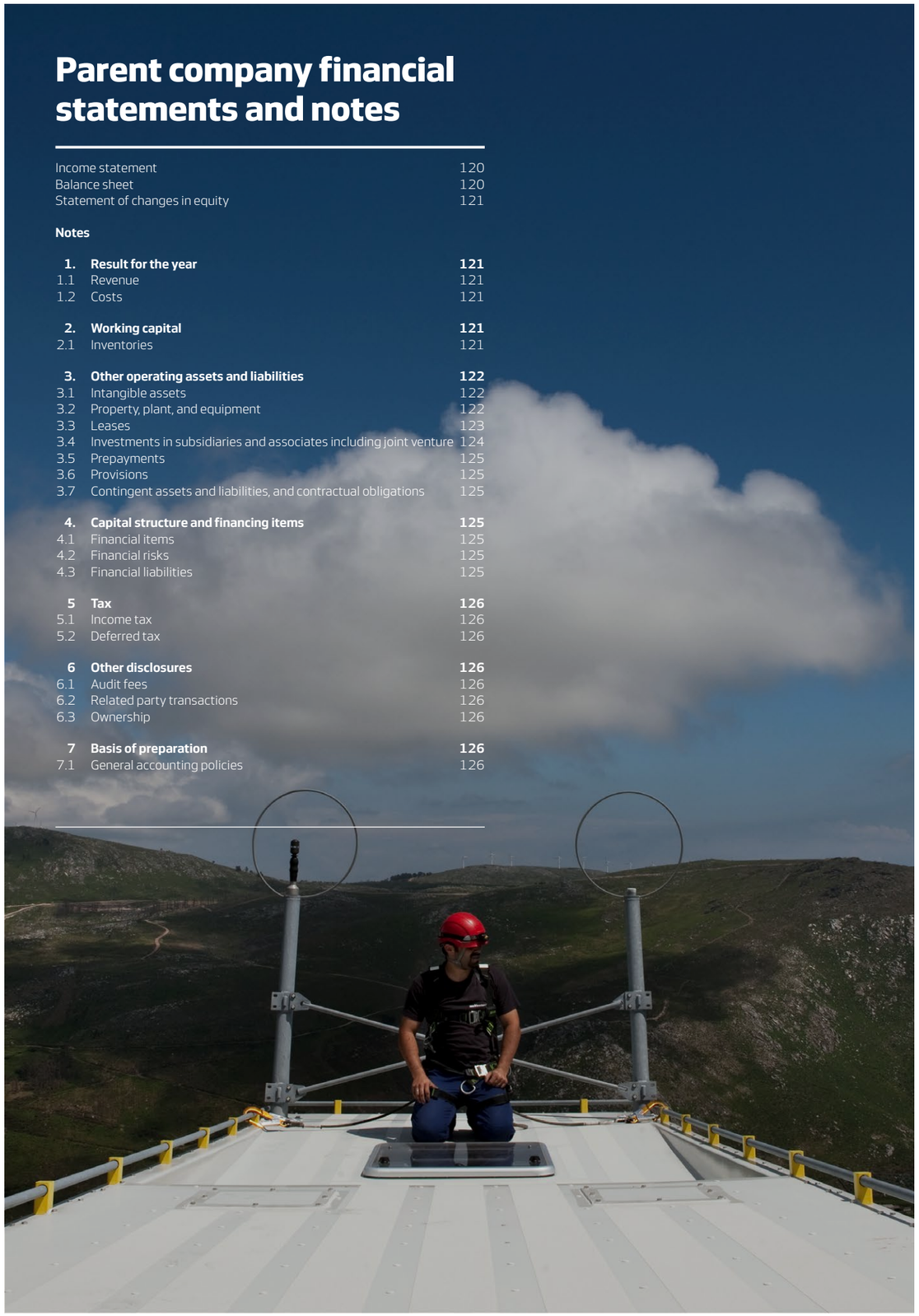
7.3 Change in accounting policies

Implementation of new accounting standards, amendments and interpretations
The following accounting standards, amendments (IAS and IFRS) and interpretations have been implemented as at 1 January 2020:
- Amendments to IAS 1 and IAS 8 "Definition of Material"
- Amendments to IFRS 3 "Business Combinations"
- Amendments to "References to the Conceptual Framework in IFRS Standards"
- Interest rate benchmark reform (Amendment to IFRS 9, IAS 39 and IFRS 7)

The implementation has not had a significant impact on recognition, measurement or disclosures in the Annual Report 2020 and is not expected to have significant impact on the financial reporting for future periods.

New standards and interpretations, not yet adopted by EU
IASB has issued new or amended accounting standards and interpretations that have not yet become effective and have consequently not been implemented in the consolidated financial statements for 2020. Vestas will adopt the accounting standards and interpretations when they become mandatory.

Parent company financial statements and notes



Income statement 1 January – 31 December

mEUR	Note	2020	2019
Revenue	1.1	1,755	1,432
Production costs	1.2	(1,250)	(733)
Gross profit		**505**	**699**
Administration costs	1.2	(300)	(213)
Operating profit (EBIT)		**205**	**486**
Income/loss from investments in subsidiaries	3.4	197	333
Income/loss from investments in associates including joint venture	3.4	340	3
Financial income	4.1	64	89
Financial costs	4.1	(87)	(113)
Profit before tax		**719**	**798**
Income tax	5.1	33	(114)
Profit for the year		**752**	**684**

mEUR	Note	2020	2019
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		154	336
Retained earnings		368	137
Proposed dividends		230	211
Profit for the year		**752**	**684**

Balance sheet 31 December - Assets

mEUR	Note	2020	2019
Intangible assets	3.1	889	849
Property, plant, and equipment	3.2, 3.3	257	190
Investments in subsidiaries	3.4	3,738	2,625
Investments in associates including joint venture	3.4	1	72
Marketable securities		100	211
Other investments		5	4
Other receivables		71	68
Tax receivables		201	148
Total financial fixed assets		**4,116**	**3,128**
Total non-current assets		**5,262**	**4,167**
Inventories	2.1	169	104
Receivables from subsidiaries		3,776	6,187
Receivable from joint venture		-	12
Other receivables		324	206
Prepayments	3.5	21	13
Tax receivables		33	-
Total receivables		**4,154**	**6,418**
Marketable securities		-	-
Cash and cash equivalents		2,294	2,388
Total current assets		**6,617**	**8,910**
Total assets		**11,879**	**13,077**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2020	2019
Share capital		27	27
Reserve for net revaluation under the equity method		340	429
Reserve for capitalised development cost		629	569
Translation reserve		13	-
Dividend		230	211
Retained earnings		3,194	1,851
Total equity		**4,433**	**3,087**
Warranty provisions	3.6	456	403
Deferred tax	5.2	98	123
Total non-current provisions		**554**	**526**
Other liabilities		37	16
Financial debts	3.3,4.3	590	531
Total non-current debt		**627**	**547**
Total non-current liabilities		**1,181**	**1,073**
Financial debts	3.3,4.3	20	13
Warranty provisions	3.6	523	214
Trade payables		230	177
Payables to subsidiaries		5,203	8,268
Other liabilities		289	215
Tax payables		-	30
Total current liabilities		**6,265**	**8,917**
Total liabilities		**7,446**	**9,990**
Total equity and liabilities		**11,879**	**13,077**
Contingent assets and liabilities	3.7		
Financial risks	4.2		
Audit fees	6.1		
Related party transactions	6.2		
Ownership	6.3		
General accounting policies	7.1		

Statement of changes in equity 1 January – 31 December

2020 mEUR	Share capital	Reserves: Reserve under the equity method	Reserves: Reserve for capitalised development cost	Reserves: Translation reserve	Dividend	Retained earnings	Total
Equity as at 1 January	**27**	**429**	**569**	**-**	**211**	**1,851**	**3,087**
Exchange rate adjustments relating to foreign entities	-	(125)	-	-	-	-	(125)
Reclassification	-	6	-	-	-	(6)	-
Exchange rate adjustments	-	-	-	13	2	-	15
Fair value adjustments of derivative financial instruments	-	(24)	-	-	-	(3)	(27)
Tax on fair value adjustments of derivative financial instruments	-	5	-	-	-	1	6
Fair value adjustments of derivative financial instruments, joint venture	-	25	-	-	-	-	25
Dividend related to foreign entities	-	(269)	-	-	-	269	-
Paid dividend	-	-	-	-	(209)	-	(209)
Paid dividend related to treasury stock	-	-	-	-	(4)	4	-
Proposed dividend	-	-	-	-	228	(228)	-
Proposed dividend related to treasury stock	-	-	-	-	2	(2)	-
Capitalised development cost	-	-	77	-	-	(77)	-
Tax on capitalised development cost	-	-	(17)	-	-	17	-
Share-based payments	-	(10)	-	-	-	26	16
Tax on share-based payments	-	-	-	-	-	7	7
Capital decrease	(1)	-	-	-	-	1	-
Capital increase	1	-	-	-	-	860	861
Transfer related to disposal of joint venture	-	149	-	-	-	(124)	25
Profit for the year	-	154	-	-	-	598	752
Equity as at 31 December	**27**	**340**	**629**	**13**	**230**	**3,194**	**4,433**

1. Result for the year

1.1 Revenue

Revenue in the parent company consists of sale of spare parts and royalty income from other Group companies.

1.2 Costs

mEUR	2020	2019
Staff costs are specified as follows:		
Wages and salaries, etc.	238	264
Pension schemes	15	14
Other social security costs	2	2
	255	**280**
Average number of employees in Vestas Wind Systems A/S	2,161	2,109

For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company ref. note 1.3 to the consolidated financial statements. Pension schemes in the parent company consist solely of defined contribution plans and the company does therefore not carry the actuarial risk or the investment risk. For management incentive programmes, ref. note 6.2 to the consolidated financial statements.

2. Working capital

2.1 Inventories

mEUR	2020	2019
Raw materials and consumables	164	101
Work in progress	5	3
	169	**104**

Inventories relate to the spare parts activity.

3. Other operating assets and liabilities

3.1 Intangible assets

2020 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	74	1,879	438	14	261	2,666
Exchange rate adjustments	1	7	2	-	-	10
Additions	-	-	1	1	306	308
Disposals	-	-	-	-	-	-
Transfers	-	341	61	-	(402)	-
Cost as at 31 December	**75**	**2,227**	**502**	**15**	**165**	**2,984**
Amortisation as at 1 January	15	1,505	289	8	-	1,817
Reclassification	6	-	-	-	-	6
Exchange rate adjustments	-	6	-	-	-	6
Amortisation for the year	4	168	67	3	-	242
Impairment loss	-	23	-	1	-	24
Amortisation as at 31 December	**25**	**1,702**	**356**	**12**	**-**	**2,095**
Carrying amount as at 31 December	**50**	**525**	**146**	**3**	**165**	**889**
Amortisation period	20 years	2–5 years	3–5 years	3–7 years		

Included in software are internally completed IT projects amounting to EUR 103m as at 31 December 2020 (2019: EUR 111m).
For development projects in progress, ref. note 3.1 to the consolidated financial statements.

Goodwill
Goodwill is included in the item "Goodwill" or in the item "Investments accounted for using the equity method" and is amortised over the estimated useful life determined on the basis of Management's experience with the individual business areas. Goodwill is amortised on a straight-line basis over the amortisation period, which is 20 years.

3.2 Property, plant, and equipment

2020 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools, and equipment	Property, plant and equipment in progress	Right-of-use assets	Total
Cost as at 1 January	202	95	172	14	59	542
Exchange rate adjustment	-	-	2	2	-	4
Additions	2	3	59	7	82	153
Disposals	(3)	(11)	-	-	-	(14)
Transfers	-	12	-	(12)	-	-
Cost as at 31 December	**201**	**99**	**233**	**11**	**141**	**685**
Depreciation as at 1 January	137	71	130	-	14	352
Exchange rate adjustments	2	(1)	1	-	(1)	1
Impairment	-	5	-	-	4	9
Depreciation for the year	8	8	44	-	19	79
Depreciations on disposals for the year	(3)	(10)	-	-	-	(13)
Depreciation as at 31 December	**144**	**73**	**175**	**-**	**36**	**428**
Carrying amount as at 31 December	**57**	**26**	**58**	**11**	**105**	**257**
Depreciation period	10–40 years	3–10 years	3–5 years		2–20 years	

Special items
The decision to optimise and simplify the product portfolio led to the recognition of an impairment loss of EUR 33m, EUR 4m recognised as provision for purchase commitments and EUR 2m related to staff costs. Special items is presented as part of administration cost. Ref. note 1.6 to the consolidated financial statements.

3.3 Leases

mEUR	Property	Vehicles	Equipment	Total
Right-of-use assets as at 1 January 2020	**36**	**4**	**5**	**45**
Exchange rate adjustments	1	-	-	1
Depreciation charge for the year	(8)	(4)	(7)	(19)
Impairment charge for the year	(4)	-	-	(4)
Addition of right-of-use assets for the year	48	5	29	82
Right-of-use assets as at 31 December 2020	**73**	**5**	**27**	**105**

mEUR	Property	Vehicles	Equipment	Total
Right-of-use assets as at 1 January 2019	**42**	**5**	**1**	**48**
Depreciation charge for the year	(7)	(3)	(4)	(14)
Addition of right-of-use assets for the year	1	2	8	11
Right-of-use assets as at 31 December 2019	**36**	**4**	**5**	**45**

Vestas leases several assets including properties, vehicles and equipment. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, index-regulations, maintenance, deposits and guarantees etc.

Lease liabilities
Lease liabilities are included in Financial debts which amounts to EUR 111m as at 31 December 2020 (2019: EUR 46m). The lease liabilities included in financial debts can be specified as following:

Maturity analysis - contractual undiscounted cash flow

mEUR	2020	2019
Less than one year	21	14
One to five years	61	23
More than five years	34	11
Total undiscounted lease liabilities as at 31 December	**116**	**48**
Lease liabilities included in the statement of financial position as at 31 December	**111**	**46**
Current	20	13
Non-current	91	33

Some property leases contain variable payments terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas entire lease payments.

Extension and termination options may be included in leases. These terms are used to maximise operational flexibility in terms of managing contracts.

Total lease expenses recognised in the income statement

mEUR	2020	2019
Interest expense on lease liabilities	1	1
Variable lease payments not included in the measurement of lease liabilities	0	0
Expenses relating to short-term leases and leases of low-value	11	5

3.4 Investments in subsidiaries and associates including joint venture

Accounting policies
Investments in subsidiaries and associates including joint venture are recognised and measured in the financial statements of the parent company under the equity method.

On acquisition of subsidiaries and associates including joint venture, the difference between cost of acquisition and net asset value of the entity acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the acquisition method) and allowing for the recognition of any restructuring provisions relating to the entity acquired. Any remaining positive differences in connection with the acquisition of subsidiaries and associates including joint venture are included in the items "Investments in subsidiaries" and "Investments in associates including joint venture". The items "Income/(loss) from investments in subsidiaries" and "income/ (loss) from investments in associates including joint venture" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The items "Investments in subsidiaries" and "Investments in associates including joint venture" in the balance sheet includes the proportionate ownership share of the net asset value of the entities calculated under the accounting policies of the parent company with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of the positive differences (goodwill).

Subsidiaries and associates including joint venture with a negative net assets value are measured at EUR 0, and any receivables from these are written down by the parent company's share of the negative net asset value, if impaired. Any legal or constructive obligation of the parent company to cover the negative balance of the subsidiaries and associates including joint venture is recognised as provisions.

The total net revaluation of investments in subsidiaries and associates including joint venture is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity.

Gains and losses on disposals or winding up of subsidiaries and associates including joint venture are calculated as the difference between the sales value or cost of winding up and the carrying amount of the net assets at the date of acquisition including goodwill and expected loss of disposal or winding up. The gains or losses are included in the income statement.

Investments in subsidiaries, joint venture, and associates

mEUR	2020	2019
Subsidiaries	3,738	2,625
Joint venture	-	71
Associates	1	1
Carrying amount as at 31 December	**3,739**	**2,697**

Income/(loss) from investments in subsidiaries, joint venture, and associates

mEUR	2020	2019
Subsidiaries	197	333
Joint venture	340	3
Associates	(0)	0
	537	**336**

Income from subsidiaries

mEUR	2020	2019
Share of profit in subsidiaries after tax	210	352
Amortisation of goodwill	(13)	(19)
	197	**333**

Income/(loss) from joint venture

mEUR	2020	2019
Share of profit(loss) in joint venture after tax	(43)	3
Gain on existing 50% ownership	383	-
	340	**3**

Investments in subsidiaries

mEUR	2020	2019
Cost as at 1 January	2,065	2,063
Exchange rate adjustments	11	2
Additions	1,322	-
Cost as at 31 December	**3,398**	**2,065**
Value adjustments as at 1 January	560	384
Reclassification	6	-
Effect of initially applying IFRIC 23	-	(104)
Exchange rate adjustments	(125)	18
Share of profit/loss for the year after tax	210	352
Changes in equity, share-based payment	(10)	(6)
Changes in equity, derivative financial instruments	(19)	(65)
Dividend	(269)	-
Amortisation of goodwill	(13)	(19)
Value adjustments as at 31 December	**340**	**560**
Carrying amount as at 31 December	**3,738**	**2,625**
Remaining positive difference included in the above carrying amount as at 31 December	1.014	130

Investments in joint venture

mEUR	2020	2019
Cost as at 1 January	202	202
Transfers	(202)	-
Cost as at 31 December	**0**	**202**
Value adjustments as at 1 January	(131)	(87)
Share of profit(loss) for the year after tax	(43)	3
Changes in equity	25	(47)
Transfers	149	-
Value adjustments as at 31 December	**0**	**(131)**
Carrying amount as at 31 December	**0**	**71**

Ref. note 6.7 to the consolidated financial statements for an overview of the legal entities within the Group.

Vestas has acquired 50 percent shares in MHI Vestas Offshore Wind (MVOW), where after Vestas have obtained 100 percent of the shares in MVOW. The investment is therefore transferred to investments in subsidiaries.

3.5 Prepayments

Prepayments comprise of prepaid software license, insurance, and rent.

3.6 Provisions

Warranty provisions

mEUR	2020	2019
Warranty provisions as at 1 January	617	545
Warranty provisions for the year	688	289
Used warranty provisions for the year	(326)	(217)
Warranty provisions as at 31 December	**979**	**617**
The warranty provisions are expected to be consumed as follows:		
0–1 year	523	214
> 1 year	456	403
	979	**617**

In line with accounting policies, potential product warranties is recognised as warranty provisions when revenue from sale of wind turbines is recognised.

Product risks
Vestas invest significant resources in improving products and increasing their reliability to mitigate major warranty provisions. This work comprises design, production, installation, and continuous maintenance.

The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, to increase the competitiveness of the products, and to improve customer earnings.

3.7 Contingent assets and liabilities, and contractual obligations

Vestas provides indemnities and guarantees to third parties on behalf of non-Vestas entities and joint ventures with a notional amount of EUR 52m (2019: EUR 4,445m). No guarantees have been utilised during 2020 or in previous years and none of the indemnities are expected at the balance sheet date to be utilised.

Vestas provides indemnities and guarantees for bank and bonding facilities to third parties on behalf of subsidiaries. In addition, the company provides indemnities and guarantees to third parties in connection with project supplies in subsidiaries, and their warranty obligations to customers. To secure guarantees issued by banks, the company has given securities in cash and cash equivalents with disposal restrictions, ref. note 4.2 to the consolidated financial statements.

Vestas has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2021 and future periods at a value of EUR 23m (2019: EUR 6m). In addition, the company has a contractual commitment to pay on average EUR 3m annually until 2022 for the use of certain technology rights owned by a third party.

For pending lawsuits, ref. note 3.7 to the consolidated financial statements. For disclosure of contingent assets, ref. note 3.7 to the consolidated financial statements.

The company is jointly taxed with its Danish subsidiaries. As the administrative company for the subsidiaries included in the joint taxation, the company is liable for the tax obligations of the included subsidiaries.

4. Capital structure and financing items

4.1 Financial items

mEUR	2020	2019
Financial income		
Interest income	7	15
Interest income from subsidiaries	55	73
Financial instruments	-	1
Other financial income	2	-
	64	**89**
Financial costs		
Interest costs	16	20
Interest costs to subsidiaries	33	63
Interest on lease liabilities	1	1
Exchange rate adjustments	15	21
Financial instruments	9	-
Other financial costs	13	8
	87	**113**

4.2 Financial risks

For the use of derivative financial instruments and risks and capital management ref. note 4.2 to the consolidated financial statements.

4.3 Financial liabilities

Financial debts

mEUR	2020	2019
Green corporate eurobond	499	498
Lease liabilities	111	46
	610	**544**
Financial debts break down as follows:		
< 1 year	20	13
1–2 years	517	8
> 2 years	73	523
	610	**544**

5 Tax

5.1 Income tax

mEUR	2020	2019
Current tax on profit for the year	(96)	37
Deferred tax on profit for the year	60	71
Foreign taxes	2	3
Adjustment related to previous years	1	3
Income tax for the year recognised in the income statement, (income)	**(33)**	**114**
Deferred tax on equity	(8)	(1)
Tax recognised in equity, expense/(income)	**(8)**	**(1)**
Total income taxes for the year, (income)	**(41)**	**113**

5.2 Deferred tax

mEUR	2020	2019
Deferred tax as at 1 January, net liabilities	(123)	(91)
Deferred tax on profit for the year	(60)	(71)
Tax on entries in equity	8	1
Adjustment relating to previous years	77	38
Deferred tax as at 31 December, net liabilities	**(98)**	**(123)**

6 Other disclosures

6.1 Audit fees

mEUR	2020	2019
Audit:		
PricewaterhouseCoopers	1	1
Total audit	**1**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	0
Tax assistance	1	1
Other services	0	1
Total non-audit services	**1**	**2**
Total	**2**	**3**

6.2 Related party transactions

All transactions with related parties have been carried out at arm's length principle. Definition of related parties and concerning other transactions with related parties, ref. note 6.3 to the Consolidated financial statement.

6.3 Ownership

The Company has registered the following shareholders with more than 5 percent of the share capital or nominal value:
- BlackRock Inc, Wilmington, DE U.S.A. 5.36 %

7 Basis of preparation

7.1 General accounting policies

The parent company financial statements have been prepared in accordance with the Danish Financial Statements Act (DK GAAP) applying to entities of reporting class D, as well as the requirements laid down by Nasdaq Copenhagen in respect of the financial reporting of companies listed on the stock exchange.

For adopted accounting policies see the notes to the consolidated financial statements. The denomination of the items in the parent company's financial statements complies with the requirements under DK GAAP.

The accounting policies applied are unchanged from those applied in the previous year.

Development cost
An amount equivalent to the capitalised development cost in the balance sheet incurred after 1 January 2016 is recognised in the category "Reserve for capitalised development cost" in the equity. The value of the reserve is reduced by the value of the depreciations.

Cash flow statement
Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. Ref. page 68 to the Consolidated Cash Flow Statement.

Statements

Management's statement

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Vestas Wind Systems A/S for the financial year 2020.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of Vestas Wind Systems A/S have been prepared in accordance with the Danish Financial Statements Act. The Management's Review is also prepared in accordance with the Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the financial position of Vestas and Parent Company as at 31 December 2020 and of the results of Vestas' and Parent Company's operations and consolidated cash flows for the financial year 1 January to 31 December 2020.

In our opinion, the Management's Review includes a fair review of the development in the operations and financial circumstances of Vestas and Parent Company, of the results for the year and of the financial position of vestas and Parent Company as well as a description of the most significant risks and elements of uncertainty facing Vestas and Parent Company.

In our opinion, the social and environmental statements have been prepared in accordance with the accounting policies applied. They give a fair review of Vestas' social and environment performance.

In our opinion, the Annual Report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2020 identified as VWS-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend that the Annual General Meeting approve the Annual Report.

Aarhus, 10 February 2021

Executive Management

Henrik Andersen
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy chairman

Carsten Bjerg

Helle Thorning-Schmidt

Bruce Grant

Eva Merete Søfelde Berneke

Anders Runevad

Karl-Henrik Sundström

Michael Abildgaard Lisbjerg

Sussie Dvinge Agerbo

Kim Hvid Thomsen

Pia Kirk Jensen

The independent auditor's reports

To the Shareholders of Vestas Wind Systems A/S

Report on the audit of the Financial Statements

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2020 comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company, and statement of comprehensive income and statement of cash flows for the Group. Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Vestas Wind Systems A/S on 5 May 1999 for the financial year 1999. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 22 years including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Recognition of the Group's revenue is complex due to several types of customer contracts utilised, including sale of wind turbines and wind power plants (supply-only, supply-and-installation and turnkey), service sales and sale of spare parts. We focused on this area as recognition of revenue involves significant judgement and accounting estimates made by Management including, whether contracts contain multiple performance obligations which should be accounted for separately and the most appropriate method for recognition of revenue for the identified performance obligations in the contracts. This includes assessing whether performance obligations in supply-and-installation contracts are satisfied at a point in time or over time. Further, it comprises the point in time when transfer of control has occurred regarding sale of wind turbines and sale of spare parts, and assessing the degree of completion of project and service contracts, which are accounted for over time. The total consideration for service contracts is subject to estimates regarding variable elements and the degree of completion for project and service contracts is subject to estimates regarding the remaining costs to complete the contracts. Furthermore, the reduction in revenue related to damages or penalties regarding project and service contracts is subject to estimates. Finally, significant estimates are involved in allocation of the consideration to the individual performance obligations in a contract. Refer to Note 1.2, Note 2.3 and Note 2.4 in the Consolidated Financial Statements.	We obtained an understanding of the Group' applied revenue recognition policies. We tested the relevant internal controls in this area implemented by Management to ensure the completeness, accuracy and timing of recognised revenue, including controls over the degree of completion of relevant project and service contracts at year-end. We reviewed a sample of both project and service contracts to assess whether the method for recognition of revenue was relevant and consistent with IFRS 15, and had been applied consistently. We focused on contract classification, allocation of fixed and variable consideration and cost to the individual performance obligations and timing of transfer of control. For supply-and-installation projects with revenue recognition over time we reviewed Management's assessment of a sample of projects and challenged the judgement made by Management in terms of no alternative use of the project. Where a contract contained multiple elements, we considered Management's judgements as to whether they comprised performance obligations that should be accounted for separately, and, in such cases, challenged the significant assumptions used in the allocation of the consideration to each performance obligation. We evaluated and challenged the significant judgements and accounting estimates made by Management in applying Vestas' accounting policy to a sample of specific contracts and separable performance obligations of contracts. As part of this we obtained evidence to support them, including inspecting signed contracts, delivery records, cash receipts and project plans and reconciled the revenue recognised to the underlying accounting records. We obtained a sample of Management's calculations of the degree of completion of project and service contracts, which are accounted for over time, and matched a sample of source data used in Management's calculation to supporting evidence, and evaluated the judgements and assumptions applied. We further challenged the estimated cost to complete for the sampled contracts. We also considered the historical outcome of accounting estimates used in prior periods. We reviewed the disclosures included in the notes and sample tested additional disclosure information to accounting records.

Key audit matter	How our audit addressed the key audit matter
Warranty provisions The Group's product warranties primarily cover expected costs to repair or replace components with defects or functional errors and financial losses suffered by the Group's customers in connection with unplanned suspension of operations. Warranties are usually granted for a two-year period from legal transfer of the turbine, however, in certain cases, a warranty of up to five years is granted. We focused on this area as the completeness and valuation of the expected outcome of warranty provisions requires significant Management judgement and the use of significant assumptions concerning expected failure rates and expected repair costs giving rise to inherent uncertainty in the accounting estimates recorded in the financial statements. Refer to Note 3.6 in the Consolidated Financial Statements.	We tested the relevant internal controls regarding completeness of warranty provisions and how Management assesses valuation of provisions. We performed substantive audit procedures on the methodology, data, assumptions and model used by Management to calculate the provision and through selection of a sample of specific provisions. We challenged the significant assumptions underlying the valuation of provisions by checking and corroborating the inputs used to calculate the provisions, including interviewing project managers, cost controllers and Management regarding individual cases. We assessed specific warranty provisions held for individual cases to evaluate whether the warranty provisions were sufficient to cover expected costs at year-end and whether the disclosures included in the notes appropriately reflected the risk. Further, we assessed the level of historical warranty claims to assess whether the total warranty provisions held at year-end were sufficient to cover expected costs in light of known and expected cases and standard warranty periods provided.
Tax risks The Group operates in a complex multinational tax environment and the Group is part in tax cases with domestic and foreign tax authorities. The Group has recognised provisions in respect of uncertain tax positions. Furthermore, the Group has recognised write-downs on deferred tax assets related to the uncertainty about potential future utilisation of these tax assets. We focused on this area as the amounts involved are material and as the valuation of the provision and deferred tax assets is associated with significant accounting estimates and judgements. Refer to Note 5.1 and 5.2 in the Consolidated Financial Statements.	We evaluated relevant internal controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the provision for uncertain tax provisions and write-down of deferred tax assets. In understanding and evaluating Management's accounting estimates and judgements, we considered the status of recent tax authority audits and enquiries, the outcome of previous claims, judgmental positions taken in tax returns and estimates and developments in the tax environment. We used PwC tax specialists to evaluate and challenge the adequacy of Management's significant assumptions and read correspondence with tax authorities to assess Management's accounting estimates. We evaluated the Group's model for valuation of deferred tax assets, including the data used to estimate the expected future taxable income. We reviewed the disclosures included in the notes and sample tested additional disclosure information to accounting records.

Statement on Management's Review

Management is responsible for Management's Review pages 003-062 and pages 133-139.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

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

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the Financial Statements we performed procedures to express an opinion on whether the annual report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2020 with the filename VWS-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the Annual Report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

Management is responsible for the preparation of an Annual Report that complies with the ESEF Regulation. This responsibility includes:

- The preparation of the Annual Report in XHTML format;
- The selection and application of appropriate iXBRL tags including extensions and the anchoring thereof for all financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human-readable format; and
- For such internal control as Management determines necessary to enable the preparation of annual reports that are compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the Annual Report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the Annual Report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the Annual Report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2020 with the file name VWS-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 10 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Kim Tromholt
State Authorised Public Accountant
mne33251

Independent assurance report on the Sustainability key figures 2020

To the Stakeholders of Vestas Wind Systems A/S

Vestas Wind Systems A/S engaged us to provide limited assurance on the Sustainability key figures stated in the Annual Report for the period 1 January to 31 December 2020.

Our conclusion

Based on the procedures we performed and the evidence we obtained, nothing came to our attention that causes us not to believe that the Sustainability key figures as stated on page 7 in the Vestas Wind Systems A/S Annual Report 2020 are free of material misstatements and prepared, in all material respects, in accordance with the accounting policies (Notes to sustainability key figures) as stated on page 134-135 of the Annual Report 2020.

This conclusion is to be read in the context of what we say in the remainder of our report.

What we are assuring

The scope of our work was limited to assurance over the Sustainability key figures in Vestas Wind Systems A/S' Annual Report 2020.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 "Assurance engagements on greenhouse gas statements". Greenhouse Gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

Data and information in the Sustainability key figures need to be read and understood together with the accounting policies, which Management is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgement, we:

- Obtained an understanding of Vestas Wind Systems A/S' control environment and information systems relevant to quantification and reporting of social and environmental data, through inquiries;
- Conducted site visits in China and conducted conference calls with sites in Denmark and USA to assess the completeness of social and environmental data sources, data collection methods, source data and relevant assumptions applicable to the sites;
- On a sample test basis agreed and reconciled reported data to underlying documentation for sites in India, New Zealand and UK. The sites selected for testing were chosen taking into consideration their size and whether selected in prior periods;
- Conducted interviews and show-me meetings with Group functions to assess consolidation processes, use of company-wide systems and controls performed at Group level as well as test of social and environmental data prepared at Group level to underlying documentation;
- Conducted analytical review of the data and trend explanations submitted by all reporting entities for consolidation at Group level; and
- Evaluated the obtained evidence.

Management's responsibilities

Management of Vestas Wind Systems A/S is responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Sustainability key figures that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing data; and
- Measuring and reporting the Sustainability key figures based on the accounting policies.

Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Sustainability key figures are free from material misstatement, and are prepared, in all material respects, in accordance with the accounting policies;
- Forming an independent conclusion, based on the procedures we have performed and the evidence obtained; and
- Reporting our conclusion to the Stakeholders of Vestas Wind Systems A/S.

Hellerup, 10 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 3377 1231

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Notes to Sustainability key figures

Basis for preparation of the statement

General reporting standards

The below description of accounting policies refers to the environmental, social, and governance indicators presented on page 007.

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

Acquired companies are included from the time when coming under Vestas' control. For the offshore business in the joint venture, MHI Vestas Offshore Wind, however, of which Vestas took full ownership on 14 December 2020, data was not included in the 2020 reporting, as the impact was insignificant.

From 2021 and onwards, data from the offshore business will be included in the sustainability key figures. The existing sustainability strategy targets will be maintained and include offshore performance, with the adjustment that the baseline for scope 3 carbon emissions will have to be recalculated.

Defining materiality

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

Change in accounting policies

The "Sustainability key figures" have been revised after the materiality assessment conducted in 2020. Indicators for Environmental accidents, Breaches of internal inspection conditions, and Absence due to illness are no longer considered material as numbers are low and performance is good. Indicators for the environmental part of the sustainability strategy are included in the form of Recyclability rate of hub and blade, and Indirect emissions of CO_2e from the value chain (scope 3, absolute value as well as relative to MWh generated). With Vestas' commitment to lead the way in social responsibility in the renewables industry, as communicated in September 2020, indicators for human rights issues have been included in the form of Community grievances, Community beneficiaries, and Social Due Diligence on projects in scope. To document the impact of Vestas' products, Annual CO_2e avoided by the installed fleet is included. The status of the key figures is monitored closely and for relevant key indicators, specific targets have been defined. Strategic KPIs and targets can be found on page 023.

Environmental

Energy consumption, water withdrawal, waste generation, and carbon emissions are reported for the accounting period on the basis of significance. All production facilities are included as well as larger offices, warehouses, and other facilities, ensuring a comprehensive and sufficient statement of these environmental aspects. All data are registered in Vestas' HSE system.

Utilisation of resources

Electricity, gas, and district heating are measured on the basis of quantities consumed according to direct meter readings per site including related administration. Consumption of electricity comprises electricity purchased externally. Oil for heating is stated on the basis of external purchases and meter readings at the end of the reporting period. Fuel for internal transportation, including for cars owned by the company or fuel for employees' benefit cars for which the company pays the fuel per credit card as well as fuel used for internal transport on project sites and production such as forklifts, has been recognised on the basis of supplier statements. Electricity from renewable energy sources is calculated on the basis of supplier statements. Only 100 percent renewable electricity is counted as renewable electricity.

Renewable energy is energy generated from natural resources, which are all naturally replenished – such as wind, sunlight, water, biomass, and geothermal heat. Nuclear power is not considered to be renewable energy.

The withdrawal of water is stated as measured withdrawal of fresh water on the basis of supplier statements and meter readings.

Waste

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

Recyclability rate of hub and blade is calculated as the recyclable share of the total rotor (i.e. hub and blade) mass. The measure is based upon the material composition of all turbine types that were produced and shipped in the reporting year. Recyclability rates of different materials and component types are quantified and estimated based upon information from life cycle assessment (LCA) reports of each type of turbine shipped in the year, which can be found at the corporate website.

Carbon emissions

Carbon emissions are measured using the carbon dioxide equivalent (CO_2e) to include relevant greenhouse gasses according to the Greenhouse Gas Protocol. A distinction is made between scope 1, 2, and 3 emissions, as also defined by the Greenhouse Gas Protocol.

Scope 1: Direct emissions of CO_2e are calculated on the basis of determined amounts of fuel for own transport and the direct consumption of oil and gas, with the usage of standard factors published by the UK Department for Environment, Food & Rural Affairs (2020).

Scope 2: Scope 2 covers emissions released in connection with the consumption of purchased electricity, steam, heat, and cooling, of which steam and cooling are not used by Vestas. Indirect emissions of CO_2e from consumption of electricity outside Europe are calculated using national grid emission factors published by the International Energy Agency (2020). Indirect CO_2e emissions from consumption of electricity in Europe are calculated with residual mix emission factors from the Association of Issuing Bodies (2018). Indirect CO_2e emissions from district heating are calculated using the emission factor from the UK Department for Environment, Food & Rural Affairs (2020).

Scope 3: Indirect emissions of CO_2e from the value chain are reported based on the Greenhouse Gas Protocol which divides the scope 3 inventory into 15 subcategories. The largest part of the emissions is in the category 'Purchased goods and services', where CO_2e emissions from materials going into products are calculated based on LCAs following ISO 14040 & 14044, publicly available at vestas.com. The measure is based upon the material composition of all turbine types that were produced and shipped in the reporting year. CO_2e emission data of different materials and component types are quantified and estimated based upon information from LCA reports on each type of wind turbine shipped in the year. Similarly, the CO_2e emissions of all produced and shipped turbines in the reporting year are derived from the LCA reports, accounting for specific material quantities purchased. LCA reports can be found at the corporate website. Other purchased goods and services as well as Capital goods and Waste generated in operations are estimated based on spend using DEFRA factors for Indirect emissions from the supply chain (2011). Fuel- and energy-related activities are calculated using DEFRA factors for emissions related to the production of fuel and energy. CO_2 emissions from upstream transportation are estimated for global transportation based on the LCA reports for weight and distance of components transported and DEFRA carbon emissions factors. Business travel emissions are provided by the travel agency. Employee commuting is estimated based on average number of employees with the usage of standard factors published by the UK Department for Environment, Food & Rural Affairs (2020). End-of-life treatment of sold products is estimated based upon material composition of all produced and shipped wind turbines in the reporting year and DEFRA emission factors for waste treatment. Vestas' 50 percent share of the scope 1 & 2 emissions in the joint venture Mitsubishi Vestas Offshore Wind has been included in Vestas' scope 3 emissions. The subcategories C8-11 and C13-C14 are not relevant for Vestas, as there are no greenhouse gas emissions within these categories.

In relation to the target to reduce carbon emissions in the value chain, indirect emissions of CO_2e from the value chain per MWh generated include 70 percent of the scope 3 emissions. The amount of MWh generated is based on the number and type of wind turbines produced and shipped in the financial year along with contracted values for wind turbine capacity factor and lifetime.

Products

CO_2e avoided is to be understood as the volume of emissions, which is avoided by using the wind turbines as source, compared the average level of CO_2e impact involved in electricity generation.

Expected CO_2e avoided over the lifetime of the MW produced and shipped during the period is calculated on the basis of the wind turbines (MW) produced and shipped during the reporting period, a capacity factor of 34 percent in 2020, an expected lifetime of 20 years, and the latest updated standard factor of global average carbon emissions for electricity from the International Energy Agency (2019), at present 485 grams of CO_2e per kWh.

Annual CO_2e avoided by the total aggregated installed fleet is calculated on the basis of the total annual installed Vestas wind turbines (MW) and global average CO_2e emissions avoided per year of operation. The total CO_2e avoided is an aggregation of each year since 1981, accounting for decommissioned wind turbines, based on an estimate of the average lifetime of a wind turbine.

Social

Safety

The occupational safety data in the Sustainability key figures are reported for all activities in Vestas. Lost Time Injuries (LTIs) of all employees are stated on the basis of registration in Vestas' Incident Management System of occupational incidents that have caused at least one workday of absence after the day of the injury, and the number includes fatalities. Total Recordable Injuries (TRI) include LTIs, restricted work injuries, and medical treatment injuries. Injuries and working hours for externally employed workers under Vestas' supervision are included in both measures.

The incidence of injuries is defined as the number of injuries per one million working hours. The number of working hours is measured on the basis of daily timecards registered in the payroll system for hourly-paid employees, and prescribed working hours for salaried employees excluding e.g. holidays, absence due to illness and maternity leave. For externally employed workers under Vestas' supervision, the injuries are reported by Vestas, and working hours are reported by the external suppliers.

Employees, diversity, and inclusion

The number of employees is calculated as the number of full-time equivalents (FTE) with a direct contract with Vestas registered in Vestas' HR system.

Employee indicators (the share of women in the Board of Directors, Executive Management, and leadership positions) are calculated based on headcounts at end of the reporting period. Employee information is determined on the basis of extracts from the company's ordinary registration systems with specification of gender and management level by career track (people leaders, specialists, project managers).

Human rights

Vestas registers and handles community concerns or complaints caused by Vestas or its contractors in the Vestas Incident Management System (IMS). The measure "Community grievances" covers the total number of community complaints registered in IMS in the reporting year in connection with a wind farm project and associated facilities, a Vestas factory, or a R&D Centre.

"Community beneficiaries" are individuals that have benefitted directly, financially or by way of upgraded skills, from Vestas' community development initiatives implemented during the reporting period in connection to a wind farm project and associated facilities, a Vestas factory, or a R&D Centre. Where a household is a beneficiary, Vestas calculates the household size based on the country average defined by the UN Department of Economic and Social Affairs (UN 2017). Community development initiatives are identified in collaboration with local stakeholders, including community members, and centred around the UN SDGs with special focus on the six primary SDGs selected by Vestas.

The measure "Due diligence on projects in scope" reflects the share of wind power projects in scope, which have materialised as firm orders during the reporting period, and on which the Social Due Diligence (SDD) process has been applied. The wind farm projects in scope for Vestas' SDD are 1) all Engineering, Procurement and Construction (EPC) projects in emerging markets, 2) all Supply-and-installation projects of 100 MW or above in emerging markets, and 3) projects in OECD countries with a risk rating of 'Extreme' or 'High' according to the Verisk Maplecroft 'Indigenous people" risk index on risks related to indigenous people's lands, territories or livelihoods under threat (via a risk mapping performed each year in January). In this context, 'emerging markets' are non-OECD, high-income countries, as defined by OECD.

Governance

Whistle-blower system

All reports made to the EthicsLine whistle-blower hotline are investigated thoroughly, with the purpose of identifying whether a violation of the Code of Conduct has taken place. Upon the completion of the investigation, cases are classified as either substantiated or unsubstantiated. At the end of the reporting year, the total number of whistle-blower cases are calculated.

Quarterly financial and operational key figures

mEUR	Q1 2020	Q2 2020	Q3 2020	Q4 2020
FINANCIAL HIGHLIGHTS				
INCOME STATEMENT				
Revenue	2,235	3,541	4,770	4,273
Gross profit	159	228	612	539
Operating profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	97	188	575	531
Operating profit (EBIT) before special items	(54)	34	412	358
Operating profit (EBIT) after special items	(112)	34	418	358
Profit before tax	(107)	(7)	391	657
Profit for the period	(80)	(5)	290	566
BALANCE SHEET				
Net working capital	(631)	(411)	(711)	(1,127)
CASH FLOW STATEMENT				
Cash flow from operating activities	(760)	51	688	764
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(159)	(129)	(142)	(229)
Free cash flow before acquisitions of subsidiaries and financial investments	(919)	(78)	546	535
Free cash flow	(919)	96	546	753
FINANCIAL RATIOS[1]				
Gross margin (%)	7.1	6.4	12.8	12.6
EBITDA margin (%) before special items	4.3	5.3	12.1	12.4
EBIT margin (%) before special items	(2.4)	1.0	8.6	8.4
EBIT margin (%)	(5.0)	1.0	8.8	8.4
Net interest-bearing debt / EBITDA before special items	(1.0)	(0.8)	(1.1)	(1.4)
OPERATIONAL KEY FIGURES[2]				
Order intake (bnEUR)	2.4	3.2	3.1	4.0
Order intake (MW)	3,311	4,148	4,232	5,558
Order backlog – wind turbines (bnEUR)	15.9	16.2	14.6	19.0
Order backlog – service (bnEUR)	18.2	18.9	19.3	23.9
Produced and shipped wind turbines (MW)	4,917	4,667	4,329	3,142
Deliveries (MW)	2,228	4,020	5,991	4,973

1) The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios).
2) The order backlog for Vestas Offshore Wind A/S (former MHI Vestas Offshore Wind A/S) is included as at 31 December 2020. The remaining operational key figures include Vestas Offshore Wind A/S for the period 14 December 2020 to 31 December 2020.

mEUR	Q1 2019	Q2 2019	Q3 2019	Q4 2019
FINANCIAL HIGHLIGHTS				
INCOME STATEMENT				
Revenue	1,730	2,121	3,646	4,650
Gross profit	235	301	615	610
Operating profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	169	255	565	561
Operating profit (EBIT) before special items	43	128	429	404
Operating profit (EBIT) after special items	43	128	429	404
Profit before tax	34	119	390	366
Profit for the period	25	90	303	282
BALANCE SHEET				
Net working capital	(1,248)	(1,197)	(962)	(1,583)
CASH FLOW STATEMENT				
Cash flow from operating activities	(700)	100	351	1,072
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(176)	(175)	(146)	(232)
Free cash flow before acquisitions of subsidiaries and financial investments	(876)	(75)	205	840
Free cash flow	(895)	120	265	842
FINANCIAL RATIOS[1]				
Gross margin (%)	13.6	14.2	16.9	13.1
EBITDA margin (%) before special items	9.8	12.0	15.5	12.1
EBIT margin (%) before special items	2.5	6.0	11.8	8.7
EBIT margin (%)	2.5	6.0	11.8	8.7
Net interest-bearing debt / EBITDA before special items	(1.5)	(1.4)	(1.3)	(1.6)
OPERATIONAL KEY FIGURES				
Order intake (bnEUR)	2.4	4.3	3.5	3.5
Order intake (MW)	3,004	5,696	4,738	4,439
Order backlog – wind turbines (bnEUR)	13.3	15.9	16.5	16.0
Order backlog – service (bnEUR)	15.0	15.6	16.3	17.8
Produced and shipped wind turbines (MW)	2,745	3,375	4,398	2,100
Deliveries (MW)	1,601	2,069	4,150	5,064

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

Definition of terms

Capital employed
Capital Employed is the sum of (carrying value) total equity and interest bearing debt.

Deliveries
Deliveries for the Power Solution segment are included as deliveries, and deducted from the wind turbines backlog, when the related revenue is recognised. Sales from turnkey projects are deducted from the wind turbines backlog simultaneously as the customer has taken delivery of the wind turbines under the term of the contract.

Dividend per share
Dividend multiplied by the nominal value of the share.

EBIT margin
Operating profit as a percentage of revenue.

EBITDA margin
Operating profit before amortisation, depreciation and impairment as a percentage of revenue.

Earnings per share (EPS)
Profit/loss for the year divided by the average number of shares outstanding.

EnVentus™
Introduced in 2019, the EnVentus™ platform architecture connects proven system designs from the 2 MW platform, 4 MW platform and 9 MW platform turbine technology. The result is one versatile platform architecture that delivers a higher level of robustness and performance with the ability to create an even more finely matched combination of turbines to harness available wind energy in any specific location. EnVentus™ based variants are designed with global applicability in mind. As part of the suite of Vestas offerings, EnVentus™ turbines offer a wide range of standard hub heights and modes of operation that can be combined with an extensive list of technology options to create customised solutions to suit the needs of each unique project.

Free cash flow
Cash flow from operating activities less cash flow from investing activities.

Free cash flow before acquisitions of subsidiaries and financial investments
Cash flow from operating activities less cash flow from investing activities before acquisition of subsidiaries, any investments in marketable securities and short-term financial investments.

Gross margin
Gross profit/loss as a percentage of revenue.

IFRS
International Financial Reporting Standards

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IFRIC/SIC
International Financial Reporting Interpretations Committee/Standing Interpretations Committee

Investments
Same as 'Cash flow from investing activities'.

Management's Review
Management's Review comprises:
- In brief
- Strategy and ambitions
- Sustainability - progress on targets
- Group performance
- Vestas people
- Governance
- Additional information

Net interest bearing debt
Net interest bearing debt is the sum of cash and cash equivalents and financial investments less financial debts.

Net interest-bearing debt/EBITDA
Net interest-bearing debt divided by operating profit before amortization, depreciation, impairment and special items.

Net working capital (NWC)
Inventories, trade and other receivables, contract assets, contract cost, less trade and other payables and contract liabilities.

Order backlog
The value of future contracts end of period.

Order intake
An orders is included as order intake when it order becomes effective, meaning when the contract becomes firm and unconditional.

Payout ratio
Total dividend distribution divided by profit/loss for the year.

Power-to-X
Power-to-X conversion technologies allow for the decoupling of power from the electricity sector for use in other sectors (such as transport or chemicals), possibly using power that has been provided by additional investments in generation.

Return on Capital Employed (ROCE)
Operating profit/loss (EBIT) before special items adjusted for tax (effective tax rate) as a percentage of average capital employed calculated as a 12-month average.

Return on equity
Profit/loss after tax for the year divided by average equity.

Solvency ratio
Equity at year-end divided by total assets.

Disclaimer and cautionary statement

This document contains forward-looking statements concerning Vestas' financial condition, results of operations and business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. A number of factors that affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, include (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Additional factors that may affect future results are contained in Vestas' Annual Report for the year ended 31 December (available at www.vestas.com/investor) and these factors also should be considered. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events other than as required by Danish law. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this document.

Vestas Wind Systems A/S
Hedeager 42 . 8200 Aarhus N . Denmark
Tel: +45 9730 0000 . Fax: +45 9730 0001
vestas@vestas.com
vestas.com