Consolidated financial statements

Income statement 1 January – 31 December

mEUR	Note	2016	2015
Revenue	1.1, 1.2	10,237	8,423
Production costs	1.3, 1.4, 2.2	(8,111)	(6,918)
Gross profit		**2,126**	**1,505**
Research and development costs	1.3, 1.4	(227)	(211)
Distribution costs	1.3, 1.4	(190)	(186)
Administration costs	1.3, 1.4	(288)	(248)
Operating profit (EBIT) before special items		**1,421**	**860**
Special items	1.6	-	46
Operating profit (EBIT)		**1,421**	**906**
Income/(loss) from investments in associates and joint ventures	3.4	(101)	34
Financial income	4.3	56	61
Financial costs	4.3	(89)	(76)
Profit before tax		**1,287**	**925**
Income tax	5.1	(322)	(240)
Profit for the year		**965**	**685**
Earnings per share (EPS)	4.2		
Earnings per share (EUR)		4.41	3.10
Earnings per share (EUR), diluted		4.39	3.07

Statement of comprehensive income 1 January - 31 December

mEUR	Note	2016	2015
Profit for the year		**965**	**685**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		8	62
Fair value adjustments of derivative financial instruments designated as cash flow hedges		(140)	137
Fair value adjustments of derivative financial instruments designated as cash flow hedges transferred to the income statement, production costs		9	(107)
Tax on fair value adjustments of derivative financial instruments		33	(8)
Share of other comprehensive income of joint venture	3.4	13	(5)
Other comprehensive income after tax		**(77)**	**79**
Total comprehensive income		**888**	**764**

Balance sheet 31 December – Assets

mEUR	Note	2016	2015
Intangible assets	3.1, 3.3	828	687
Property, plant and equipment	3.2	1,329	1,279
Investments in associates and joint ventures	3.4	201	225
Other investments		26	20
Tax receivables	5.1	49	109
Deferred tax	5.2	208	149
Other receivables	2.5, 4.5	55	39
Marketable securities	4.5	190	-
Total non-current assets		**2,886**	**2,508**
Inventories	2.2	1,985	1,899
Trade receivables	2.3, 4.5	1,038	795
Construction contracts in progress	2.4, 4.5	19	15
Tax receivables	5.1	25	60
Other receivables	2.5, 4.5	322	442
Marketable securities	4.5	11	-
Cash and cash equivalents	4.4, 4.5	3,550	2,765
Total current assets		**6,950**	**5,976**
Non-current assets held for sale	6.7	95	103
Total assets		**9,931**	**8,587**

Balance sheet 31 December – Equity and liabilities

mEUR	Note	2016	2015
Share capital	4.1	30	30
Other reserves		61	138
Retained earnings		3,099	2,731
Total equity		**3,190**	**2,899**
Provisions	3.5	457	314
Deferred tax	5.2	34	20
Financial debts	4.5, 4.6	496	495
Tax payables	5.1	37	44
Other liabilities	2.6, 4.5	90	10
Total non-current liabilities		**1,114**	**883**
Prepayments from customers		3,002	2,258
Construction contracts in progress	2.4	73	17
Trade payables	4.5	1,666	1,760
Provisions	3.5	131	124
Tax payables	5.1	191	147
Other liabilities	2.6, 4.5	564	499
Total current liabilities		**5,627**	**4,805**
Total liabilities		**6,741**	**5,688**
Total equity and liabilities		**9,931**	**8,587**

Statement of changes in equity 1 January – 31 December

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

A dividend of DKK 9.71 (EUR 1.31) per share, corresponding to EUR 289m in total, is proposed for 2016. The proposed dividend is included in retained earnings. Dividends of EUR 201m, net of treasury shares, have been paid in 2016 relating to the financial year 2015.

Ref. to the parent company's statement of changes in equity on page 123 for information about which reserves are available for distribution. For proposed distribution of profit, ref. to page 120 of the parent company's financial statements, and note 4.1 to the consolidated financial statements.

mEUR	Share capital	Premium	Translation reserve	Cash flow hedging reserve	Other reserves	Total reserves	Retained earnings	Total
		Reserves						
Equity at 1 January 2015	**30**	**439**	**37**	**15**	**7**	**498**	**1,851**	**2,379**
Premium transferred to retained earnings	-	(439)	-	-	-	(439)	439	-
Profit for the year	-	-	-	-	-	-	685	685
Other comprehensive income for the year	-	-	62	22	(5)	79	-	79
Total comprehensive income for the year	-	-	62	22	(5)	79	685	764
Transactions with owners:								
Dividends distributed	-	-	-	-	-	-	(116)	(116)
Acquisitions of treasury shares	-	-	-	-	-	-	(176)	(176)
Sale of treasury shares	-	-	-	-	-	-	40	40
Share-based payment	-	-	-	-	-	-	8	8
Total transactions with owners	-	-	-	-	-	-	(244)	(244)
Equity at 31 December 2015	**30**	**-**	**99**	**37**	**2**	**138**	**2,731**	**2,899**

Dividends of EUR 116m have been paid in 2015 relating to the financial year 2014.

Statement of cash flows 1 January – 31 December

mEUR	Note	2016	2015
Profit for the year		965	685
Adjustments for non-cash transactions	6.6	1,086	603
Financial income received		25	14
Financial costs paid		(71)	(43)
Income tax paid	5.1	(212)	(184)
Cash flow from operating activities before change in net working capital		1,793	1,075
Change in net working capital	2.1	388	397
Cash flow from operating activities		**2,181**	**1,472**
Purchase of intangible assets	3.1	(202)	(148)
Purchase of property, plant and equipment	3.2	(287)	(220)
Disposal of property, plant and equipment		21	1
Purchase of other non-current assets		-	(3)
Purchase of marketable securities		(200)	-
Acquisition of subsidiaries, net of cash	6.5	(83)	(55)
Acquisition of associates and joint ventures	3.4	(66)	-
Cash flow from investing activities		**(817)**	**(425)**
Free cash flow[1)]		**1,364**	**1,047**
Acquisition of treasury shares		(417)	(176)
Disposal of treasury shares		11	40
Dividends paid		(201)	(116)
Raising of financial debt	4.5	-	496
Repayment of financial debts	4.5	(4)	(604)
Cash flow from financing activities		**(611)**	**(360)**
Net increase in cash and cash equivalents		**753**	**687**
Cash and cash equivalents at 1 January		2,765	2,014
Exchange rate adjustments on cash and cash equivalents		32	64
Cash and cash equivalents at 31 December		**3,550**	**2,765**
The amount can be specified as follows:			
Cash and cash equivalents without disposal restrictions		3,215	2,569
Cash and cash equivalents with disposal restrictions		335	196
Cash and cash equivalents at 31 December		**3,550**	**2,765**

1) Free cash flow excluding investments in marketable securities EUR 1,564m (2015: EUR 1,047m).

Overview of notes

1. Result for the year

1.1 Segment information

Reportable segments
Vestas operates in the following two business segments, Project and Service, which forms the Group's management's day-to-day control of the business.

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

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

The measure of revenue, costs and EBIT before special items 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 before special items.

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

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

1.1 Segment information (continued)

2016 mEUR	Project	Service	Not allocated	Total Group
Revenue	8,928	1,309	-	10,237
Total revenue	**8,928**	**1,309**	**-**	**10,237**
Total costs	**(7,505)**	**(1,084)**	**(227)**	**(8,816)**
Operating profit (EBIT) before special items	**1,423**	**225**	**(227)**	**1,421**
Special items, ref. note 1.6			-	-
Operating profit (EBIT)				**1,421**
Loss from investments in associates and joint ventures, ref. note 3.4			(101)	(101)
Financial income			56	56
Financial costs			(89)	(89)
Profit before tax				**1,287**
Amortisation and depreciation included in total costs, ref. note 1.4	(320)	(28)	(29)	(377)
Investments in associates and joint ventures, ref. note 3.4				201

Impairment loss of EUR 28m has in 2016 negatively impacted the Group's EBIT before special items, of which the largest contributors are EUR 10m related to R&D activities and EUR 11m related to production equipment, both impacting the Project segment. Furthermore, EUR 5m impairment loss from properties held for sale, impacting Not allocated.

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

2015 mEUR	Project	Service	Not allocated	Total Group
Revenue	7,285	1,138	-	8,423
Total revenue	**7,285**	**1,138**	**-**	**8,423**
Total costs	**(6,456)**	**(937)**	**(170)**	**(7,563)**
Operating profit (EBIT) before special items	**829**	**201**	**(170)**	**860**
Special items, ref. note 1.6			46	46
Operating profit (EBIT)				**906**
Income from investments in associates and joint ventures, ref. note 3.4			34	34
Financial income			61	61
Financial costs			(76)	(76)
Profit before tax				**925**
Amortisation and depreciation included in total costs, ref. note 1.4	(317)	(14)	(18)	(349)
Investments in associates and joint ventures, ref. note 3.4				224

Impairment loss and write-offs on service inventory of EUR 25m has been recognised and consequently negatively impacted the service EBIT before special items.

Write-down on inventory relating to development and construction activities in prior years, EUR 50m, has been recognised and consequently negatively impacted the project EBIT before special items.

1.1 Segment information (continued)

Revenue specified by country

mEUR	2016	2015
USA	3,882	2,994
Germany	1,447	1,026
Denmark	301	328
Other countries	4,607	4,075
Total	**10,237**	**8,423**

Revenue is broken down based on geographical supply point.

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

In 2016 and 2015, no single customer accounted for more than 10 percent of the Group's total revenue.

Non-current assets specified by country[1)]

mEUR	2016	2015
Denmark	955	930
USA	545	549
Other countries	657	487
Total	**2,157**	**1,966**

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

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

1.2 Revenue

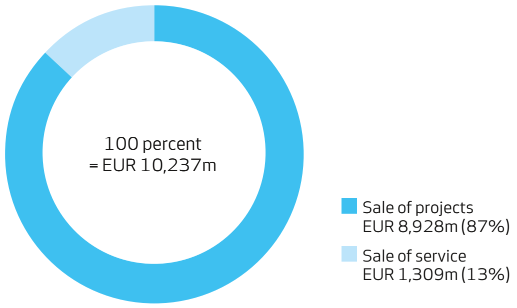
Group accounting policies
Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts.

Sale of individual wind turbines and small wind power plants based on standard solutions (supply-only and supply-and-installation projects) as well as spare parts sales are recognised in the income statement provided that risk has been transferred to the buyer in the reporting period, and provided that the income can be measured reliably and is expected to be received. Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised as the wind power plants are constructed based on the stage of completion of the individual contracts (turnkey projects). Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the cost incurred to the extent that it is probable that the costs will be recovered.

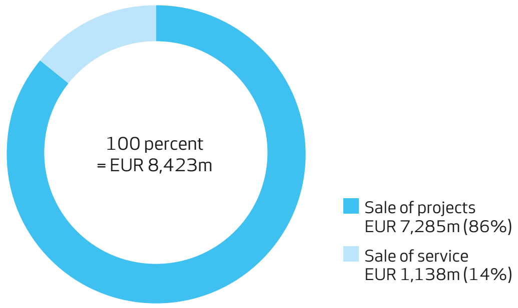
Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised as revenue over the term of the agreement as the services are provided.

Key accounting estimates and judgements
Recognition of contract elements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. Provided that the wind power plants are customised to a high degree, revenue from projects in progress is recognised under the percentage-of-completion method corresponding to the selling price of the assessed work performed based on the stage of completion (turnkey projects). Revenue from service contracts is also recognised under the percentage-of-completion method. Where projects do not qualify for recognition under the percentage-of-completion method, total revenue is, to the extent applicable, recognised based on an assessment of the point in time when the risk is transferred to the customer (supply-only and supply-and-installation projects).

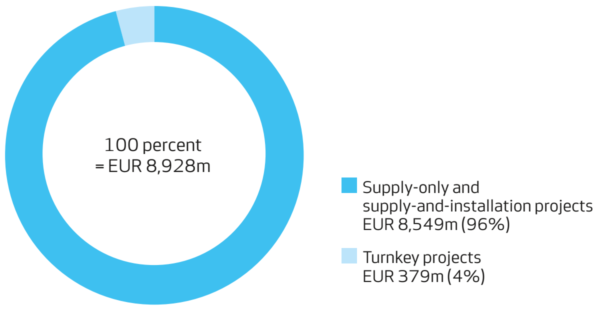
Revenue 2016
mEUR · Percent



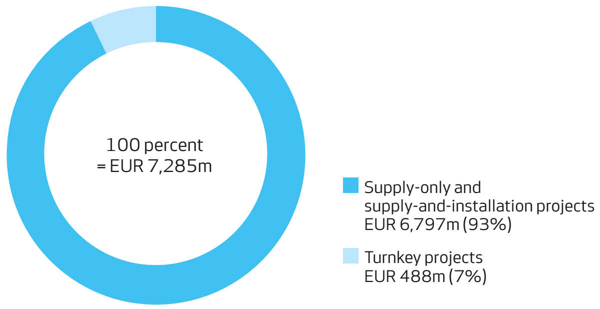
Revenue 2015
mEUR · Percent



Project segment revenue 2016
mEUR · Percent



Project segment revenue 2015
mEUR · Percent



1.3 Costs

Group accounting policies

Production costs

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

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

Research and development costs

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

Distribution costs

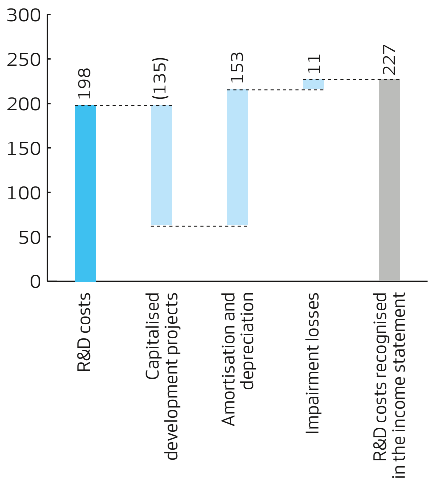
Distribution costs comprise cost incurred for the sale and distribution of products, etc. sold during the year. Also included are cost relating to employees and depreciation.

Administration costs

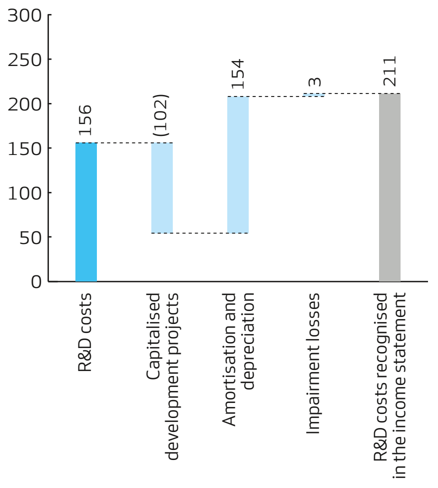
Administration costs comprise cost incurred during the year for management and administration of the Group, including costs for administrative staff, management, office premises, office cost, and depreciation.

Research and development costs

R&D costs 2016
mEUR



R&D costs 2015
mEUR

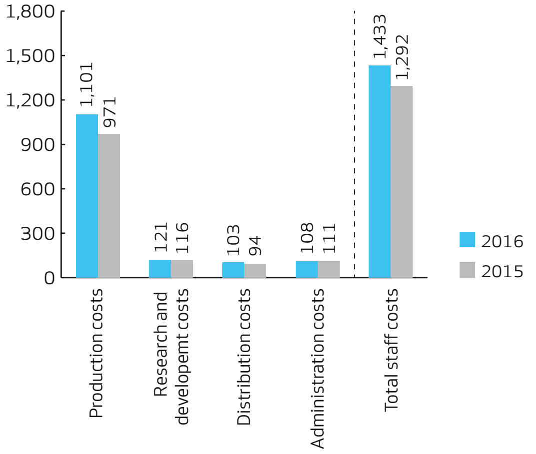


Staff costs

mEUR	**2016**	**2015**
Staff costs are specified as follows:		
Wages and salaries, etc.	1,213	1,101
Share-based payment, ref. note 6.2	12	8
Pension schemes, defined contribution schemes	55	49
Other social security costs	153	134
	1,433	**1,292**
Average number of employees	21,625	18,986
Number of employees 31 December	21,824	20,507

1.3 Costs (continued)

Staff costs recognised in the income statement
mEUR



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

mEUR	2016	2015
Attributable to:		
Board of Directors		
Board remuneration	1	1
	1	**1**
Executive Management		
Wages and bonus	7	7
Share-based payment, ref. note 6.2	4	2
Social security costs	0	0
	11	**9**

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

1.4 Amortisation, depreciation and impairment

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

2015 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	-	171	-	-	-	171
Depreciation, property, plant and equipment, ref. note 3.2	133	8	29	8	-	178
Impairment losses, intangible assets, ref. note 3.1	-	3	-	-	-	3
Reversal of impairment losses, property, plant and equipment, ref. note 3.2	-	-	-	-	(47)	(47)
Total	**133**	**182**	**29**	**8**	**(47)**	**305**

1.5 Government grants

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

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

The Group has received government grants of which EUR 2m (2015: EUR 4m) has been offset against incurred cost and EUR 4m (2015: EUR 0m) against non-current assets.

1.6 Special items

Group accounting policies
Special items comprise costs and income of a special or non-recurring nature in relation to the main activities of the Group. This includes costs related to significant organisational restructuring and adjustments to production capacity and the product programme. The costs include the write-down of tangible assets as well as provisions for reorganisations and any reversal/adjustments thereof.

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 special or non-recurring nature in relation to the main activities of the Group.

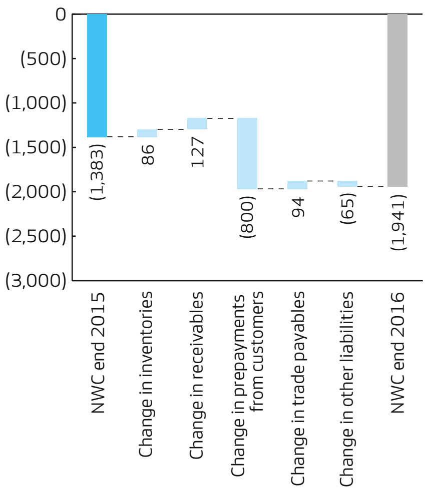
There are no special items in 2016.

mEUR	2016	2015
Reversal of impairment loss on property, plant and equipment	-	47
Other items	-	(1)
	-	**46**

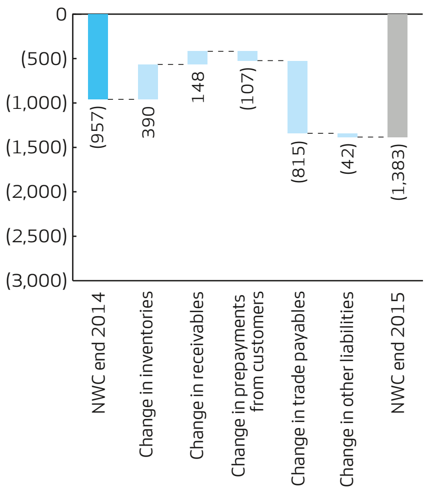
2. Working capital

2.1 Change in net working capital

NWC change over the last 12 months 2016
mEUR



NWC change over the last 12 months 2015
mEUR



Included in the 2016 change in net working capital ('NWC') are non-cash adjustments and exchange rates adjustments with a total amount of EUR 170m (2015: EUR 29m).

2.2 Inventories

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

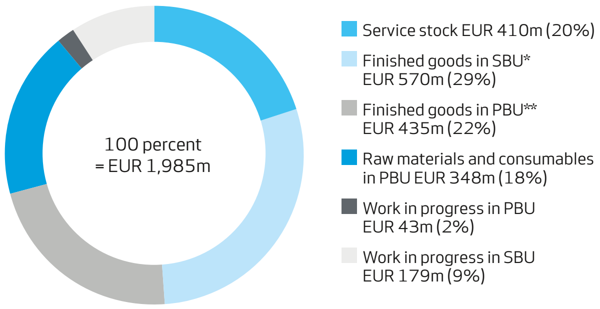
The cost of raw materials and service stock comprise purchase price of materials, consumables, duties, and transportation costs.

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

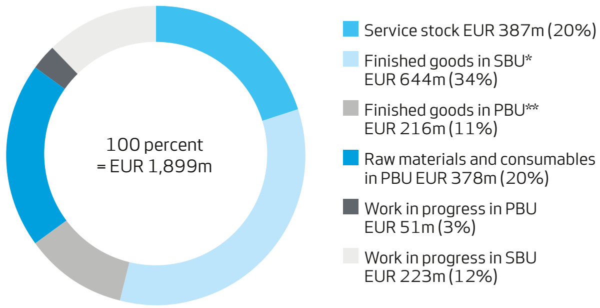
The NRV of inventories is measured at sales price less costs of completion and selling costs. NRV is determined taking into account marketability, obsolescence, and development in the expected selling price.

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

Inventories 2016
mEUR and percent



Inventories 2015
mEUR and percent



* Sales business units
** Production business units

mEUR	2016	2015
Inventories consumed		
Inventories consumed for the year, which are included in production costs	6,661	5,593
Write down inventories		
Write-downs of inventories in the year[1)]	68	100
Utilised write-down in the year	(25)	(6)
Reversal of write-downs in the year[2)]	(6)	(31)

1) Include write-down of EUR 54m (2015: EUR 50m) relating to development and construction activities in prior years.
2) The reversal of write-downs in the year are due to goods previously written down being used or sold at or above original cost.

2.3 Trade receivables

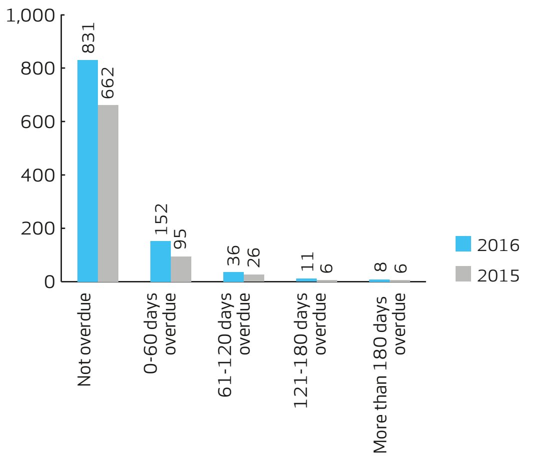
Group accounting policies
Trade receivables are measured at amortised cost or net realisable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower.

mEUR	2016	2015
Trade receivables	1,038	795
	1,038	**795**
Fair value of security received for trade receivables balances outstanding as at 31 December	347	187
Write-downs included in trade receivables, developed as follows:		
Write-downs at 1 January	(15)	(10)
Write-downs realised	2	1
Write-downs in the year	(2)	(6)
Write-downs at 31 December	**(15)**	**(15)**

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

The total write-downs of trade receivables of EUR 15m at 31 December 2016 (2015: EUR 15m) are based on an individual assessment of each receivable.

The age distribution of receivables[1)]
mEUR



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

2.4 Construction contracts in progress

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

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

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

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

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

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

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

mEUR	2016	2015
Sales value of construction contracts in progress	605	716
Progress billings	(659)	(718)
	(54)	**(2)**
Specified as follows:		
Construction contracts in progress (assets)	19	15
Construction contracts in progress (liabilities)	(73)	(17)
	(54)	**(2)**

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

2.5 Other receivables

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

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

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

mEUR	2016	2015
Prepayments	30	16
Supplier claims	4	10
VAT[1)]	130	161
Derivative financial instruments	51	103
Other receivables	162	191
	377	**481**
Specified as follows:		
0–1 years	322	442
> 1 year	55	39
	377	**481**

1) Include write-downs of VAT receivables of EUR 100m at 31 December 2016 (2015: EUR 70m).

2.6 Other liabilities

Group accounting policies
Other liabilities are measured at amortised cost.

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

mEUR	2016	2015
Staff costs	252	209
Taxes and duties	202	203
Derivative financial instruments	139	56
Other liabilities	61	41
	654	**509**
Specified as follows:		
0–1 year	564	499
> 1 year	90	10
	654	**509**

3. Other operating assets and liabilities

3.1 Intangible assets

Group accounting policies

Goodwill

Goodwill is initially recognised in the balance sheet as described under consolidated financial statements and business combinations, ref. note 7.1. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's operating segments; projects and service. Identification of operating segments is based on management structure and internal financial reporting.

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

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

Impairment losses on goodwill are not reversed.

Development projects

Projects for the development and testing of new wind turbines that are clearly defined, identifiable, and for which technical feasibility, sufficient resources and a potential future market or application in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if cost can be measured reliably and sufficient certainty exists that future earnings or the net selling price can cover production costs, distribution costs, and administration costs as well as research and development costs. At Vestas this is underpinned by a gate process, where these judgements are made at specific gates. Other development costs are recognised in the income statement and incurred as research and development costs.

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

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

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

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

Software

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

Other intangible assets

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

3.1 Intangible assets (continued)

2016 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost at 1 January	354	1,239	221	20	93	1,927
Reclassification	-	-	-	8	(3)	5
Exchange rate adjustments	2	4	1	-	-	7
Additions	-	-	11	-	191	202
Additions from business combination	56	-	-	37	-	93
Transfers	-	167	30	(1)	(196)	-
Cost at 31 December	**412**	**1,410**	**263**	**64**	**85**	**2,234**
Amortisation and impairment losses at 1 January	102	978	160	-	-	1,240
Exchange rate adjustments	1	2	1	-	-	4
Amortisation for the year	-	130	22	10	-	162
Amortisation and impairment losses at 31 December	**103**	**1,110**	**183**	**10**	**-**	**1,406**
Carrying amount at 31 December	**309**	**300**	**80**	**54**	**85**	**828**
Internally generated assets included above	-	300	55	-	85	440
Amortisation period		3–5 years	3–5 years	3–7 years		

2015 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost at 1 January	317	1,092	177	-	137	1,723
Exchange rate adjustments	-	1	-	-	-	1
Additions	-	-	46	-	102	148
Additions from business combination	37	-	-	20	-	57
Disposals	-	-	(2)	-	-	(2)
Transfers	-	146	-	-	(146)	-
Cost at 31 December	**354**	**1,239**	**221**	**20**	**93**	**1,927**
Amortisation and impairment losses at 1 January	102	818	145	-	-	1,065
Exchange rate adjustments	-	3	-	-	-	3
Amortisation for the year	-	154	17	-	-	171
Reversal of depreciation of disposals in the year	-	-	(2)	-	-	(2)
Impairment losses for the year	-	3	-	-	-	3
Amortisation and impairment losses at 31 December	**102**	**978**	**160**	**-**	**-**	**1,240**
Carrying amount at 31 December	**252**	**261**	**61**	**20**	**93**	**687**
Internally generated assets included above	-	261	52	-	93	406
Amortisation period		3–5 years	3–5 years	3–7 years		

Included in software are IT projects in progress amounting to EUR 29m at 31 December 2015.

3.2 Property, plant and equipment

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

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

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

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

Buildings	20–40 years
Building installations	15–25 years
Plant and machinery	3–10 years
Power-operated tools of own construction and newly manufactured test and exhibition turbines	3–5 years
Other fixtures and fittings, tools and equipment	3–5 years

Land is not depreciated.

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

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

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

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

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

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

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

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

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

3.2 Property, plant and equipment (continued)

2016 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	1,200	699	933	106	2,938
Reclassification	(8)	-	3	-	(5)
Exchange rate adjustments	(5)	(1)	9	6	9
Additions	69	35	93	107	304
Additions from business combination	-	-	3	-	3
Disposals	(42)	(12)	(27)	(14)	(95)
Transfers	23	44	30	(97)	-
Transfers to assets held for sale	(8)	-	-	-	(8)
Cost at 31 December	**1,229**	**765**	**1,044**	**108**	**3,146**
Depreciation and impairment losses at 1 January	437	480	742	-	1,659
Exchange rate adjustments	(2)	5	7	-	10
Depreciation for the year	54	70	91	-	215
Impairment losses for the year	8	18	2	-	28
Reversal of depreciation of disposals in the year	(40)	(12)	(27)	-	(79)
Transfers	21	(29)	8	-	-
Transfers to assets held for sale	(16)	-	-	-	(16)
Depreciation and impairment losses at 31 December	**462**	**532**	**823**	**-**	**1,817**
Carrying amount at 31 December	**767**	**233**	**221**	**108**	**1,329**
Depreciation period	15–40 years	3–10 years	3–5 years		

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	1,116	622	821	58	2,617
Exchange rate adjustments	61	22	32	1	116
Additions	9	47	81	83	220
Additions from business combination	-	4	-	-	4
Disposals	-	(9)	(10)	-	(19)
Transfers	14	13	9	(36)	-
Cost at 31 December	**1,200**	**699**	**933**	**106**	**2,938**
Depreciation and impairment losses at 1 January	421	411	653	-	1,485
Exchange rate adjustments	17	19	23	-	59
Depreciation for the year	41	57	80	-	178
Reversal of depreciation of disposals in the year	-	(7)	(9)	-	(16)
Reversal of impairment losses[1)]	(42)	-	(5)	-	(47)
Depreciation and impairment losses at 31 December	**437**	**480**	**742**	**-**	**1,659**
Carrying amount at 31 December	**763**	**219**	**191**	**106**	**1,279**
Depreciation period	15–40 years	3–10 years	3–5 years		

1) Reversal of impairment losses is recognised as special item in the income statement.

3.3 Impairment

Valuation of goodwill
At 31 December 2016, Management performed the annual impairment test of the carrying amount of goodwill. No basis for impairment was found for 2016 (2015: EUR 0m). In the impairment tests, the carrying amount of the assets is compared to the discounted value of future cash flows.

At the annual test of goodwill, impairment was based on the two operating segments: Project and Service, these being the lowest level of cash-generating unit as defined by Management.

The main part of the carrying amount of goodwill in the Group arose in connection with the acquisition of NEG Micon A/S in 2004, and the goodwill is allocated to the Group's two operating segments Projects (EUR 180m) and Service (EUR 35m). In relation to the acquisition of UpWind Solutions, Inc. in 2015, the Group has recognised goodwill of EUR 37m, which is allocated to the Service segment.

With the acquisition of Availon GmbH in 2016, the Group has recognised goodwill of EUR 56m, which is allocated to the Service segment, ref. note 6.5.

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

Project	Service
Order backlog - project as at 31 December 2016	Order backlog - service as at 31 December 2016
Expectations on future orders received, among other things based on expected market share of the global market outlook	Expectations on continuing servicing the existing installed base of wind turbines as well as future service contracts received, among other things based on expected market share of the global market for all major wind turbine technologies
Expectations on continuing developments in mature and emerging markets	Capture full potential and accelerate profitable growth strategy from acquisition of UpWind and Availon
Expectations on support schemes in both mature and emerging markets	Growth supported by market developments and organic growth

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

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

	2016			2015		
	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)
Projects	9.2	2	180	11.3	2	180
Service	9.2	2	129	11.3	2	72

3.4 Investments in associates and joint ventures

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

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

The amounts recognised in the balance sheet are as follows:

mEUR	2016	2015
Investments in joint ventures	199	224
Investments associates	2	1
Carrying amount at 31 December	**201**	**225**

The amounts recognised in the income statement are as follows:

mEUR	2016	2015
Joint ventures	(101)	34
	(101)	**34**

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

mEUR	2016	2015
Cost at 1 January	202	202
Additions	65	-
Cost at 31 December	**267**	**202**
Value adjustments at 1 January	22	(15)
Other adjustments	(2)	1
Share of profit/(loss)	(101)	34
Share of other comprehensive income	13	2
Value adjustments at 31 December	**(68)**	**22**
Carrying amount at 31 December	**199**	**224**

The joint ventures listed below have share capital consisting solely of ordinary shares, which is held directly by the Group.

Name of entity	Place of business	% of ownership	Measurement method
MHI Vestas Offshore Wind A/S	Aarhus, Denmark	50	Equity
Roaring Fork Wind, LLC	Delaware, US	50	Equity

3.4 Investments in associates and joint ventures (continued)

MHI Vestas Offshore Wind A/S
In the Group's share of profit from the joint venture, income resulting from the sale of wind turbines to the joint venture is recognised in the Group's financial statements only to the extent that the joint venture has sold wind turbines to unrelated parties. The share of loss from the joint venture on a standalone basis amounts to EUR 69m (2015: EUR 1m).

MHI Vestas Offshore Wind is a private company and there is no quoted market prices available for its shares.

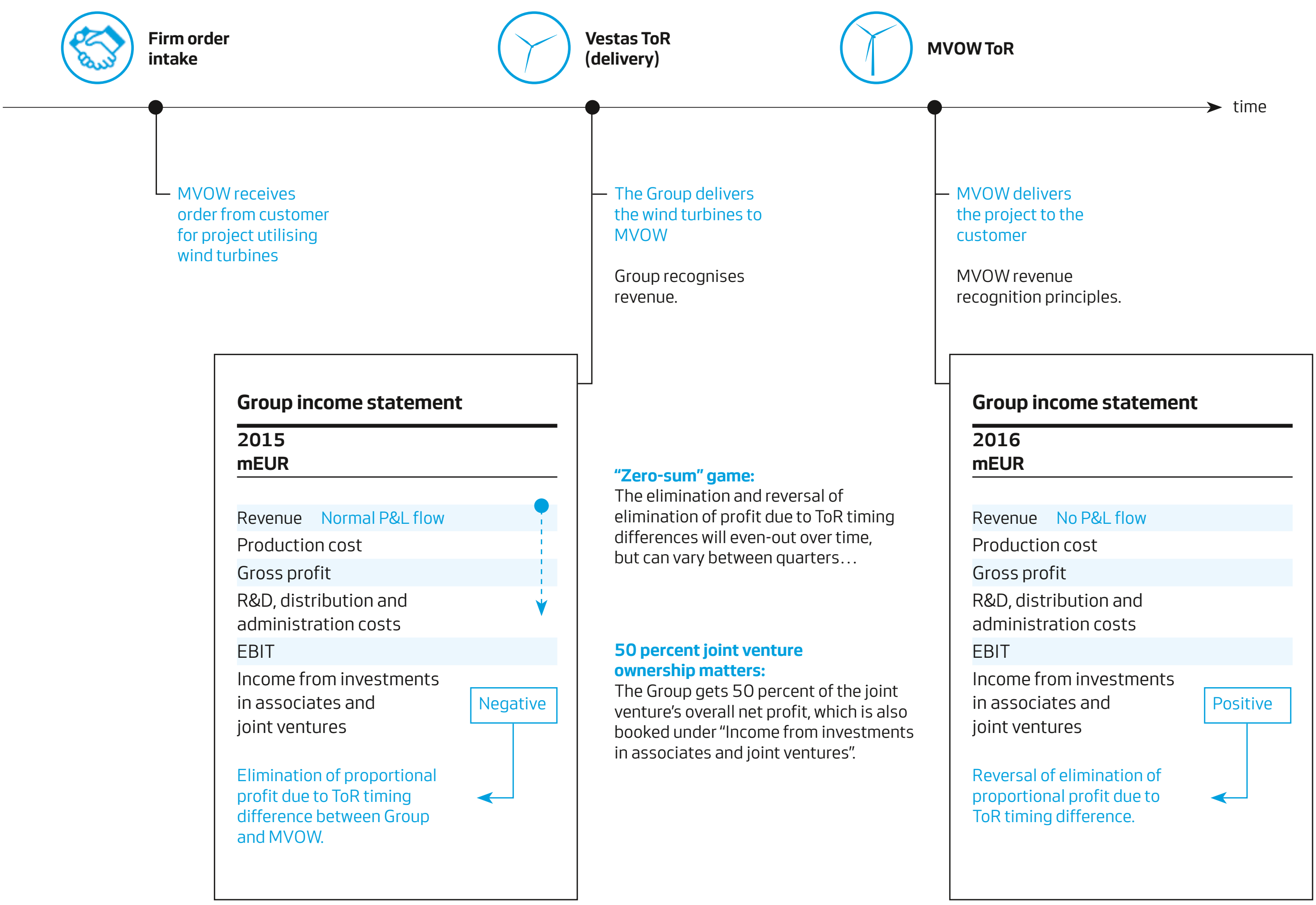
Roaring Fork Wind, LLC
With effect from 22 December 2016, the Group has through its wholly owned subsidiary Steelhead Wind 1, LLC entered into a strategic co-development partnership with RES Americas Developments Inc. (RES) forming the equally shared ownership in Roaring Fork Wind, LLC. The purpose of the partnership is development of wind power plants.

Based on the terms of the agreement between the shareholders, it has been determined that the investment in Roaring Fork Wind shall be classified as a joint venture.

In connection with the establishment of the joint venture, the Group has transferred EUR 65m in cash as capital. Additionally, the Group has to contribute approx EUR 22m as development investment conditional to certain future events. The joint venture had no operations in 2016. Roaring Fork Wind is a private company and there is no quoted market prices available for its shares.

Illustrative example of how income statement is impacted by MHI Vestas Offshore Wind A/S (MVOW)

Transfer of risk (ToR) timing differences between the Group and MVOW may result in fluctuations in income statement annually, which will even-out over time.
The 50 percent ownership structure is what matters in the long-run.



3.4 Investments in associates and joint ventures (continued)

Commitments and contingent liabilities in respect of joint ventures
Ref. to note 3.6 Contingent assets and liabilities for significant commitments and/or contingent assets and liabilities relating to the Group's interest in the joint ventures.

Summarised financial information for joint ventures
Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

Summarised balance sheet 31 December

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
CURRENT						
Cash and cash equivalents	4	-	113	103	117	103
Other current assets (excluding cash)	3	-	831	282	834	282
Total current assets	7	-	944	385	951	385
Other current liabilities (including trade and other payables and provisions)	(2)	-	(1,054)	(347)	(1,056)	(347)
Total current liabilities	(2)	-	(1,054)	(347)	(1,056)	(347)
NON-CURRENT						
Assets	85	-	457	424	542	424
Financial liabilities	-	-	-	(2)	-	(2)
Total non-current liabilities	-	-	-	(2)	-	(2)
Net assets	**90**	**-**	**347**	**460**	**437**	**460**

Summarised statement of comprehensive income 1 January - 31 December

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	-	-	141	668	141	668
Depreciation and amortisation	-	-	(78)	(31)	(78)	(31)
Interest income	-	-	-	0	-	0
Interest expense	-	-	0	(2)	0	(2)
Pre-tax profit from continuing operations	-	-	(138)	(2)	(138)	(2)
Income tax expense	-	-	(1)	0	(1)	0
Post-tax profit from continuing operations	-	-	(139)	(2)	(139)	(2)
Other comprehensive income	-	-	26	2	26	2
Total comprehensive income	**-**	**-**	**(113)**	**0**	**(113)**	**0**

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts).

3.4 Investments in associates and joint ventures (continued)

Reconciliation of summarised financial information 1 January - 31 December

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

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Opening net assets 1 January	-	-	460	360	460	360
Capital increase	90	-	-	100	90	100
Loss for the period	-	-	(139)	(2)	(139)	(2)
Other comprehensive income	-	-	26	2	26	2
Closing net assets	**90**	**-**	**347**	**460**	**437**	**460**
Interest in joint venture	45	-	174	230	219	230
Elimination of internal profit on sale of wind turbines	-	-	(36)	-	(36)	-
Identifiable assets and other adjustments	20	-	(4)	(6)	16	(6)
Carrying value	**65**	**-**	**134**	**224**	**199**	**224**

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts).

3.5 Provisions

Group accounting policies

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

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

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

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

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

Provision for legal disputes are recognised where a legal or constructive obligation has been incurred as a result of past events and it is possible that there will be an outflow of resources that can be reliably estimated. In this case, the Group arrives at an estimate on the basis of an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities, ref. note 3.6.

Key accounting estimates

Provisions for warranties

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

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

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

It is estimated that 5-10 percent of the warranty provisions made for the year relate to adjustments of previous years' estimates of provisions for serial faults, etc. Included in this, is the cost of upgrades of wind turbines sold in previous year, commercial settlements and proactive upgrading as well as new information about the serial type faults in question.

Total warranty provisions of EUR 228m have been made in 2016 (2015: EUR 160m), corresponding to 2.2 percent (2015: 1.9 percent) of the Group's revenue.

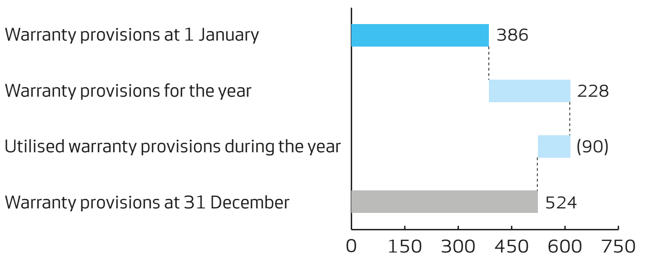
Management assesses the likely outcome of pending and future negotiations with sub-suppliers for compensation. Compensation from sub-suppliers may be recognised only when it is virtually certain that we will receive compensation from the sub-suppliers.

The carrying amount of warranty provisions at 31 December 2016 was EUR 524m (2015: EUR 386m).

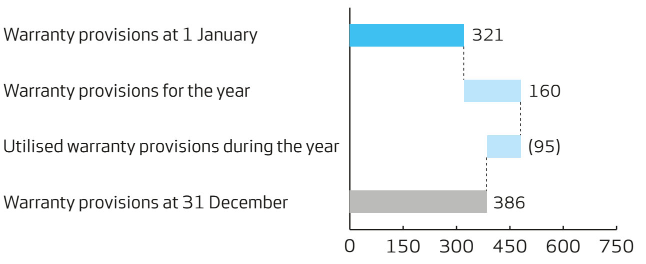
3.5 Provisions (continued)

mEUR	2016	2015
NON-CURRENT PROVISIONS		
Warranty provisions	414	283
Other provisions	43	31
	457	**314**
CURRENT PROVISIONS		
Warranty provisions	110	103
Other provisions	21	21
	131	**124**
Total provisions	**588**	**438**

Warranty provisions 2016
mEUR



Warranty provisions 2015
mEUR



3.5 Provisions (continued)

mEUR	2016	2015
The warranty provisions are expected to be consumed as follows:		
0–1 year	110	103
>1 year	414	283
	524	**386**

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

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.

OTHER PROVISIONS	2016	2015
Other provisions at 1 January	52	52
Exchange rate adjustments	0	(1)
Other provisions for the year	22	14
Utilised other provisions during the year	(10)	(13)
Other provisions at 31 December	**64**	**52**

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

	2016	2015
Other provisions are expected to be payable as follows:		
0–1 year	21	21
> 1 year	43	31
	64	**52**

3.6 Contingent assets and liabilities

mEUR	2016	2015
The Group provides performance and payment guarantees issued by banks and insurance companies to customers and other beneficiaries to secure the Groups obligations	525	343
The Group provides guarantees and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	309	167

In addition, the Group provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries and joint ventures, and their warranty obligations to customers.

Contingent liabilities
The Group is involved in some litigation proceedings. However, it is management's opinion that settlement or continuation of these proceedings will not have a material effect on the financial position of the Group.

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

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

The consideration for the sale of the Group's machining and castings units in 2013 included an earn-out set at a maximum of currently EUR 15m (2015: EUR 20m). The Group judges the occurrence of the events triggering a pay-out to be highly uncertain and as a consequence the earn-out has not been recognised as at 31 December 2016.

4. Capital structure and financing items

4.1 Share capital

Group accounting policies

Treasury shares

Treasury shares are deducted from the share capital upon cancellation at their nominal value of DKK 1.00 per share. Differences between this amount and the amount paid to acquire or received for sale of treasury shares are deducted directly in equity.

Dividend

A proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (declaration date). The proposed dividend for the year is included in retained earnings.

For the financial year 2016, Vestas Wind Systems A/S proposes to distribute a dividend of DKK 9.71 (EUR 1.31) per share corresponding to total EUR 289m. Dividends of EUR 201m, net of treasury shares, have been paid in 2016 relating to the financial year 2015.

Share capital

	2016	2015
The share capital comprises 221,544,727 shares of DKK 1.00	221,544,727	224,074,513
Number of shares at 1 January	224,074,513	224,074,513
Cancellation	(2,529,786)	-
Number of shares at 31 December	**221,544,727**	**224,074,513**
Shares outstanding	213,773,839	218,903,925
Treasury shares	7,770,888	5,170,588
Number of shares at 31 December	**221,544,727**	**224,074,513**

The share capital was increased by 20,370,410 shares of DKK 1.00 in 2014. During 2016, there was reduction of share capital by DKK 2,529,786 nominally by cancelling 2,529,786 shares from Vestas' holding of treasury shares. Except for these two transactions, the share capital has not changed in the period 2012–2016.

All shares rank equally.

Treasury shares

	2016	2015	2016	2015
	Number of shares / Nominal value (DKK)	Number of shares / Nominal value (DKK)	% of share capital	% of share capital
Treasury shares at 1 January	5,170,588	3,309,850	2.3	1.5
Purchases	6,347,780	3,079,786	2.9	1.3
Cancellation	(2,529,786)	-	(0.6)	-
Sale of treasury shares	(1,217,694)	(1,219,048)	(1.1)	(0.5)
Treasury shares at 31 December	**7,770,888**	**5,170,588**	**3.5**	**2.3**

Pursuant to authorization granted to the Board of Directors by the Annual General Meeting on 30 March 2016 which authorised Vestas to acquire treasury shares at a nominal value not exceeding 10 percent of the share capital at the time of authorisation, Vestas initiated a share buy-back programme on 18 August 2016. It was completed on 30 December 2016.

The purpose of the programme was to adjust Vestas' share capital and to meet obligations arising from the share based incentive programmes to employees of Vestas.

At Vestas Annual General Meeting on 6 April 2017, a resolution will be proposed that shares acquired, which are not used for hedging purposes of share based incentive programmes, will be cancelled.

4.1 Share capital (continued)

Vestas Wind Systems A/S has acquired treasury shares as follows:

	2016	2015
Nominal value, purchases (kDKK)	6,325	3,080
Nominal value, sales (kDKK)	(3,747)	(1,219)
Average share price, purchases (DKK)	491	427
Average share price, sales (DKK)	455	248
Purchase amount (mEUR)	419	176
Sales amount (mEUR)	(11)	(40)

Treasury shares are acquired to cover grants/issues of shares under the Group's incentive programmes or as part of its capital structure strategy.

The share capital has been fully paid.

Net proposed cash distribution to shareholders

	2016	2015
Dividend[1]	279	200

1) Dividend excluding treasury shares.

4.2 Earnings per share

	2016	2015
Profit for the year (mEUR)	**965**	**685**
Weighted average number of ordinary shares	222,360,341	224,074,513
Weighted average number of treasury shares	(3,849,409)	(3,141,169)
Weighted average number of ordinary shares outstanding	218,510,932	220,933,344
Dilutive effect of outstanding options and restricted performance shares	1,072,694	1,962,778
Average number of shares outstanding including dilutive effect of options and restricted performance shares	**219,583,626**	**222,896,122**
Earnings per share (EPS)	4.41	3.10
Earnings per shares, diluted (EPS-D)	4.39	3.07

For information about numbers of shares used for the calculation of earnings per share (EPS), ref. note 4.1.

4.3 Financial items

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

Financial income

mEUR	2016	2015
Interest income	25	14
Foreign exchange gains	-	13
Hedging instruments	29	34
Other financial income	2	0
	56	**61**

Financial costs

mEUR	2016	2015
Interest costs	26	19
Foreign exchange losses	48	43
Other financial costs	15	14
	89	**76**

4.4 Cash and cash equivalents

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

Cash and cash equivalents with disposal restrictions, EUR 335m (2015: EUR 196m), are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents.

4.5 Financial risks

The Group's policy for managing financial risks
Financial risks are an inherent part of the Group's operating activities and the Group is exposed to a number of financial risks. Financial risks are managed centrally and the overall objectives and policies for the Group's financial risk management are outlined in the Treasury Policy. The Treasury Policy is approved by the Board of Directors, and revised on a continuous basis to adapt to the changing financial risks and market situation. The Treasury Policy sets the limits for the various financial risks and includes policies for managing liquidity risks, credit risks, foreign currency risks, interest rate risks, and commodity risks.

It is the Group's policy only to hedge commercial exposures and do not enter into any speculative transactions.

Information on financial and capital structure strategy, ref. page 016.

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

The Group's main credit facility consists of a EUR 1,050m revolving credit facility. The facility has a sublimit of EUR 500m for cash drawings, while the total of EUR 1,050m is available for guarantees. In 2016, the final maturity of the revolving credit facility has been extended to expire in June 2021. The revolving credit facility is subject to a change of control clause resulting in repayment of the credit facility in the event of change of control. The revolving credit facility is subject to covenants and no breaches has been encountered throughout the year.

In 2015 Vestas issued a green corporate eurobond with a nominal value of EUR 500m at a fixed interest rate of 2.75 percent. The green corporate eurobond will mature in 2022.

Considering the Group's strong liquidity position and available credit facilities the Group's liquidity risk is assessed to be low. The available financial resources of the Group are shown below.

mEUR	2016	2015
Main credit facility	500	500
Other credit facilities	10	-
Marketable securities	201	-
Cash and cash equivalents	3,550	2,765
Total available financial resources	**4,261**	**3,265**

4.5 Financial risks (continued)

Financial assets by maturity and category

2016 **mEUR**	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	41	41	41	36	5	-
Hedging instruments assets (hedge accounting)	**41**	**41**	**41**	**36**	**5**	**-**
Fair value hedges	10	10	10	10	-	-
Marketable securities	201	201	262	13	61	188
Fair value through profit or loss	**211**	**211**	**272**	**23**	**61**	**188**
Trade receivables	1,038	1,038	1,038	1,038	-	-
Construction contracts in progress	19	19	19	19	-	-
Other receivables	296	296	296	246	15	35
Cash and cash equivalents	3,550	3,550	3,550	3,550	-	-
Loans and receivables	**4,903**	**4,903**	**4,903**	**4,853**	**15**	**35**
Total financial assets	**5,155**	**5,155**	**5,216**	**4,912**	**81**	**223**

2015 **mEUR**	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	96	96	96	89	7	-
Hedging instruments assets (hedge accounting)	**96**	**96**	**96**	**89**	**7**	**-**
Fair value hedges	7	7	7	7	-	-
Fair value through profit or loss	**7**	**7**	**7**	**7**	**-**	**-**
Trade receivables	795	795	795	795	-	-
Construction contracts in progress	15	15	15	15	-	-
Other receivables	362	362	362	330	17	15
Cash and cash equivalents	2,765	2,765	2,765	2,765	-	-
Loans and receivables	**3,937**	**3,937**	**3,937**	**3,905**	**17**	**15**
Total financial assets	**4,040**	**4,040**	**4,040**	**4,001**	**24**	**15**

4.5 Financial risks (continued)

Financial liabilities by maturity and category

2016 **mEUR**	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	120	120	120	41	25	54
Hedging instruments liabilities (hedge accounting)	**120**	**120**	**120**	**41**	**25**	**54**
Fair value hedges	19	19	19	19	-	-
Fair value through profit or loss	**19**	**19**	**19**	**19**	**-**	**-**
Green corporate eurobond	496	526	583	14	14	555
Trade payables	1,666	1,666	1,666	1,666	-	-
Other liabilities	515	515	515	504	5	6
Financial guarantee contracts*	-	834	-	-	-	-
Financial liabilities measured at amortised cost	**2,677**	**3,541**	**2,764**	**2,184**	**19**	**561**
Total financial liabilities	**2,816**	**3,680**	**2,903**	**2,244**	**44**	**615**

2015 **mEUR**	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	46	46	46	45	1	-
Hedging instruments liabilities (hedge accounting)	**46**	**46**	**46**	**45**	**1**	**-**
Fair value hedges	10	10	10	10	-	-
Fair value through profit or loss	**10**	**10**	**10**	**10**	**-**	**-**
Green corporate eurobond	495	497	596	14	14	568
Trade payables	1,760	1,760	1,760	1,760	-	-
Other liabilities	453	453	453	444	9	-
Financial guarantee contracts*	-	513	-	-	-	-
Financial liabilities measured at amortised cost	**2,708**	**3,223**	**2,809**	**2,218**	**23**	**568**
Total financial liabilities	**2,764**	**3,279**	**2,865**	**2,273**	**24**	**568**

*For additional information regarding issued financial guarantee contracts, ref. note 3.6.

4.5 Financial risks (continued)

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

Vestas has entered into netting agreements with all financial institution counterparties used for trading of derivative financial instruments, which mean that the Group's credit risk is limited to the net assets per counterparty.

Other counterparties mainly consists of companies within the energy sector. The credit risk is among other things dependent on the development within this sector.

In 2016, the Group has invested in marketable securities that comprise highly liquid, mainly AAA-rated (minimum AA-rated) Danish mortgage and sovereign bonds.

At 31 December 2016, the Group considers the maximum credit risk to financial institution counterparties to be EUR 3,759m (2015: EUR 2,792m). The total credit risk is considered to be EUR 5,112m (2015: 4,040m).

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December was mitigated by the EUR 427m (2015: EUR 187m) received as security, ref. note 2.3. Historically, the Group has not incurred significant losses on trade receivables.

Considering the Group's management of credit risk exposure, the total credit risks are assessed to be low.

The overview below shows the Group's risk exposure for financial institutions based on the credit rating.

Percent	2016	2015
AAA	18	-
AA	18	42
A	56	52
BBB	6	4
BB	0	-
Other/Non-rated	2	2

4.5 Financial risks (continued)

Foreign currency risks

The international business activities of the Group involve foreign currency risks, meaning that the Group's income statement, other comprehensive income, balance sheet and cash flows is exposed to foreign currency risks. The foreign currency exposure arises primarily from purchase, and sale of goods and services outside the eurozone. The foreign currency risks are reduced by balancing the different currencies to the largest extent possible and by hedging the net exposure in each individual currency according to the Treasury Policy. Foreign currency risks are primarily hedged through foreign currency forward contracts.

The Group objective on managing foreign currency risks is to reduce the short-term fluctuations in the income statement and to increase the predictability of the financial results. Foreign currency risks related to long-term investments are not hedged based on an overall risk, liquidity, and cost perspective.

The Group is to a large extent exposed to USD, due to the significant business activities in this region. The project nature of the business changes the foreign currency risk picture towards specific currencies from one year to another, depending on in which geographical areas the group has activity. Considering the international business activities and the Group's management of foreign currency risks exposure, the total foreign currency risk is assessed to be medium.

The sensitivity analysis shows the gain/(loss) on net profit for the year and other comprehensive income of a 10 percent increase in the specified currencies towards EUR. The analysis includes the impact from hedging instruments. The below analysis is based on the assumption that all other variables, interest rates in particular, remain constant.

2016 **mEUR**	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(74)	29
SEK	10%	(6)	(38)
NOK	10%	(6)	(87)
GBP	10%	(4)	(29)
CAD	10%	14	(13)

2015 **mEUR**	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(22)	(43)
SEK	10%	(1)	(24)
GBP	10%	(8)	(19)
CLP	10%	0	(19)
BRL	10%	(3)	(8)

4.5 Financial risks (continued)

Interest rate risk
The Group ensures that the interest rate risk is managed according to the Treasury Policy. The Group is exposed to inverse interest rate risks on cash flows from interest-bearing short-term investments in cash and cash equivalents as well as from marketable securities with floating interest. The Group is also exposed to inverse interest rate risks on fair value of investments in marketable securities with fixed interest.

The Group has no outstanding interest-bearing debt with floating interest. The interest coupon on the Group's EUR 500m green corporate eurobond is fixed until maturity in 2022.

It is assessed that the Group's interest rate risk is low.

2016	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	496	Fixed	2.75	2.88	2022
Total credit facilities					

2015	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	495	Fixed	2.75	2.88	2022
Total credit facilities					

4.6 Derivative financial instruments

Group accounting policies
On initial recognition derivative financial instruments are recognised in the balance sheet at fair value and subsequently re-measured at fair value.

Fair value changes of derivative financial instruments are recognised in the balance sheet. In case of changes in fair values of derivative financial instruments designated as a cash flow hedge the effective part of any gain or loss is recognised in other comprehensive income. Any ineffective portions of the cash flow hedges are recognised in the income statement as financial items. Gains or losses on cash flow hedges are upon realisation transferred from the equity hedging reserve into the income statement in the same item as the hedged item.

Any changes in the fair values of derivative financial instruments designated as fair value hedges are recognised in the income statement as financial items.

Fair values of derivative financial instruments are calculated using valuation techniques which use observable market data such as exchange rates, interest rates, credit risks, and volatilities. Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, Vestas does not presently have a legally enforceable right of set-off.

In some sales agreements a foreign currency element is incorporated. In cases where the sales currency is not closely related to the functional currency nor a commonly used currency in the country in which the sales takes place, the foreign currency element is treated as an embedded financial derivative. The embedded financial derivative is designated as a cash flow hedge.

			Expected recognition		
2016 **mEUR**	Contract amount	Net fair value	2017	2018	After
Cash flow hedges	1,882	(79)	(5)	(20)	(54)
Fair value hedges	360	(9)	(9)	-	-
Total derivative financial instruments	**2,242**	**(88)**	**(14)**	**(20)**	**(54)**

			Expected recognition		
2015 **mEUR**	Contract amount	Net fair value	2016	2017	After
Cash flow hedges	1,211	50	44	6	-
Fair value hedges	(381)	(3)	(3)	-	-
Total derivative financial instruments	**830**	**47**	**41**	**6**	**-**

Fair value adjustment recognised as follows:	**2016**	**2015**
Income statement, gains/(losses)	(7)	(3)
Other comprehensive income, gains/(losses)	(81)	50
Other receivables, current	46	96
Other receivables, non-current	5	7
Other liabilities, current	60	55
Other liabilities, non-current	79	1

4.6 Derivative financial instruments (continued)

Cash flow hedges
The following net outstanding forward exchange contracts and embedded derivatives of the Group at 31 December are used and qualify as cash flow hedges:

2016 mEUR	Contract amount	Fair value
USD	(293)	(7)
SEK	381	(1)
NOK	875	(79)
GBP	294	11
BRL	125	(8)
Other	500	5
Total cash flow hedges	**1,882**	**(79)**

2015 mEUR	Contract amount	Fair value
USD	433	9
SEK	244	(4)
GBP	191	(2)
CLP	195	20
BRL	78	12
Other	70	15
Total cash flow hedges	**1,211**	**50**

mEUR	2016	2015
Cash flow hedge ineffectiveness recognised in the income statement, gains ref. note 4.3	29	34

Positive contract amounts represents a net sale of the respective currency.

The Group's cash flow hedges relate primarily to net cash flows outside euro-based countries, primarily in above currencies with equivalents in DKK and EUR.

No hedging contracts are subject to set-off agreements.

4.6 Derivative financial instruments (continued)

Fair value hedges
The following net outstanding forward exchange contracts of the group at 31 December are used as fair value hedging of assets and liabilities included in the balance sheet. All changes in fair values are recognised in the income statement.

2016 **mEUR**	Contract amount	Fair value adjustment
USD	969	(8)
GBP	40	(2)
CNH	(203)	(1)
CAD	(145)	1
AUD	(104)	(2)
Other	(197)	3
Total fair value hedges	**360**	**(9)**

2015 **mEUR**	Contract amount	Fair value adjustment
USD	(10)	2
CAD	(109)	(7)
GBP	(42)	(0)
CNY	(42)	2
SEK	(107)	1
Other	(71)	(1)
Total fair value hedges	**(381)**	**(3)**

mEUR	**2016**	**2015**
Gains/(losses) on fair value hedges recognised in the income statement	(46)	106

The Group's fair value hedges relate to monetary items in foreign currency. The changes in fair value of the hedged items are negative EUR 2m (2015: EUR 149m).

4.7 Fair value hierarchy

Fair value hierarchy
Financial instruments measured at fair value are categorised into the following levels of the fair value hierarchy:

Level 1: Observable market prices for identical instruments.
Level 2: Valuation techniques primarily based on observable prices or traded prices for comparable instruments.
Level 3: Valuation techniques primarily based on unobservable prices.

2016 mEUR	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	51	-	51
Marketable securities	201	-	-	201
Financial assets	**201**	**51**	**0**	**252**
Green corporate eurobond	523	-	-	523
Derivative financial instruments	-	139	-	139
Financial liabilities	**523**	**139**	**-**	**662**

2015 mEUR	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	103	-	103
Financial assets	**-**	**103**	**0**	**103**
Green corporate eurobond	497	-	-	497
Derivative financial instruments	-	56	-	56
Financial liabilities	**497**	**56**	**-**	**553**

Fair value of marketable securities and corporate euro bond are measured as level 1, as the fair value is set from the price observed in an active market.

Fair value of the derivative financial instruments is measured as level 2, as the fair value can be established directly based on exchange rates published and forward interest rates and prices specified at the balance sheet date.

Fair value of non-current assets held for sale are measured as level 3, as the fair value less cost to sell is based on market indicators on fair values of properties held for sale. Movement in fair values recognised in profit and loss are disclosed in note 6.7 - Non-current assets held for sale.

The Group has a commitment in the US to purchase Renewable Energy Certificates (RECs) in 2023 and 10 years beyond based on production of MW in this period at a fixed price. It has been assessed that the contract qualifies as a financial instrument. The fair value measurement is based on level 3 input. The maximum nominal commitment under the contract is estimated at EUR 48m (2015: EUR 46m). Currently RECs are trading at a higher price than the Group's agreed purchase price. Given the uncertainties underpinning the future market for selling RECs, Management has determined that the best evidence of fair value of the RECs is the transaction price. Consequently, the net fair value of the contract has been measured at EUR 0. Had the estimated market price of the RECs been EUR 18/MWh (2015: EUR 22/MWh) in average, the contract would have had a positive value of EUR 30m (2015: EUR 51m) as of 31 December 2016. Had the estimated market price of the RECs been EUR 0 (2015: EUR 0), the contract would have had a negative value of EUR 35m (2015: EUR 37m) as of 31 December 2016.

There have been no changes in fair values of recurring assets and there has been no transfers between levels in 2016.

5. Tax

5.1 Income tax

Group accounting policies
Tax for the year consists of current tax and deferred tax for the year including adjustments to previous years and changes in provision for uncertain tax positions. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax expense relating to items recognised in other comprehensive income is recognised in other comprehensive income.

Following developments in ongoing tax disputes primarily related to transfer pricing cases, uncertain tax positions are presented individually as part of deferred tax assets, non-current tax receivables and non-current tax payables.

Current tax liabilities and receivables are recognised in the balance sheet at the amounts calculated on the taxable income for the year adjusted for tax on taxable incomes for prior years and for taxes paid on account.

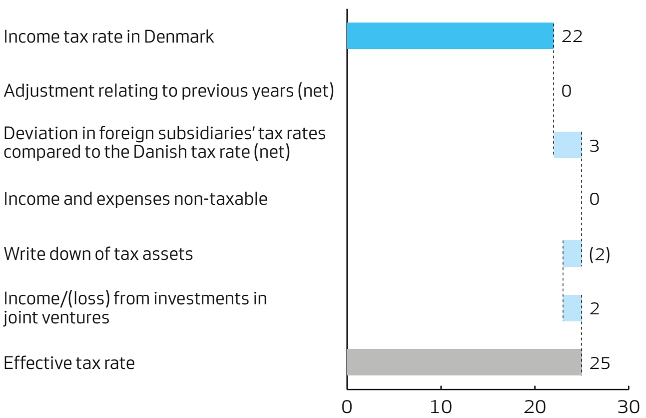
Key accounting estimate - Income taxes
The Group continuously wants to be a compliant corporate tax citizen in collaboration with our operations and stakeholders and to support shareholder interest and our reputation. To ensure compliance, national and international tax laws as well as the OECD Guidelines are acknowledged and followed throughout the world.

The Group is subject to income taxes around the world and therefore recognise that significant judgement is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities and provision for uncertain tax positions.

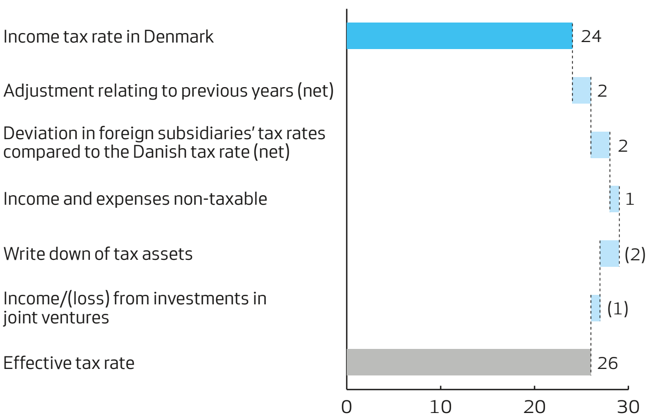
The global business implies that the Group may be subject to disputes on allocation of profits between different jurisdictions. Management judgement is applied to assess the expected outcome of such tax disputes which is provided for in provision for uncertain tax positions. Management believes that provisions made for uncertain tax positions not yet settled with local tax authorities at year end is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

mEUR	2016	2015
Current tax on profit for the year	371	191
Deferred tax on profit for the year	(44)	34
Tax on profit for the year	327	225
Change in income tax rate	1	3
Adjustments relating to previous years (net)	(6)	12
Income tax for the year recognised in the income statement, expense	**322**	**240**
Deferred tax on other comprehensive income for the year	(33)	8
Tax recognised in other comprehensive income, expense/(income)	**(33)**	**8**
Total income taxes for the year, expense	**289**	**248**

Computation of effective tax rate 2016
percent



Computation of effective tax rate 2015
percent



5.1 Income tax (continued)

mEUR	2016	2015
Income tax at 1 January, net assets	(22)	24
Exchange rate adjustments	2	(3)
Income tax for the year	(371)	(191)
Adjustments relating to previous years	40	14
Non-current income tax	(15)	(50)
Income tax paid in the year	212	184
Income tax at 31 December, net assets/(liabilities)	**(154)**	**(22)**
Receivables specified as follows:		
0-1 year	25	60
> 1 year	49	109
Income tax receivables	**74**	**169**
Liabilities specified as follows:		
0-1 year	(191)	(147)
> 1 year	(37)	(44)
Income tax liabilities	**(228)**	**(191)**

5.2 Deferred tax

Group accounting policies
Deferred tax is measured using the balance sheet liability method in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is, however, not recognised in respect of temporary differences on initial recognition of goodwill and other items, apart from business acquisitions, where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income. In cases where the computation of the tax base may be made according to different tax rules, deferred tax is measured on the basis of management's intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised in other non-current assets at the value at which the asset is expected to be realised, either by elimination of tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets are reviewed on an annual basis and are only recognised when it is probable that they will be utilised in future periods.

Adjustments are made to deferred tax to take account of the elimination of unrealised inter-company profits and losses.

Deferred tax is measured on the basis of the tax rules and tax rates of the respective countries that will be effective when the deferred tax is expected to crystallise as current tax based on the legislation at the balance sheet date. Changes to deferred tax due to changes to tax rates are recognised in the income statement except for items recognised directly in equity.

Key accounting estimate - Valuation of deferred tax assets
The Group recognises deferred tax assets, including the tax value of tax loss carry–forwards, where management assesses that the tax assets may be utilised in the foreseeable future for set-off against positive taxable income. The assessment is made on an annual basis and is based on the budgets and business plans for future years, including planned business initiatives. Key parameters are expected revenue- and EBIT development considering expected allocation of future taxable income based on the transfer pricing policy in place. Due to the uncertainties relating to allocation of profits management has limited the forecast period used to determine the utilisation to three years.

The assessment in 2016 resulted in the reversal of write-down of deferred tax assets by EUR 22m (2015: EUR 76m writedown) primarily due to the fact that the tax losses are expected to be utilised in the foreseeable future.

At 31 December 2016, the value of recognised deferred tax assets amounted to EUR 208m (2015: EUR 149m), of which EUR 76m (2015: EUR 124m) relates to tax loss carry-forwards. Of the total tax loss carry-forwards, EUR 43m (2015: EUR 50m) is expected to be realised within 12 months, and EUR 33m (2015: EUR 74m) is expected to be realised later than 12 months after the balance sheet date. The value of provisions for uncertain tax positions recognised in deferred tax assets and non-recognised tax assets totals EUR 250m (2015: EUR 292m), of which EUR 135m (2015: EUR 162m) relating to write-downs are not expected to be utilised in the foreseeable future.

5.2 Deferred tax (continued)

mEUR	2016	2015
Deferred tax at 1 January, net assets	129	153
Exchange rate adjustments	-	6
Deferred tax on profit for the year	44	(34)
Adjustment relating to previous years	(34)	(26)
Changes in income tax rate	(1)	(3)
Transferred to non-current tax receivables/payables	15	50
Acquisitions as part of business combinations, ref. to note 6.5	(12)	(9)
Tax on other comprehensive income	33	(8)
Deferred tax at 31 December, net assets	**174**	**129**
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	76	124
Intangible assets	(96)	(63)
Property, plant and equipment	77	61
Current assets	268	216
Provisions	134	107
Uncertain tax position	(115)	(130)
Write-down of tax assets	(135)	(162)
Other	(1)	(4)
Deferred tax assets	**208**	**149**
Deferred tax provisions specified as follows:		
Intangible assets	19	9
Property, plant and equipment	11	9
Current assets	4	2
Deferred tax provisions	**34**	**20**

No provision is made for deferred tax regarding undistributed earnings in subsidiaries, as the Group controls the release of the obligation.

Deferred tax recognised on tax losses is mainly in jurisdictions where there are no expiry limits. Out of total tax losses recognised EUR 9m (2015: EUR 13m) are subject to expiry limits of which EUR 0m (2015: EUR 0m) is recognised in jurisdictions with subsequent losses. Following the Group transfer pricing policy these losses are expected to be utilised within the foreseeable future.

Of the total deferred tax relating to tax loss carry-forwards written down, EUR 0m (2015: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 0m (2015: EUR 43m).

As many other multinational businesses, the Group recognises the increased focus on the transfer pricing and the consequent allocation of profits to the relevant countries. Even though the Group's subsidiaries pay corporate tax in the countries in which they operate, the group is still part of a number of tax audits on different locations. Some of these disputes concern significant amounts and uncertainties. The Group believes that the provisions made for uncertain tax positions not yet settled with the local tax authorities is adequate. However, the actual obligation may differ and is subject to the result of the litigations and settlements with the relevant tax authorities.

6. Other disclosures

6.1 Audit fees

mEUR	2016	2015
Audit:		
PricewaterhouseCoopers	3	3
Total audit	**3**	**3**
Non-audit services: [1)]		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	2	2
Other services	1	1
Total non-audit services	**3**	**3**
Total	**6**	**6**

1) The following ratios have been calculated in accordance with guidelines provided by certain advisors to illustrate the level of non-audit services compared to audit-related services provided by Vestas auditor. Non-audit services / (Audit fees + Assurance engagements + Tax compliance and preparation fees) is 70 percent (2015: 56 percent). Excluding significant one-time capital structure events is 41 percent (2015: 50 percent).

Vestas' auditors can be used, within certain parameters, for certain non-audit services and may often be the preferable choice due to business knowledge, confidentiality, and cost considerations. Vestas has a policy for non-audit services ensuring that the provision of non-audit services to the Group does not impair the auditors' independence or objectivity. The Audit Committee is responsible for the development and maintenance of this policy and monitors compliance.

6.2 Management's incentive programmes

Group accounting policies
The Group operates a number of share-based compensation schemes (share options and restricted share programmes) under which it awards Vestas shares and share options to members of the Executive Management and certain key employees in Vestas Wind Systems A/S or its subsidiaries.

The value of the services received in exchange for the granting of options and issuance of shares is measured at the fair value of the options/shares.

Equity settled share options granted and restricted shares issued to employees are measured at fair value at the time of granting and are recognised in staff expenses in the income statement over the vesting period. The opposite entry is recognised directly in equity.

On initial recognition of the share options/restricted shares, the number of options/shares expected to vest is estimated. Subsequently, the estimate is revised so that the total expense recognised is based on the actual number of options granted and shares vested.

The fair value of the options granted is estimated using an option pricing model (Black-Scholes). In determining fair value, the terms and conditions relating to the share options granted are taken into account. The fair value of restricted shares is determined based on Vestas quoted share price at grant adjusted for expected dividend payout (based on historic dividend payout ratio).

Share option programme
A share option programme was established in 2006 and has since been expanded with new options granted year on year until 2012. Since 2012 there have not been awarded new share option programmes.

The members may exercise their options in specified periods and choose to purchase the company's shares at the determined strike price according to the terms of the programme. Exercise of the options can only occur in the periods during which executives are allowed to trade shares in accordance with the Group's internal rules, being within the four weeks following the company's announcement of the annual report and interim financial reports. The members of the scheme lose the right to the options if they terminate their employment before the end of the vesting period.

Options are allotted to members when the Board of Directors approves the final annual report relating to the year of grant.

For 2010 onwards, only the Executive Management, Presidents (former), and Group Senior Vice Presidents reporting directly to the Executive Management must for a period of three years after exercise of the options, hold shares in the company corresponding to 50 percent of the gains, after tax, they have earned on the options.

6.2 Management's incentive programmes (continued)

The share options were exercisable three years after the issue date and will expire after five years.

Options granted in 2009 (expansion of 2007 programme) and 2010 can be exercised in 2015 and options granted in 2011 and 2012 can be exercised in 2015-2016 and 2016-2017, respectively.

The options are valued on the date of grant, based on the Black-Scholes valuation model. The share prices and the exercise prices are based on the closing share prices obtained from Bloomberg Financial Markets on the day the options were granted. The risk free interest rate is estimated as the effective interest rate on a Danish government bond with the same economic life, in this case two, five, six, and seven-year bonds. The future volatility, which means fluctuations in the shares' total yield, is calculated based on historic weekly closing share prices for a period corresponding to time to maturity of the options.

Number of share option programs	Executive Management pcs	Other executives pcs	Total pcs	Weighted average exercise price per option DKK
Outstanding at 1 January 2016	**85,159**	**1,070,029**	**1,155,188**	**90**
Exercised	(85,159)	(801,016)	(886,175)	92
Expired	-	(50,866)	(50,866)	181
Cancelled	-	(1,557)	(1,557)	58
Outstanding at 31 December 2016	**-**	**216,590**	**216,590**	**58**
Number of exercisable options at 31 December 2016	-	216,590	216,590	58
Outstanding at 1 January 2015	**110,010**	**2,538,863**	**2,648,873**	**192**
Exercised	(15,475)	(1,203,573)	(1,219,048)	247
Expired	(9,376)	(248,507)	(257,883)	363
Cancelled	-	(16,754)	(16,754)	125
Outstanding at 31 December 2015	**85,159**	**1,070,029**	**1,155,188**	**90**
Number of exercisable options at 31 December 2015	17,023	285,613	302,636	181

The exercise price for the outstanding options are DKK 58 for the 2012 programme. The weighted average remaining life of the options outstanding at 31 December 2016 was one year (2015: two years). Average share price for the exercised share options in 2016 was DKK 455 (2015: DKK 363).

During 2016, 246,092 share options were exercised at an exercise price of DKK 181 and 640,083 shares were exercised at an exercise price of DKK 58.

A member of the Board of Directors had 0 options outstanding as at 31 December 2016 (2015: 1,106).

Restricted performance share programme
In March 2013, the share based incentive programme was revised and after this, the share based incentive programme is based on restricted performance shares instead of share options which were used in previous programmes. The purpose of the restricted performance shares is to ensure common goals for management, certain key employees, and shareholders.

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

In April 2016, the Board of Directors launched a new restricted performance shares programme. The share based incentive programme follows the structures of the previous programme from 2015 and will still be based on restricted performance shares. The programme has a performance period of three years and a performance measurement based on financial key performance indicators as well as the Vestas Group's market share as defined by the Board of Directors.

6.2 Management's incentive programmes (continued)

The terms and conditions governing the restricted performance share programme are as follows:

- Only participants employed by the Group at the time of announcement of the programme or later in the financial year are eligible for participation in the restricted performance share programme.
- The number of restricted performance shares available for distribution depends on Vestas' performance as per table below.
- Depending on the performance, the total number of shares to be granted will range between 0 percent and 150 percent of the target level and is determined by Vestas' performance in the financial year.

	2016	2015	2014	2013
Year awarded:	April 2016	April 2015	March 2014	March 2013
Performance year: [1]	2016-2018	2015-2017	2014	2013
Vesting conditions (KPIs):	EPS, ROIC, Market share	EPS, ROIC, Market share	EBIT margin, Free cash flow, Business area specific KPIs	EBIT margin, Free cash flow, Business area specific KPIs
Vesting years:	2019/2021	2018/2020	2017/2019	2016/2018

1) Performance years defined as the Group's financial year.

in 2016, the total number of performance shares granted amounts to 334,075 shares (out of which 97,467 are performance shares to the Executive Management). With the total fair value calculated on the basis of the market share price at measurement date and no dividend, the value of the grant amounts to EUR 20m (value at close of Nasdaq Copenhagen on 28 April 2016).

Number of restricted performance shares	Executive Management pcs	Other executives pcs	Total pcs
Outstanding at 1 January 2016	**454,060**	**1,030,705**	**1,484,765**
Adjusted [1]	19,015	49,209	68,224
Awards issued	97,467	236,608	334,075
Exercised	(82,068)	(249,451)	(331,519)
Cancelled	-	(19,234)	(19,234)
Outstanding at 31 December 2016	**488,474**	**1,047,837**	**1,536,311**
Outstanding at 1 January 2015	**313,917**	**748,127**	**1,062,044**
Adjusted [1]	4,143	25,059	29,202
Awards issued	136,000	275,491	411,491
Cancelled	-	(17,972)	(17,972)
Outstanding at 31 December 2015	**454,060**	**1,030,705**	**1,484,765**

1) Adjustments due to final calculation of entitlement based on performance in prior year. Allocation of performance shares for the 2015-2017 and 2016-2018 performance programmes will be adjusted based on the level of target achievement in the measurement period.

An employee elected member of the Board of Directors, had 130 restricted shares outstanding as at 31 December 2016 (2015: 2,498).

Ref. note 1.3 for the total expense recognised in the income statement for share options and restricted performance shares granted to Executive Management and other executives.

6.3 Contractual obligations

mEUR	2016	2015
The minimum lease obligations relating to operating leases fall due:		
0–1 year	51	55
1–5 years	101	97
> 5 years	36	101
Total	**188**	**253**

Operating leases primarily comprise irrevocable operating leases regarding land, buildings, and vehicles. The main obligations relate to buildings and run for up to 11 years after the balance sheet date.

Costs recognised in the income statement relating to operating leases amount to EUR 40m in 2016 (2015: EUR 39m).

The Group has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2017 and future periods at a value of EUR 59m (2015: EUR 66m).

6.4 Related party transactions

Vestas Wind Systems A/S has no shareholders with controlling influence.

Related parties are considered to be the Board of Directors and the Executive Management of the Vestas Wind Systems A/S together with their immediate families. Related parties also include entities which are significantly influenced by the aforementioned individuals.

Transactions with the Board of Directors and Executive Management
Transactions with the Executive Management only consist of normal management remuneration, see note 1.3 to the consolidated financial statements, and the transactions mentioned below.

Transactions with the Board of Directors and Executive Management in the year comprise the following:

Anders Vedel has full and partly ownerships of wind turbines for which he has a service contract with the Group. These transactions take place at arm's length and in total amounted to EUR 0.1m in 2016 (2015: EUR 0.1m). The outstanding amount of purchases at 31 December 2016 amounted to EUR 0.0m. (2015 EUR 0.0m).

There have been no other transactions with members of the Board of Directors and the Executive Management during the year.

With the exception of the Board members elected by the employees, no members of the Board of Directors have been employed by the Group in 2016.

Transactions with joint venture
The Group has had the following material transaction with joint ventures:

mEUR	2016	2015
MHI Vestas Offshore Wind A/S		
Revenue	353	310
Receivable at 31 December	82	24
Roaring Fork Wind, LLC		
Prepayments received	80	-

Transactions with associates
Related parties also include associates over whom Vestas Wind Systems A/S has significant influence. No material transactions with associates have occurred.

6.5 Business combinations

Group 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 the Group accounting policies.

In connection with every acquisition, goodwill and a non-controlling interest (minority) are recognised according to one of the following methods:

1) Goodwill relating to the entity acquired comprises a positive difference, if any, between the total fair value of the entity acquired and the fair value of the total net assets for accounting purposes. The non-controlling interest is recognised at the share of the total fair value of the entity acquired (full goodwill).

2) Goodwill relating to the entity acquired comprises a positive difference, if any, between the cost and the fair value of the Group's share of the net assets for accounting purposes of the acquired enterprise at the date of acquisition. The non-controlling interest is recognised at the proportionate share of the net assets acquired (proportionate goodwill).

Goodwill is recognised in intangible assets. It is not amortised, but reviewed for impairment once a year and also if events or changes in circumstances indicate that the carrying value may be impaired. If impairment is established, the goodwill is written down to its lower recoverable amount.

Sold or liquidated entities are recognised up to the date of disposal. Any gain or loss compared to the carrying amount at the date of disposal is recognised in the income statement to the extent the control of the subsidiary is also transferred.

Acquisition of Availon Holding GmbH
On 1 March 2016, the Group acquired 100 percent of the share capital of Availon Holding GmbH ("Availon"). The acquisition is the next step in accelerating the Group's corporate strategy in the service business.

As a result of the acquisition, the Group is expected to further accelerate its corporate strategy to help the Group to capture the full potential of the service business.

The goodwill of EUR 56m arising from the acquisition is attributable to synergies expected from combining the operations of the Group and Availon. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the considerations paid for Availon, the fair value of assets acquired and liabilities assumed at the acquisition dates.

Consideration

2016 mEUR	Availon
Cash	84
Total consideration	**84**

The acquisition price for Availon is EUR 88m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

6.5 Business combinations (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

2016 mEUR	Availon
Know-how (included in intangible assets)	9
Customer relationship (included in intangible assets)	26
Trademark (included in intangible assets)	1
Other intangible assets (included in intangible assets)	1
Property, plant and equipment	3
Inventory	8
Trade receivables	9
Other receivables	3
Cash	1
Deferred tax asset	1
Deferred tax liability	(12)
Bank debt	(4)
Trade payables	(5)
Other liabilities	(13)
Total identifiable net assets	**28**
Goodwill	56
Total	**84**

The valuation techniques used for measuring the fair value of customer relationships and know-how acquired were as follows:

Assets acquired	Valuation technique
Intangible assets	Relief-from-royalty method and multi-period excess earnings method: The relief from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

The fair value of the acquired identifiable asset of EUR 28m including allocations is provisional pending final valuations for those assets.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

The revenue included in the consolidated income statement since 1 March 2016 contributed by Availon was EUR 52m. Availon also contributed profit after tax of EUR 0m over the same period.

Had Availon been consolidated from 1 January 2016, the consolidated income statement would have been impacted with revenue of approx EUR 63m and profit after tax of approx EUR 0m.

6.6 Non-cash transactions

mEUR	2016	2015
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	405	305
Share of (profit)/loss from investments in associates and joint ventures	101	(34)
Warranty provisions in the year (net)	138	65
Other provisions in the year	12	0
Exchange rate adjustment	76	4
Financial income	(56)	(61)
Financial expenses	89	76
Income tax for the year	322	240
Cost of share-based payments	12	8
Gains from property, plant and equipment	(13)	-
	1,086	**603**

6.7 Non-current assets held for sale

Group accounting policies
Non-current assets (or disposal groups) are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are presented separately on the balance sheet. Immediately before the initial classification of the assets as held for sale, the carrying amounts of the assets are measured in accordance with their applicable accounting policy. Non-current assets held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are not depreciated.

Key accounting judgement and estimate
Valuation and classification
Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Market indications on fair value are used as basis for valuation of properties held for sale. As there is no liquid market for the sale of this type of properties these valuations are subject to measurement uncertainty. The assets are expected to be sold within one year from the reporting date.

Properties
During 2016, the properties have ceased to be classified as held for sale and declassified to property, plant and equipment, due to significant uncertainty about whether the properties would be sold within one year from the reporting date. This declassification has impacted Administration costs with EUR 12m, due to catch-up depreciation and impairment.

After the reporting period, the Group has entered into negotiations on selling the properties to a third party. Management has, therefore, assessed that it is highly likely that the properties are sold within one year from the reporting date. Consequently, the properties have been classified as held for sale. Ref. note 6.8 for subsequent events.

Management has assessed that the carrying amount including capitalisations during the year is representative of the fair value less cost to sell. Consequently, the classification to asset held for sale has no impact to the income statement.

mEUR	2016	2015
Non-current assets classified as held for sale:		
Property, plant and equipment	95	103

6.8 Subsequent events

In February 2017, the Group announced the sale of certain building facilities. The balance sheet item were reclassified to Assets held for sale. The sales price is approximately equal to the carrying amount in the balance sheet as of 31 December 2016. As such, the sale does not affect the income statement or the statement of cash flow for 2016. Besides this, no other events have occurred after the reporting period of importance to the consolidated financial statements.

6.9 Legal entities[1)]

Name	Place of registered office	Votes and ownership (%)
Parent company		
Vestas Wind Systems A/S	Aarhus, Denmark	-
Production units		
Vestas Nacelles America Inc.	Brighton (CO), USA	100
Vestas Towers America Inc.	Pueblo (CO), USA	100
Vestas Blades America Inc.	Windsor(CO), USA	100
Vestas Manufacturing A/S	Aarhus, Denmark	100
Vestas Blades Deutschland GmbH	Lauchhammer, Germany	100
Vestas Blades Italia S.r.l.	Taranto, Italy	100
Vestas Wind Technology (China) Co. Ltd.	Tianjin, China	100
Vestas Manufacturing Spain S.L.U	Daimiel, Spain	100
Vestas Control Systems Spain S.L.U.	Olvega, Spain	100
Vestas Nacelles Deutschland GmbH	Lübeck, Germany	100
Sales and service units		
Vestas Americas A/S	Aarhus, Denmark	100
Vestas America Holding, Inc.	Portland (OR), USA	100
Vestas - Wind 50, LLC	Portland (OR), USA	100
Vestas - American Wind Technology Inc.	Portland (OR), USA	100
Vestas - Canadian Wind Technology Inc.	Portland (OR), USA	100
Vestas - Portland HQ LLC	Portland (OR), USA	100
Vestas Upwind Solutions Inc.	San Diego (CA), USA	100
Availon Inc.	Delaware (DE), USA	100
Steelhead Americas, LLC	Portland (OR), USA	100
Steelhead Wind 1 LLC	Portland (OR), USA	100
Steelhead Wind 2 LLC	Portland (OR), USA	100
Steelhead Wind 2a LLC	Portland (OR), USA	100
Vestas Asia Pacific A/S	Aarhus, Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd.	Singapore, Singapore	100
Vestas - Australian Wind Technology Pty. Ltd.	Melbourne, Australia	100
Vestas Korea Wind Technology Ltd.	Seoul, South Korea	100
Vestas New Zealand Wind Technology Ltd.	Wellington, New Zealand	100
Vestas Taiwan Ltd.	Taipei City, Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd.	Beijing, China	100
Vestas Wind Technology India Pvt Limited	Chennai, India	100
Vestas Wind Technology Japan Co. Ltd.	Tokyo, Japan	100
Vestas Wind Technology Pakistan (Private) Limited	Lahore, Pakistan	100
Vestas Wind Technology (Thailand) Ltd.	Bangkok, Thailand	100
Vestas Wind Technology Vietnam LLC	Hanoi, Vietnam	100
Vestas Mongolia LLC	Ulan Bator, Mongolia	100

1) Companies of immaterial significance have been left out of the overview.

6.9 Legal entities (continued)

Name	Place of registered office	Votes and ownership (%)
Vestas Central Europe A/S	Aarhus, Denmark	100
Vestas Deutschland GmbH	Husum, Germany	100
Vestas Services GmbH	Husum, Germany	100
Vestas Benelux B.V.	Arnhem, The Netherlands	100
Vestas Österreich GmbH	Vienna, Austria	100
Vestas Czechia Republic S.R.O.	Prague, Czech Republic	100
Vestas Hungary Kft.	Budapest, Hungary	100
Vestas Bulgaria EOOD	Sofia, Bulgaria	100
Vestas CEU Romania S.R.L	Bucharest, Romania	100
Vestas Central Europe-Zagreb d.o.o	Zagreb, Croatia	100
Vestas Slovakia spol S.r.o.	Bratislava, Slovakia	100
Vestas RUS LLC	Moscow, Russia	100
Vestas Eastern Africa Ltd.	Nairobi, Kenya	100
Vestas Southern Africa Pty. Ltd.	Sunninghill, South Africa	100
Vestas Ukraine LLC	Kiev, Ukraine	100
Vestas Central Europe d.o.o. Beograd	Belgrade, Serbia	100
Vestas Belgium SA	Brussels, Belgium	100
Vestas Georgia LLC	Tbilisi, Georgia	100
Availon Holding GMBH	Rheine, Germany	100
Availon GMBH	Rheine, Germany	100
Vestas Mediterranean A/S	Aarhus, Denmark	100
Vestas Italia S.r.l.	Rome, Italy	100
Vestas Hellas Wind Technology S.A.	Athens, Greece	100
Vestas Eólica SAU	Madrid, Spain	100
Vestas France SAS	Perols, France	100
Vestas (Portugal) - Serviços de Tecnología Eólica Lda.	Lisbon, Portugal	100
Vestas WTG Mexico S.A. de C.V.	Mexico City, Mexico	100
Vestas Mexicana del Viento S.A. de C.V.	Mexico City, Mexico	100
Vestas do Brasil Energia Eolica Ltda.	Sao Paolo, Brazil	100
Vestas Argentina S.A.	Buenos Aires, Argentina	100
Vestas Chile Turbinas Eólica Limitada	Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi	Istanbul, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A.	Montevideo, Uruguay	100
Vestas MED (Cyprus) Ltd.	Nicosia, Cyprus	100
Vestas Nicaragua SA	Managua, Nicaragua	100
Vestas CV Limitada	Cidade de Praia, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L.	Santo Domingo, The Dominican Republic	100
Vestas Peru S.A.C.	Lima, Peru	100
Vestas Middle East S.L.U.	Madrid, Spain	100
Vestas Costa Rica S.A.	San José, Costa Rica	100
Vestas Moroc SARLAV	Casablanca Morocco	100
Vestas Jamaica Wind Technology Ltd.	Kingston, Jamaica	100
Vestas Guatemala	Guatemala city, Guatemala	100
Availon LDA Portugal	Loures, Portugal	100
Availon SRL	Rome, Italy	100
Availon Iberia S.L.	Madrid, Spain	100

6.9 Legal entities (continued)

Name	Place of registered office	Votes and ownership (%)
Vestas Northern Europe A/S	Aarhus, Denmark	100
Vestas - Celtic Wind Technology Ltd.	Edinburgh, UK	100
Vestas Northern Europe AB	Malmö, Sweden	100
Vestas Poland Sp.z.o.o.	Szczecin, Poland	100
Vestas Ireland Ltd.	Dublin, Ireland	100
Vestas Norway AS	Oslo, Norway	100
Vestas Finland Oy	Helsinki, Finland	100
Availon sp. z o. o.	Posen, Poland	100
Other subsidiaries and associates		
Vestas Wind Systems (China) Co. Ltd.	Hohhot, China	100
Vestas Switzerland AG	Zürich, Switzerland	100
Vestas Services Philippines Inc.	Makai City, Philippines	100
Vestas India Holding A/S	Aarhus, Denmark	100
Wind Power Invest A/S	Aarhus, Denmark	100
Vestas Technology (UK) Limited	Isle of Wight, England	100
Vestas Technology R&D Singapore Pte. Ltd.	Singapore, Singapore	100
Vestas Technology R&D Chennai Pte. Ltd.	Chennai, India	100
Vestas Technology R&D (Beijing) Co. Ltd	Beijing, China	100
Vestas Shared Service (Spain), S.L.U.	Madrid, Spain	100
Vestas Middle East A/S	Aarhus, Denmark	100
GREP Svenska AB	Falkenberg, Sweden	100
Vestas BCP Philippines Inc.	Makai City, Philippines	100
Vestas Shared Service A/S	Aarhus, Denmark	100
Vestas Shared Service A/S Philippines ROHQ	Manilla, Philippines	100
Wind 30 ApS	Aarhus, Denmark	100
Wind 31 ApS	Aarhus, Denmark	100
Joint ventures		
MHI Vestas Offshore Wind A/S	Aarhus, Denmark	50
Roaring Fork Wind , LLC	Delaware (DE), USA	50

7. Basis for preparation

7.1 General accounting policies

The annual report of Vestas Wind Systems A/S comprises the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries and separate financial statements of the parent company, Vestas Wind Systems A/S.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional Danish disclosure requirements for listed companies, cf. the Danish Statutory Order on Adoption of IFRS issued pursuant to the Danish Financial Statements Act.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost method, except for the derivative financial instruments, 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 2015.

The consolidated financial statements are presented in million euro.

This note describes the general accounting policies. Other accounting policies are described in the separate notes to the consolidated financial statements.

Materiality in the financial reporting

For the preparation of the consolidated financial statements, the Group discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

A judgement is made of whether more detailed specifications are necessary in the presentation of the Group's assets, liabilities, financial position, and results. All judgements are made with due consideration of legislation and the consolidated financial statements as a whole presenting a true and fair view.

Consolidated financial statements and business combinations

The consolidated financial statements comprise Vestas Wind Systems A/S (the parent company) and the subsidiaries over which Vestas Wind Systems A/S exercises control. Vestas Wind Systems A/S and its subsidiaries together are referred to as the Group.

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An overview of Group legal entities is provided on pages 107-109.

The consolidated financial statements are prepared from the financial statements of the parent company and subsidiaries by combining accounting items of a uniform nature, with subsequent elimination of intercompany income and expenses, shareholdings, intercompany balances and dividends as well as unrealised profits and losses on transactions between consolidated entities.

The consolidated financial statements are based on financial statements prepared under the accounting policies of the Group.

Translation policies

Functional currency and presentation currency

Assets, liabilities and transactions of each of the reporting entities of the Group are measured in the currency of the primary economic environment in which the entity operates (the functional currency). Transactions in currencies other than the functional currency are transactions in foreign currencies. The functional currency of the parent company is Danish kroner (DKK); however, due to the Group's international relations, the consolidated financial statements are presented in Euro (EUR).

Translation into presentation currency

The balance sheet is translated into the presentation currency at the EUR rate at the balance sheet date. In the income statement the transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transactions.

Translation of transactions and amounts

Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the dates of transaction. Exchange adjustments arising due to differences between the transaction date rates and the rates at the dates of payment are recognised as financial income or financial costs in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognised as financial income or financial costs in the income statement.

Translation of Group entities

On recognition in the consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency of the Group, income statements are translated at transaction date rates, and balance sheet items are translated at the exchange rates at the balance sheet date. The transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transaction. Exchange adjustments arising on the translation of the opening equity of foreign entities at exchange rates at the balance sheet date and on the translation of income statements from transaction date rates to exchange rates at the balance sheet date are recognised in other comprehensive income. Exchange adjustments of balances with foreign entities that are treated as part of the total net investment in the entity in question are recognised in other comprehensive income in the consolidated financial statements.

On recognition in the consolidated financial statements of investments accounted for using the equity method with functional currencies that differ from the presentation currency of the Group, the shares of results for the year are translated at average exchange rates, and the shares of equity including goodwill are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the share of the opening equity of foreign investments accounted for using the equity method at exchange rates at the balance sheet date and on the translation of the share of results for the year from average exchange rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

On full or partial disposal of foreign entities, resulting in a loss of control or on repayment of balances treated as part of the net investment, the share of the accumulated exchange adjustments recognised in other comprehensive income, is recognised in the income statement at the same time as any profit or loss on the disposal.

Income statement

Leases

For accounting purposes, lease contracts are classified as either finance or operating lease obligations.

A lease is classified as a finance lease when it transfers substantially all risks and rewards of the leased asset as if the asset had been owned. Other leases are classified as operating leases.

Finance lease assets are capitalised under property, plant and equipment and are depreciated over their expected useful lives. The corresponding finance lease obligations are recognised in liabilities. Operating lease expenses are recognised on a straight line basis in the income statement over the lease term.

7.1 General accounting policies (continued)

Marketable securities
On initial recognition marketable securities are recognised in the balance sheet at fair value and subsequently re-measured at fair value through profit or loss. Any changes in the fair values of the marketable securities are recognised in the income statement as financial items.

Equity

Translation reserve
The translation reserve in the consolidated financial statements comprises exchange rate adjustments arising on the translation of the financial statements of foreign entities from their functional currencies into the presentation currency of the Group (EUR).

Upon full or part realisation of the net investment in foreign entities, exchange adjustments are recognised in the income statement.

Cash flow hedging reserve
The cash flow hedging reserve in the consolidated financial statements comprises gains and losses on fair value adjustments of forward exchange contracts concerning future transactions as well as hedging in connection with commodities.

Cash flow statement
The cash flow statement shows the Group's cash flows for the year, broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year. Cash flows relating to acquired entities are recognised from the date of acquisition. Cash flows relating to entities disposed of are recognised until the date of disposal.

Cash flows from operating activities
Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, provisions and changes in working capital, interest received and paid and income tax paid. Working capital comprises current assets less short-term debt, which does not include current bank loans.

Cash flows from investing activities
Cash flows from investing activities comprise cash flows from business acquisitions and disposals and from acquisitions and disposals of intangible assets, property, plant and equipment, purchase of marketable securities, as well as other non-current assets. The cash flow effect of business acquisitions and sales is shown separately. The establishment of finance leases is treated as non-cash transactions.

Cash flows from financing activities
Cash flows from financing activities comprise changes to the amount or composition of the Group's share capital and related expenses as well as the raising of loans, repayment of interest-bearing debt, acquisition and sale of treasury shares together with distribution of dividends to shareholders. Cash flows from finance lease assets are recognised as interest payments and repayments of debts.

7.2 Key accounting estimates and judgements

When preparing the consolidated financial statements of the Group, management makes a number of accounting estimates and assumptions which form the basis of recognition and measurement of the Group's assets and liabilities. The Group's accounting policies are described in detail in the notes to the consolidated financial statements.

Critical judgements and estimates
The calculation of the carrying amounts of certain assets and liabilities requires judgements, estimates and assumptions relating to future events.

The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances, but that are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate and unexpected events or circumstances may arise. Furthermore, the company is subject to risks and uncertainties which may result in actual amounts deviating from these estimates. Key risks of the Group have been described on pages 39-40 of the Management report, and in the individual notes to the consolidated financial statements.

It may be necessary to change estimates made previously due to changes in the assumptions on which the previous estimates were based or due to new knowledge or subsequent events.

The areas involving a high degree of judgement and estimation that are significant to the consolidated financial statements are described in more detail in the related notes.

Group accounting policies	Critical accounting judgements and estimates	Note	Page
Revenue	Recognition of contract elements	1.2	064
Special items	Judgement regarding classification in the income statement	1.6	067
Intangible assets	Assumptions underpinning impairment test of goodwill	3.3	077
Provisions	Estimates for warranty provisions	3.5	081
Income tax	Assumptions included in income tax assessment	5.1	097
Deferred tax	Estimate of deferred tax assets valuation	5.2	098
Non-current assets held for sale	Assumptions underpinning valuation and judgement of classification in the balance sheet	6.7	106
Inventories	Estimates of net realisable value	2.2	069
Other receivables	Judgement of allowance for doubtful VAT receivables	2.5	072

7.3 Changes in accounting policies and disclosures

Impact of new accounting standards
The Group has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2016 financial year, including:

- Annual Improvements to IFRSs 2012-2014 (effective date 1 January 2016)
- Amendments to IAS 1: Disclosure Initiative (effective date 1 January 2016)

None of these new or amended accounting standards and interpretations resulted in any changes to the accounting policies for the Group or had significant impact on recognition, measurement or disclosures in the consolidated financial statements in 2016. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

New accounting standards not yet adopted
The IASB has issued a number of new or amended accounting standards and interpretations with effective date after 31 December 2016. The Group expects to implement the following new or amended accounting standards and interpretations when they become mandatory:

- IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- Clarifications to IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 9, Financial Instruments (effective date 1 January 2018)
- IFRS 16, Leases (effective date 1 January 2019)

The following new or amended accounting standards and interpretations, not yet adopted, are expected to have most significant impact on recognition, measurement and disclosures for the Group:

IFRS 15, Revenue from Contracts with Customers and Clarifications to IFRS 15
The standard will establish a single, comprehensive framework for revenue recognition and includes a new control-based model for recognition of revenue from contracts with customers. Revenue is recognised at a point in time or over time depending on how the performance obligations are determined to be satisfied.

The Group is in the process of preparing for the implementation in 2018 and now completed an assessment of the impact of the standard regarding recognition and measurement. Supply & Installation contracts comprise a contract type for which judgement is required to determine the appropriate accounting treatment under IFRS 15. For other contract types, determination of the appropriate accounting treatment is less judgemental. Based on the assessment the Group expects no significant impact on revenue recognition accounting policies. The Group is assessing the impact of the disclosure requirements.

IFRS 9, Financial Instruments
A new impairment model is introduced based on expected losses. The Group expects to apply the simplified model as the Group in all material respects only has trade receivables without any material credit elements. Credit losses are recognised at the time of sale and classified as a cost and not as a reduction of revenue. Moreover, a new hedge accounting model is introduced which is expected to be more closely aligned with the way that the Group undertakes risk management activities when hedging financial and non-financial risk exposures. The Group is assessing the impact, and the implementation of IFRS 9 is not expected to have a significant effect on the consolidated financial statements.

IFRS 16, Leases
The IASB has issued a new standard on accounting for leases. As a Lessee, the Group is required to recognise all lease contracts on the Balance sheet. The Group will not be required to recognise lease contracts with a term of less than 12 months on the balance sheet. The Group is assessing the impact of IFRS 16.

7.4 Financial definitions

FINANCIAL RATIOS

EBIT margin: Profit/loss before income from associates, financial income and expenses and tax as a percentage of revenue.

EBITDA margin: Profit/loss before depreciation and amortisation, income from associates, financial income and expenses and tax as a percentage of revenue.

Gearing (%): Interest-bearing liabilities at year-end divided by equity at year-end.

Gross margin (%): Gross profit/loss as a percentage of revenue.

Net working capital (NWC): Inventories, trade receivables, construction contracts in progress, other receivables minus trade and other payables, prepayments from customers and construction contracts in progress.

Net interest-bearing debt/EBITDA: Net interest-bearing debt divided by profit/loss before financial income and expenses, depreciation and amortisation.

Return on equity (%): Profit/loss after tax for the year divided by average equity.

Return on invested capital (ROIC) (%): Operating profit/loss (EBIT) before special items after tax (effective tax rate) as a percentage of average assets (excluding investments accounted for using the equity method and assets held for sale) less non-interest bearing debt including provisions.

Solvency ratio (%): Equity at year-end divided by total assets.

SHARE RATIOS

Book value per share: Equity at year-end divided by the number of shares at year-end.

Cash flow from operating activities per share: Cash flows from operating activities divided by the average number of shares.

Dividend per share: Dividend multiplied by the nominal value of the share.

Earnings per share (EPS): Profit/loss for the year divided by the average number of shares outstanding.

Payout ratio: Total dividend distribution divided by profit/loss for the year.

P/E ratio: The official closing price on the Nasdaq Copenhagen divided by earnings per share for the year.

Price/book value: The official closing price on the Nasdaq Copenhagen divided by year-end book value per share.

OTHER DEFINITIONS

FTE: Employees on the Group's payroll are counted and reported as Vestas employees.

TERMINOLOGY USED IN ACCOUNTING POLICIES

IFRS: International Financial Reporting Standards

IAS: International Accounting Standards

IASB: International Accounting Standards Board

IFRIC/SIC: International Financial Reporting Interpretations Committee/Standing Interpretations Committee

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 2016.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of Vestas Wind Systems A/S have been prepared in accordance with the Danish Financial Statements Act. The management report is also prepared in accordance with the Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the financial position at 31 December 2016 of the Group and the company and of the results of the Group and company's operations and consolidated cash flows for the financial year 1 January – 31 December 2016.

In our opinion, the management report includes a true and fair account of the development in the operations and financial circumstances of the Group and the company, of the results for the year and of the financial position of the Group and the company as well as a description of the most significant risks and elements of uncertainty facing the Group and the company.

In our opinion, the Group has prepared the social and environmental statements in accordance with the accounting policies applied. They give a true and fair account of the Group's social and environment performance.

We recommend that the annual report be approved at the Annual General Meeting.

Aarhus, 8 February 2017

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Anders Vedel
Executive Vice President & CTO

Jean-Marc Lechêne
Executive Vice President & COO

Juan Araluce
Executive Vice President & CSO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy chairman

Carsten Bjerg

Eija Pitkänen

Henrik Andersen

Henry Sténson

Torben Ballegaard Sørensen

Lykke Friis

Kim Hvid Thomsen

Michael Abildgaard Lisbjerg

Sussie Dvinge Agerbo

Peter Lindholst

The independent auditor's report

To the Shareholders of Vestas Wind Systems A/S

Our opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 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 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Statements Act.

What we have audited
Vestas Wind Systems A/S' Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January to 31 December 2016, pages 053-117 and pages 119-133, comprise income statement, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "financial statements".

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 2016. 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 power plants (supply-only, supply-and-installation and turnkey), service contracts and sale of spare parts. We focused on this area as recognition of revenue involves significant judgement made by Management including; whether contracts contain deliverables which should be separated for revenue recognition purposes and the most appropriate revenue recognition methodology for each of those elements; determining the allocation of consideration on a fair value basis between components of multi-element contracts as noted above; assessing when transfer of risk has occurred regarding sale of wind turbines (supply-only and supply-and-installation) and sale of spare parts; and assessing the degree of completion of project and service contracts which are accounted for on a "percentage of completion" basis. Refer to Note 1.2 and Note 2.4.	We tested the relevant controls used to ensure the completeness, accuracy and timing of revenue recognised, including controls over the degree of completion of turnkey and service contracts at year-end. We read a sample of both project and service contracts to assess whether the revenue recognition methodology was relevant and consistent with accounting standards, and had been applied consistently. We focused on contract classification, allocation of income and cost to the individual parts of the contracts and timing of transfer of risk. Where a contract contained multiple elements, we considered Management's judgements as to whether there were elements that should be accounted for separately, and, in such cases, challenged the judgements made in the allocation of the consideration to each element. We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy to a sample of specific contracts and separable elements of contracts, and we obtained evidence to support them, including details of contractual agreements, delivery records, cash receipts and project plans. For the contracts selected, we inspected original signed contracts and agreed the revenue recognised to the underlying accounting records. We obtained a sample of Management's calculations of the degree of completion of turnkey and service contracts at year-end. We matched a sample of source data used in Management's calculation to supporting evidence, and evaluated the judgements applied. We also considered the historical outturns of judgements used in prior periods. We applied Computer Assisted Audit Techniques to establish, whether any revenue had been recognised where no corresponding accounts receivable or cash item had been recorded in the general ledger.

Key Audit Matter	How our audit addressed the Key Audit Matter
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. We focused on this area as the amounts involved are material and as the valuation of the provision and deferred tax assets is associated with a high degree of judgement. At 31 December 2016, the Group has recognised provisions in respect of uncertain tax positions. Furthermore, the Group has recognised write-downs on deferred tax assets. Refer to Note 5.1 and 5.2.	We evaluated relevant 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 judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current estimates and developments in the tax environment. In addition, we used internal local and international tax specialists to evaluate and challenge the adequacy of Management's key assumptions and read correspondence with tax authorities to assess Management's estimates. We evaluated the Group's model for valuation of deferred tax assets, including the forecasts used to estimate the expected future taxable income.
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 delivery of the turbine, however, in certain cases, a warranty of up to five years is granted. Additionally, provisions are also made for turbines sold with serial errors. We focused on this area as the completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. Refer to Note 3.5.	We tested the relevant controls regarding completeness of warranty provisions and how Management assesses valuation of provisions. We challenged the assumptions underlying the valuation of provisions by checking and verifying 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. 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.
Inventory valuation The valuation of inventory across the Group is dependent on establishing appropriate valuation controls. We focused on this area as Management judgement is applied to estimate the appropriate write-down for obsolete inventories and the indirect production costs manually capitalised as inventory. These judgements are key elements in the valuation of inventories. Refer to Note 2.2.	We tested relevant internal controls that the Group uses to ensure proper valuation of inventory, including the procedures for write-down of obsolete inventory and the indirect production costs manually capitalised as inventory. We tested the adequacy of write-downs for excess and/or obsolete inventory by verifying future demand data, historical usage, historical accuracy of write-downs and Management's plans to utilise the inventory. We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy in relation to indirect production costs.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether the Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and Parent Company Financial Statements and has been prepared in accordance with the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 8 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 33771231

Kim Füchsel	Kim Tromholt
State Authorised	State Authorised
Public Accountant	Public Accountant

The independent auditor's limited assurance report

To the Stakeholders of Vestas Wind Systems A/S

We have undertaken a limited assurance engagement of the consolidated social and environmental key figures and indicators in the annual report of Vestas Wind Systems A/S for the financial year 2016, as included on page 7 in the annual report for 2016. A multidisciplinary team including assurance practitioners, engineers and other experts conducted this engagement.

Management's responsibility
Management is responsible for preparation of the consolidated social and environmental key figures and indicators in accordance with Group accounting policies as expressed on page 52. This responsibility includes design, implementation and maintenance of internal control relevant to the preparation of the social and environmental key figures and indicators ensuring that data are free from material misstatement, whether due to fraud or error.

Vestas Wind Systems A/S' accounting policies for the consolidated social and environmental key figures and indicators contain Management's reasoning for the selection of topics and indicators as well as defined reporting scope for each data type.

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 requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

PwC 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 Responsibility
Our responsibility is to express a limited assurance conclusion on the consolidated social and environmental key figures and indicators stated on page 7 based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform this engagement to obtain limited assurance about whether the consolidated social and environmental key figures and indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of Vestas Wind Systems A/S' use of stated accounting policies as the basis for the preparation of the consolidated social and environmental key figures and indicators. Furthermore, it involves assessing the risks of material misstatement, whether due to fraud or error, responding to the assessed risks as necessary in the circumstances and evaluating the overall presentation of the consolidated social and environmental key figures and indicators. 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.

The procedures we performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:
- Through inquiries, obtained an understanding of Vestas Wind Systems A/S' control environment and information systems relevant to quantification and reporting of social and environmental data;
- Made site visits in Denmark, Germany and Brazil to assess the completeness of social and environmental data sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their size and sites selected in prior periods. Our procedures included testing to underlying documentation as well as input data controls performed at these sites;
- Planned and 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.

Limited Assurance Conclusion
Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the consolidated social and environmental key figures and indicators presented on page 7 in the annual report of Vestas Wind Systems A/S for the financial year 2016 is not free of material misstatements and is not prepared, in all material respects, in accordance with the stated accounting policies as included on page 52.

Hellerup, 8 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 33771231

Kim Füchsel	Kim Tromholt
State Authorised	State Authorised
Public Accountant	Public Accountant