Financial statements for Vestas Wind Systems A/S

Income statement 1 January – 31 December

mEUR	Note	2015	2014
Revenue	1.1	706	732
Cost of sales	1.2	(592)	(499)
Gross profit		**114**	**233**
Administration cost	1.2	(278)	(301)
Operating profit/(loss) (EBIT)		**(164)**	**(68)**
Income/(loss) from investments accounted for using the equity method	3.3	672	483
Financial income	4.1	72	59
Financial costs	4.1	(46)	(113)
Profit before tax		**534**	**361**
Income tax	5.1	127	13
Profit for the year		**661**	**374**
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		557	455
Retained earnings		(101)	(197)
Proposed dividends		205	116
Profit for the year		**661**	**374**

Balance sheet 31 December - Assets

mEUR	Note	2015	2014
Intangible assets	3.1	422	451
Property, plant and equipment	3.2	257	268
Investments accounted for using the equity method	3.3	3,156	2,529
Total fixed assets		**3,835**	**3,248**
Tax receivables		114	-
Deferred tax	5.2	73	87
Total other non-current assets		**187**	**87**
Total non-current assets		**4,022**	**3,335**
Inventories	2.1	93	125
Receivables from subsidiaries		1,539	1,634
Receivable from joint venture		18	0
Other receivables		44	25
Prepayments		4	4
Joint taxation contribution		154	-
Tax receivables		4	0
Total receivables		**1,763**	**1,663**
Cash and cash equivalents		2,307	1,701
Total current assets		**4,163**	**3,489**
Total assets		**8,185**	**6,824**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2015	2014
Share capital		30	30
Reserve for net revaluation under the equity method		1,199	593
Retained earnings		1,525	1,611
Total equity		**2,754**	**2,234**
Warranty provisions	3.4	381	316
Other provisions		2	0
Total non-current provisions		**383**	**316**
Mortgage debt	4.3	-	3
Debt to credit institutions	4.3	495	-
Total non-current debt		**495**	**3**
Total non-current liabilities		**878**	**319**
Short-term share of mortgage debt and debt to credit institutions	4.3	-	600
Trade payables		112	66
Payables to subsidiaries		4,401	3,498
Debt to joint venture		-	12
Other liabilities		40	95
Total current liabilities		**4,553**	**4,271**
Total liabilities		**5,431**	**4,590**
Total equity and liabilities		**8,185**	**6,824**

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Statement of changes in equity 1 January – 31 December

2015 mEUR	Share capital	Reserve under the equity method	Retained earnings	Total
Equity at 1 January	**30**	**593**	**1,611**	**2,234**
Exchange rate adjustments relating to foreign entities	-	74	-	74
Fair value adjustments of derivative financial instruments	-	(20)	58	38
Fair value adjustments of derivative financial instruments, joint venture	-	-	3	3
Tax on changes in equity	-	-	(12)	(12)
Paid divided	-	-	(116)	(116)
Proposed dividend	-	-	205	205
Acquisition of treasury shares	-	-	(176)	(176)
Sale of treasury shares	-	-	40	40
Share-based payments	-	(5)	13	8
Profit for the year	-	557	(101)	446
Equity at 31 December	**30**	**1,199**	**1,525**	**2,754**

2014 mEUR	Share capital	Reserve under the equity method	Retained earnings	Total
Equity at 1 January	**27**	**119**	**1,264**	**1,410**
Exchange rate adjustments relating to foreign entities	-	82	-	82
Fair value adjustments of derivative financial instruments	-	(21)	(21)	(42)
Fair value adjustments of derivative financial instruments, joint venture	-	7	-	7
Tax on changes in equity	-	7	2	9
Capital increase	3	-	439	442
Disposal	-	(56)	56	0
Costs of capital increase	-	-	(10)	(10)
Proposed dividend	-	-	116	116
Acquisition of treasury shares	-	-	(43)	(43)
Share-based payments	-	-	5	5
Profit for the year	-	455	(197)	258
Equity at 31 December	**30**	**593**	**1,611**	**2,234**

Notes

1. Result for the year

1.1 Revenue

Revenue in the parent company consists of sale of spare parts to and royalty income from other Group companies.

1.2 Costs

mEUR	2015	2014
Staff costs are specified as follows:		
Wages and salaries, etc.	212	201
Pension schemes	12	12
Other social security costs	3	1
	227	**214**
For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company ref. note 1.3 to the consolidated financial statements. Pension schemes in the parent company consist solely of defined contribution plans and the company does therefore not carry the actuarial risk or the investment risk. For management incentive programmes, ref. note 6.2 to the consolidated financial statements.		
Average number of employees	1,904	1,883

1.3 Audit fees

mEUR	2015	2014
Audit:		
PricewaterhouseCoopers	1	1
Total audit	**1**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	0
Tax assistance	1	1
Other services	1	0
Total non-audit services	**2**	**1**
Total	**3**	**2**

2. Working capital

2.1 Inventories

mEUR	2015	2014
Raw materials and consumables	92	124
Work in progress	1	1
	93	**125**

Raw materials and consumables relates to the spare parts activity.

3. Other operating assets and liabilities

3.1 Intangible assets

2015 mEUR	Goodwill	Completed development projects	Software	Development projects in progress	Total
Cost at 1 January	19	1,092	166	137	1,414
Exchange rate adjustments	0	(3)	0	(1)	(4)
Additions	-	0	46	101	147
Transfers	-	146	-	(146)	-
Cost at 31 December	**19**	**1,235**	**212**	**91**	**1,557**
Amortisation at 1 January	9	818	136	-	963
Exchange rate adjustments	1	(3)	0	-	(2)
Amortisation for the year	1	154	16	-	171
Impairment for the year	-	3	0	-	3
Amortisation at 31 December	**11**	**972**	**152**	**-**	**1,135**
Carrying amount at 31 December	**8**	**263**	**60**	**91**	**422**
Amortisation period	5–20 years	3–5 years	3-5 years		

Included in software are IT projects in progress amounting to EUR 16m at 31 December 2015 (2014: EUR 4m). Amortisation is recognised in profit and loss as cost of sales with EUR 171m (2014: EUR 181m) and as administration expenses with EUR 0m (2014: EUR 0m).

Goodwill

Goodwill is included in the item "Goodwill" or in the item "Investments accounted for using the equity method" and is amortised over the estimated useful life determined on the basis of Management's experience with the individual business areas. Goodwill is amortised on a straight-line basis over the amortisation period, which is a maximum of 20 years, and is longest for entities acquired for strategic purposes with a long-term earnings profile.

3.2 Property, plant and equipment

2015 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January	399	69	94	4	566
Additions	2	8	6	6	22
Disposals	0	(4)	0	0	(4)
Transfers	1	1	1	(3)	-
Cost at 31 December	**402**	**74**	**101**	**7**	**584**
Depreciation at 1 January	186	35	77	-	298
Depreciation for the year	15	8	9	-	32
Reversal of amortisation on disposals in the year	0	(3)	0	-	(3)
Depreciation at 31 December	**201**	**40**	**86**	**-**	**327**
Carrying amount at 31 December	**201**	**34**	**15**	**7**	**257**
Depreciation period	15–40 years	3–10 years	3–5 years		

Depreciation is recognised in the income statement as cost of sales with EUR 24m (2014: EUR 32m) and as administration costs with EUR 8m (2014: EUR 7m).

3.3 Investments accounted for using the equity method

Accounting policies
Investments in subsidiaries are recognised and measured in the financial statements of the parent company under the equity method.

On acquisition of subsidiaries, 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 are included in the item "Investments accounted for using the equity method". The item "Income/(loss) from investments accounted for using the equity method" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The item "Investments accounted for using the equity method" 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 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 is recognised as provisions.

The total net revaluation of investments in subsidiaries 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 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.

Income/(loss) from investments accounted for using the equity method recognised in the income statement

mEUR	2015	2014
Subsidiaries	638	514
Joint ventures	34	(31)
	672	**483**

Income/(loss) from subsidiaries

mEUR	2015	2014
Share of profit in subsidiaries before tax	1,003	663
Gain on disposal	-	59
Share of tax of subsidiaries	(351)	(194)
Amortisation of goodwill	(14)	(14)
	638	**514**

Income/(loss) from joint ventures
Ref. note 3.4 to the consolidated financial statements.

3.3 Investments accounted for using the equity method (continued)

Investments accounted for using the equity method recognised in the balance sheet

mEUR	2015	2014
Subsidiaries	2,932	2,342
Joint ventures	224	187
Carrying amount at 31 December	**3,156**	**2,529**

Investments in subsidiaries

mEUR	2015	2014
Cost at 1 January	1,749	1,804
Exchange rate adjustments	(3)	4
Additions	-	45
Disposals	-	(104)
Cost at 31 December	**1,746**	**1,749**
Value adjustments at 1 January	593	119
Exchange rate adjustments	74	82
Disposal	-	(56)
Profit shares for the year after tax	652	469
Changes in equity	(25)	(7)
Dividend	(94)	0
Amortisation of goodwill	(14)	(14)
Value adjustments at 31 December	**1,186**	**593**
Carrying amount at 31 December	**2,932**	**2,342**
Remaining positive difference included in the above carrying amount at 31 December	65	79

Ref. note 6.9 to the consolidated financial statements for an overview of the legal entities within the Group.

Investments in joint ventures

Ref. note 3.4 to the consolidated financial statements.

3.4 Provisions

Warranty provisions

mEUR	2015	2014
Warranty provisions at 1 January	316	302
Warranty provisions for the year	158	122
Used warranty provisions for the year	(93)	(108)
Warranty provisions at 31 December	**381**	**316**
The warranty provisions are expected to be consumed as follows:		
0–1 year	103	120
> 1 year	278	196
	381	**316**

In line with accounting policies, potential product warranties will always be recognised as warranty provisions when revenue from sale of wind turbines is recognised. This may result in commercial constructive obligations beyond the specified legally binding warranty period for the wind turbine being recognised as a warranty obligation.

Product risks
Lack of reliability in several of Vestas' products has previously led to major warranty provisions. In recent years, Vestas has invested significant resources in improving the products and increasing their reliability. This work comprises design, production, installation, and continuous maintenance.

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

3.5 Contingent assets and liabilities

mEUR	2015	2014
Guarantees for bank debt of investments and joint venture	74	115

In addition to this, the parent company provides performance bonds in connection with project supplies in subsidiaries, and their warranty obligations to customers.

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.

For pending lawsuits ref. note 3.6 to the consolidated financial statements. For disclosure of contingent assets ref. note 3.6 to the consolidated financial statements.

4. Capital structure and financing items

4.1 Financial items

mEUR	2015	2014
Financial income		
Interest income	-	0
Interest income from subsidiaries	36	46
Exchange rate adjustments	0	13
Financial instruments	34	-
Other financial income	2	0
	72	**59**
Financial costs		
Interest costs	19	32
Interest costs to subsidiaries	1	5
Exchange rate adjustments	15	-
Financial instruments	0	53
Other financial costs	11	23
	46	**113**

4.2 Financial risks

For the use of derivative financial instruments and risks and capital management ref. note 4.5 to the consolidated financial statements.

4.3 Financial liabilities

Financial debts

mEUR	2015	2014
Mortgage debt	-	3
Corporate eurobond	495	600
	495	**603**
Financial debts break down as follows:		
< 1 year	-	600
1–2 years	-	1
> 2 years	495	2
	495	**603**

Mortgages and security

The credit facilities of the Group are provided on unsecured basis.

mEUR	2015	2014
Total mortgage loans	-	3
Mortgage deeds:		
Nominal value of mortgage deeds	-	6
Carrying amount of pledged assets	-	11
Provided work and payment guarantees	343	410

5. Tax

5.1 Income tax

mEUR	2015	2014
Current tax on profit for the year	(117)	12
Deferred tax on profit for the year	76	0
Foreign taxes	5	0
Revaluation of tax assets	(91)	0
Adjustments relating to previous years (net)	0	(25)
Income tax for the year recognised in the income statement, (income)	**(127)**	**(13)**
Deferred tax on equity	12	(2)
Tax recognised in equity, expense/(income)	**12**	**(2)**
Total income taxes for the year, (income)	**(115)**	**(15)**

5.2 Deferred tax

mEUR	2015	2014
Deferred tax at 1 January, net assets	87	3
Deferred tax on profit for the year	(76)	0
Prepaid tax	(56)	56
Tax on entries in equity	(12)	3
Revaluation of tax assets	144	0
Deferred tax in joint taxation	(14)	0
Adjustment relating to previous years	0	25
Deferred tax at 31 December, net assets	**73**	**87**

6. Other disclosures

6.1 Contractual obligations

mEUR	2015	2014
The lease obligations relating to operating leases fall due:		
0–1 year	7	5
1–5 years	4	8
> 5 years	0	3

Operating leases comprise irrevocable operating leases regarding land, buildings and cars. The main obligations relate to land. In addition, the company has a contractual commitment to pay on average EUR 4m annually until 2022 for the use of certain technology rights owned by a third party.

The company has entered into binding contracts concerning purchase of plant and machinery to be delivered in 2016 at a value of EUR 10m (2014: EUR 3m).

6.2 Related party transactions

All transactions with related parties has been carried out at arm's length principle. Ref. note 6.4 to the consolidated financial statement for the definition of related parties and concerning other transactions with related parties.

6.3 Subsequent events

For subsequent events ref. note 6.8 to the consolidated financial statements.

6.4 Ownership

The company has no shareholders that are holding more than five percent of the voting share capital.

7. Basis of preparation

7.1 General accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (DK GAAP) applying to entities of reporting class D, as well as the requirements laid down by Nasdaq Copenhagen in respect of the financial reporting of companies listed on the stock exchange.

Vestas Wind Systems A/S' functional currency is Danish kroner (DKK), but due to the international relations of the Group the financial statements are presented in euro (EUR).

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 of the DK GAAP. Refer to the section "Financial definition", below for a description of the differences between DK GAAP and IFRS in the denomination of the items.

The accounting policies applied are unchanged from those applied in the previous year.

Cash flow statement
Vestas Wind Systems A/S applies on exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. See the consolidated cash flow statement on page 71.

7.2 Financial definitions

Net revenue (DK GAAP): Revenue (IFRS)

Fixed assets (DK GAAP): Non-current assets (IFRS)

Provisions (DK GAAP): Non-current and current liabilities (IFRS)

Long-term debt (DK GAAP): Non-current liabilities (IFRS)

Short-term debt (DK GAAP): Current liabilities (IFRS)