Financial statements for Vestas Wind Systems A/S

Income statement 1 January – 31 December

mEUR	Note	2016	2015
Revenue	1.1	1,929	1,537
Production costs	1.2	(496)	(592)
Gross profit		**1,433**	**945**
Administration costs	1.2	(211)	(278)
Operating profit (EBIT)		**1,222**	**667**
Income/loss from investments in subsidiaries	3.3	73	2
Income/loss from investments in joint venture	3.3	(101)	34
Financial income	4.1	95	72
Financial costs	4.1	(58)	(46)
Profit before tax		**1,231**	**729**
Income tax	5.1	(276)	(68)
Profit for the year		**955**	**661**
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		(28)	(80)
Retained earnings		694	540
Proposed dividends		289	201
Profit for the year		**955**	**661**

Balance sheet 31 December - Assets

mEUR	Note	2016	2015
Intangible assets	3.1	479	422
Property, plant and equipment	3.2	233	257
Investments accounted for using the equity method	3.3	2,307	2,160
Investments in associates		1	-
Marketable securities		190	-
Other investments		2	2
Tax receivables		59	114
Deferred tax	5.2	20	73
Total financial fixed assets		**2,579**	**2,349**
Total non-current assets		**3,291**	**3,028**
Inventories	2.1	89	93
Receivables from subsidiaries		4,341	2,651
Receivable from joint venture		4	18
Other receivables		71	41
Prepayments	3.4	4	4
Joint tax contribution		4	0
Tax receivables		-	43
Total receivables		**4,424**	**2,757**
Marketable securities		11	-
Cash and cash equivalents		3,333	2,307
Total current assets		**7,857**	**5,157**
Total assets		**11,148**	**8,185**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2016	2015
Share capital		30	30
Reserve for net revaluation under the equity method		125	212
Reserve for capitalised development cost		187	0
Dividend		289	201
Retained earnings		2,400	2,311
Total equity		**3,031**	**2,754**
Warranty provisions	3.5	521	381
Other provisions		0	2
Total non-current provisions		**521**	**383**
Financial debt	4.3	496	495
Total non-current debt		**496**	**495**
Total non-current liabilities		**1,017**	**878**
Trade payables		105	112
Payables to subsidiaries		6,759	4,401
Other liabilities		162	40
Tax payables		74	0
Total current liabilities		**7,100**	**4,553**
Total liabilities		**8,117**	**5,431**
Total equity and liabilities		**11,148**	**8,185**
Contingent assets and liabilities	3.6		
Financial risks	4.2		
Contractual obligations	6.2		
Related party transactions	6.3		
Subsequent events	6.4		
Ownership	6.5		
General accounting policies	7.1		

Statement of changes in equity 1 January – 31 December

2016 mEUR	Share capital	Reserve under the equity method	Reserve for capitalised development cost	Dividend	Retained earnings	Total
Equity at 1 January	**30**	**212**	**-**	**201**	**2,311**	**2,754**
Exchange rate adjustments relating to foreign entities	-	5	-	-	3	8
Valuation adjustment foreign entities	-	(1)	-	-	1	-
Fair value adjustments of derivative financial instruments	-	(66)	-	-	(50)	(116)
Fair value adjustments of derivative financial instruments, joint venture	-	15	-	-	-	15
Tax on changes in equity	-	-	-	-	12	12
Paid dividend	-	-	-	(205)	-	(205)
Paid dividend related to treasury stock	-	-	-	4	-	4
Proposed dividend	-	-	-	279	(279)	-
Proposed dividend related to treasury stock	-	-	-	10	(10)	-
Capitalised development cost	-	-	187	-	(187)	-
Acquisition of treasury shares	-	-	-	-	(419)	(419)
Sale of treasury shares	-	-	-	-	11	11
Share-based payments	-	(12)	-	-	24	12
Profit for the year	-	(28)	-	-	983	955
Equity at 31 December	**30**	**125**	**187**	**289**	**2,400**	**3,031**

1. Result for the year

1.1 Revenue

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

1.2 Costs

mEUR	2016	2015
Staff costs are specified as follows:		
Wages and salaries, etc.	235	212
Pension schemes	13	12
Other social security costs	1	3
	249	**227**

For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company ref. note 1.3 to the consolidated financial statements. Pension schemes in the parent company consist solely of defined contribution plans and the company does therefore not carry the actuarial risk or the investment risk. For management incentive programmes, ref. note 6.2 to the consolidated financial statements.

	2016	2015
Average number of employees in Vestas Wind Systems A/S	2,046	1,904

2. Working capital

2.1 Inventories

mEUR	2016	2015
Raw materials and consumables	87	92
Work in progress	2	1
	89	**93**

Inventories relate to the spare parts activity.

3. Other operating assets and liabilities

3.1 Intangible assets

2016 **mEUR**	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost at 1 January	19	1,235	212	-	91	1,557
Reclassification	-	-	2	8	(5)	5
Exchange rate adjustments	0	2	1	-	2	5
Additions	-	-	11	-	193	204
Transfers	-	167	29	-	(196)	-
Cost at 31 December	**19**	**1,404**	**255**	**8**	**85**	**1,771**
Amortisation at 1 January	11	972	152	-	-	1,135
Exchange rate adjustments	0	4	1	-	-	5
Amortisation for the year	1	128	22	1	-	152
Amortisation at 31 December	**12**	**1,104**	**175**	**1**	**-**	**1,292**
Carrying amount at 31 December	**7**	**300**	**80**	**7**	**85**	**479**
Amortisation period	5-20 years	3–5 years	3–5 years	3-7 years		

Included in software are internally completed IT projects amounting to EUR 55m at 31 December 2016 (2015: EUR 16m). For development projects in progress ref. note 3.1 to the consolidated financial statements.

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

3.2 Property, plant and equipment

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	402	74	101	7	584
Reclassification	(8)	0	3	0	(5)
Additions	3	8	14	6	31
Disposals	(1)	-	(1)	(2)	(4)
Transfers	4	1	1	(6)	-
Cost at 31 December	**400**	**83**	**118**	**5**	**606**
Depreciation at 1 January	201	40	86	-	327
Depreciation for the year	13	8	9	-	30
Impairment	7	9	-	-	16
Depreciation at 31 December	**221**	**57**	**95**	**-**	**373**
Carrying amount at 31 December	**179**	**26**	**23**	**5**	**233**
Depreciation period	15–40 years	3–10 years	3–5 years		

3.3 Investments accounted for using the equity method

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

On acquisition of subsidiaries and joint venture, the difference between cost of acquisition and net asset value of the entity acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the acquisition method) and allowing for the recognition of any restructuring provisions relating to the entity acquired. Any remaining positive differences in connection with the acquisition of subsidiaries and joint venture are included in the item "Investments accounted for using the equity method". The item "Income/(loss) from investments accounted for using the equity method" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The item "Investments accounted for using the equity method" in the balance sheet includes the proportionate ownership share of the net asset value of the entities calculated under the accounting policies of the parent company with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of the positive differences (goodwill).

Subsidiaries and joint venture with a negative net assets value are measured at EUR 0, and any receivables from these are written down by the parent company's share of the negative net asset value, if impaired. Any legal or constructive obligation of the parent company to cover the negative balance of the subsidiaries and joint venture is recognised as provisions.

The total net revaluation of investments in subsidiaries and joint venture is transferred upon distribution of profit to " Reserve for net revaluation under the equity method" under equity.

Gains and losses on disposals or winding up of subsidiaries and joint venture are calculated as the difference between the sales value or cost of winding up and the carrying amount of the net assets at the date of acquisition including goodwill and expected loss of disposal or winding up. The gains or losses are included in the income statement.

3.3 Investments accounted for using the equity method (continued)

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

mEUR	2016	2015
Subsidiaries	2,173	1,936
Joint ventures	134	224
Carrying amount at 31 December	**2,307**	**2,160**

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

mEUR	2016	2015
Subsidiaries	73	2
Joint ventures	(101)	34
	(28)	**36**

Income/(loss) from subsidiaries

mEUR	2016	2015
Share of profit/loss in subsidiaries after tax	89	16
Amortisation of goodwill	(16)	(14)
	73	**2**

Income/(loss) from joint ventures

mEUR	2016	2015
Share of profit/loss in joint ventures after tax	(101)	34
	(101)	**34**

3.3 Investments accounted for using the equity method (continued)

Investments in subsidiaries

mEUR	2016	2015
Cost at 1 January	1,746	1,749
Exchange rate adjustments	5	(3)
Additions	229	-
Disposals	0	-
Cost at 31 December	**1,980**	**1,746**
Value adjustments at 1 January	190	233
Exchange rate adjustments	8	74
Disposal	(1)	-
Share of profit/loss for the year after tax	89	16
Changes in equity	(77)	(25)
Dividend	0	(94)
Amortisation of goodwill	(16)	(14)
Value adjustments at 31 December	**193**	**190**
Carrying amount at 31 December	**2,173**	**1,936**
Remaining positive difference included in the above carrying amount at 31 December	142	65

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

Investments in joint ventures

mEUR	2016	2015
Cost at 1 January	202	202
Cost at 31 December	**202**	**202**
Value adjustments at 1 January	22	(15)
Other adjustments	(2)	1
Share of profit/loss for the year after tax	(101)	34
Changes in equity	13	2
Value adjustments at 31 December	**(68)**	**22**
Carrying amount at 31 December	**134**	**224**

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

3.4 Prepayments

Prepayments comprise of prepaid software license, insurance and rent.

3.5 Provisions

Warranty provisions

mEUR	2016	2015
Warranty provisions at 1 January	381	316
Warranty provisions for the year	228	158
Used warranty provisions for the year	(88)	(93)
Warranty provisions at 31 December	**521**	**381**
The warranty provisions are expected to be consumed as follows:		
0–1 year	110	103
> 1 year	411	278
	521	**381**

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

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

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

3.6 Contingent assets and liabilities

mEUR	2016	2015
The company provides performance and payment guarantees issued by banks and insurance companies to customers and other beneficiaries to secure the company's obligations	521	341
The company has provided guarantee and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	309	167

In addition, the company 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.

The company is jointly taxed with its Danish subsidiaries. As the administrative company for the subsidiaries included in the joint taxation, the company is liable for the tax obligations of the included subsidiaries.

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

4. Capital structure and financing items

4.1 Financial items

mEUR	2016	2015
Financial income		
Interest income	54	-
Interest income from subsidiaries	-	36
Financial instruments	17	34
Other financial income	24	2
	95	**72**
Financial costs		
Interest costs	21	19
Interest costs to subsidiaries	-	1
Exchange rate adjustments	29	15
Other financial costs	8	11
	58	**46**

4.2 Financial risks

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

4.3 Financial liabilities

Financial debts

mEUR	2016	2015
Green corporate eurobond	496	495
	496	**495**
Financial debts break down as follows:		
< 1 year	-	-
1–2 years	-	-
> 2 years	496	495
	496	**495**

5. Tax

5.1 Income tax

mEUR	2016	2015
Current tax on profit for the year	252	(117)
Deferred tax on profit for the year	25	271
Foreign taxes	(1)	5
Revaluation of tax assets	-	(91)
Adjustment related to previous years	0	-
Income tax for the year recognised in the income statement, (income)	**276**	**68**
Deferred tax on equity	(12)	11
Tax recognised in equity, expense/(income)	**(12)**	**11**
Total income taxes for the year, (income)	**264**	**79**

5.2 Deferred tax

mEUR	2016	2015
Deferred tax at 1 January, net assets	73	87
Deferred tax on profit for the year	(25)	(271)
Prepaid tax	(48)	(56)
Tax on entries in equity	12	(11)
Revaluation of tax assets	-	143
Deferred tax in joint taxation	-	181
Adjustment relating to previous years	8	-
Deferred tax at 31 December, net assets	**20**	**73**

6. Other disclosures

6.1 Audit fees

mEUR	2016	2015
Audit:		
PricewaterhouseCoopers	1	1
Total audit	**1**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	-
Tax assistance	1	1
Other services	1	1
Total non-audit services	**2**	**2**
Total	**3**	**3**

6.2 Contractual obligations

mEUR	2016	2015
The lease obligations relating to operating leases fall due:		
0–1 year	4	7
1–5 years	15	4
> 5 years	2	0

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

The Company has entered into certain agreements with third party containing volume commitments for manufacturing of components over the next five year.

6.3 Related party transactions

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

6.4 Subsequent events

Ref. note 6.8 Subsequent events in the Consolidated financial statements.

6.5 Ownership

The company has no shareholders that are holding more than 5 percent of the voting share capital.

7. Basis of preparation

7.1 General accounting policies

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

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

For adopted accounting policies see the notes to the consolidated financial statements . The denomination of the items in the parent company's financial statements complies with the requirements of the DK GAAP.

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

The Company has corrected revenue in 2015 from royalty from subsidiaries. Effecting revenue with EUR 831m, shares in subsidiaries EUR (636m) and income tax EUR (195m). Net effect on profit for the year and equity is EUR 0m.

Development cost
An amount equivalent to the capitalised development cost in the balance sheet incurred after 1 January 2016 is recognised in the category "Reserve for capitalised development cost" in the equity. The value of the reserve is reduced by the value of the depreciations.

Cash flow statement
Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. See the consolidated cash flow statement on page 059.

Investments in associates
Investments in associates is recognised in the financial statements of the parent company at cost price.