

2016 at a glance

For full-year 2016, revenue amounted to EUR 10.2bn, EBIT margin before special items was 13.9 percent, total net investments¹⁾ was EUR 617m, and the free cash flow¹⁾ amounted to EUR 1,564m. The wind turbine order intake increased from 8,943 MW in 2015 to 10,494 MW in 2016 and the value of the service order backlog increased by EUR 1.8bn to EUR 10.7bn.

Dividend

The Board of Directors recommends to the General Meeting that a dividend of DKK 9.71 per share be paid for the financial year 2016.



100 %

Share of renewable energy was 52 percent and share of renewable electricity 100 percent.

EUR 401m

Vestas initiated a share buy-back programme – bought back 6.0m Vestas shares at a value of EUR 401m.

1 GW onshore order

Vestas signed the largest single project in the history of the company with the 1 GW Fosen/Hitra project in Norway.



1,750 MW service contact

UpWind Solutions signed a multi-site service contract with Berkshire Hathaway Energy, to provide maintenance services of 1,750 MW across 15 sites in the US.



Acquisition of Availon

Vestas acquired the Germany-based independent service provider Availon Holding GmbH.

910 MW offshore orders

MHI Vestas Offshore Wind received firm and unconditional orders for 910 MW.

9,957 MW

2016 was another busy year for Vestas. The number of MW produced and shipped reached 9,957 (4,264 wind turbines).

-21 percent

Through the dedicated efforts of its employees and supervised contractors, Vestas reduced the rate of total recordable injuries by 21 percent.

Record-breaking

Vestas achieved record-breaking order intake and, amongst others, announced 31 orders in 31 days, across 12 countries and five continents in the month of December.



¹⁾ Before investments in marketable securities and short-term financial investments.

Financial performance

" In 2016, we continued to execute on our strategy. Strong performance from across the Group contributed positively to all key parameters – revenue above EUR 10bn, an EBIT margin of 13.9 percent and a free cash flow¹⁾ above EUR 1.5bn."

Marika Fredriksson
Executive Vice President & CFO

Project performance

Order intake

In 2016, the order intake was strong and amounted to 10,494 MW corresponding to EUR 9.5bn. Compared to 2015, the order intake in MW for the year increased by 17 percent equivalent to EUR 1.3bn.

All regions contributed to the increase in order intake. The US market displayed a strong demand especially during December 2016, while the steady growth continued across the markets in Europe, Middle East, and Africa (EMEA) and Asia Pacific and amongst others Vestas received its largest order to date during 2016. The order, which is to be delivered in Norway, contributed with 1 GW to the order intake.

EMEA accounted for 49 percent (2015: 43 percent), Americas for 41 percent (2015: 46 percent), and Asia Pacific for 10 percent (2015: 11 percent) of the order intake in 2016 in MW. In 2016, 72 percent of total orders were announced publicly.

Level of activity

Vestas had a busy year with a high activity-level. Final projects delivered to the customers totalled 9,654 MW, which was a 29 percent increase compared to 2015. The growth was in particular driven by increased deliveries to the US market. Americas accounted for 50 percent (2015: 45 percent), EMEA for 41 (2015: 49 percent) percent, and Asia Pacific for 9 percent (2015: 6 percent) of the deliveries in MW. By the end of the year Vestas had installed 82 GW in 76 countries.

Order backlog

At the end of the year, the order backlog amounted to 9,530 MW equalling EUR 8.5bn. Compared to last year, the order backlog in MW increased by 9 percent equivalent to EUR 0.6bn. Despite the increase in delivery of wind turbines, the order backlog has developed positively due to the strong order intake. EMEA accounted for 52 percent (2015: 44 percent) of the backlog, Americas for 36 percent (2015: 45 percent), and Asia Pacific for 12 percent (2015: 11 percent) in MW.

The average pricing as measured in EUR/MW in the year-end backlog was stable at 0.9m EUR/MW compared to 0.9m EUR/MW in 2015.

Overview per region

MW

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Under completion, 1 January 2016	916	884	139	1,939
Delivered to customers during 2016	(3,991)	(4,825)	(838)	(9,654)
Produced and shipped during 2016	4,282	4,826	849	9,957
Under completion, 31 December 2016	1,207	885	150	2,242

Service performance

Level of activity

The service activity was at a higher level compared to last year, due to a combination of organic growth and acquisitions. By the end of 2016 Vestas has more than 37,000 wind turbines under service equivalent to approx 71 GW.

During the year, the Germany-based independent service provider Availon Holding GmbH was acquired to strengthen the ability to service a broad range of wind turbine technologies amongst others, and hence, support the growth strategy in the service business.

Order backlog

At the end of 2016, Vestas had service agreements with expected contractual revenue of EUR 10.7bn, up 20 percent from 8.9bn in 2015. At the end of the year, the average duration in the service order backlog was approx six years, which was stable compared to last year.

1) Before investments in market securities and short term financial investments.

Result for the year

Revenue

Revenue in 2016 amounted to EUR 10.2bn, which was an increase of 22 percent compared to 2015 and within the updated guidance range of EUR 10.0bn-10.5bn announced 8 November 2016. The revenue growth was derived from all regions. EMEA accounted for 45 percent (2015: 52 percent) of revenue, while Americas and Asia Pacific accounted for 47 percent (2015: 41 percent) and 8 percent (2015: 7 percent), respectively. Revenue from the Project segment increased by 23 percent to EUR 8,928m, which was driven by the increased deliveries to customers. Service revenue increased by 15 percent to EUR 1,309m.

Distribution of revenue

mEUR

	2016	2015
Europe, Middle East, and Africa	4,641	4,357
Americas	4,823	3,476
Asia Pacific	773	590
Total	10,237	8,423
– of which service revenue	1,309	1,138

Gross profit

Gross profit increased by 41 percent to EUR 2,126m compared to 2015, corresponding to a gross margin of 20.8 percent – a 2.9 percentage point increase relative to 2015. The gross profit increase was mainly driven by the increased volumes, but a favourable product mix and better average project margins also contributed to the increase.

EBITDA

EBITDA before special items amounted to EUR 1,826m in 2016, up 51 percent from EUR 1,212m in 2015, primarily driven by the strong development in gross profit. The EBITDA margin before special items was 17.8 percent, which was an increase of 3.4 percentage points compared to last year.

Depreciation and amortisation

Depreciation, amortisation and impairment amounted to EUR 405m in 2016, compared to EUR 352m in 2015. The increase was mainly due to depreciations related to assets held for sale reclassified to property, plant and equipment, higher depreciations due to reassessment of useful life of certain assets as well as impairment losses on assets.

Research and development costs

Research and development costs recognised in the income statement amounted to EUR 227m, which was slightly higher compared to EUR 211m in 2015. The total R&D expenditure prior to capitalisation and amortisation increased to EUR 198m in 2016, against EUR 156m in 2015.

Distribution costs

Distribution costs amounted to EUR 190m in 2016, equivalent to the level in 2015, despite a growth in revenue of 22 percent.

Administration costs

2016 administration costs amounted to EUR 288m, which was EUR 40m higher than in 2015. Administration costs constituted 2.8 percent of revenue in 2016, compared to 2.9 percent in 2015.

Operating profit (EBIT)

EBIT before special items increased by 65 percent to EUR 1,421m in 2016 relative to 2015. This resulted in an EBIT margin before special items of 13.9 percent, which is within the adjusted guidance range of 13-14 percent announced 8 November 2016. The EBIT margin before special items increased by 3.7 percentage point mainly driven by the strong gross profit.

13.9%

EBIT margin before special items amounted to 13.9 percent – an increase of 3.7 percentage points compared to 2015.

The EBIT margin before special items from the Project segment was 15.9 percent in 2016, up 4.5 percentage points from 11.4 percent in 2015. The EBIT margin before special items from the service segment was 17.2 percent in 2016, which was a slight decrease of 0.5 percentage points from 17.7 percent in 2015, caused by additional operating costs from integration of acquisitions.

Profit for the year

Profit for the year amounted to EUR 965m in 2016, which was an increase of 41 percent compared to 2015. The profit for the year was a result of the high activity level and the cost management through-out the year.

As the targets for bonus pay-out were achieved in 2016, a global bonus of EUR 120m will be paid out to all employees (cash effect 2017), compared to EUR 101m in 2015 (cash effect 2016).

Working capital

Net working capital by the end of the year was a result of the well-executed working capital management strategy. Net working capital amounted to a net liability of EUR 1.9bn at the end of 2016, which is an improvement of 40 percent compared to last year. The level was significantly impacted by large prepayments received from customers by the end of the year due to the strong order intake.

Other operating assets and liabilities

At 31 December 2016, invested capital amounted to negative EUR 361m, which was an improvement of EUR 662m compared to 2015, where invested capital amounted to positive EUR 301m. The improvement was primarily driven by the large prepayments received from customers by the end of 2016.

Return on invested capital (ROIC)

Return on invested capital was 265.2 percent in 2016, up 148.0 percentage points from 117.2 percent in 2015, primarily driven by the well-managed working capital strategy as well as the improved operating result after tax.

Capital structure and financing items

Equity

At 31 December 2016, total equity amounted to EUR 3,190m, up 10 percent from EUR 2,899m end of 2015. Equity was positively impacted by the profit for the year partly offset by the impact of dividend pay-out and the share buy-back programme.

To adjust the capital structure and to meet the obligations arising from employee share option programmes, Vestas bought back 6,047,780 shares under the share buy-back programme active during the period 18 August 2016 to 30 December 2016.

The strength of the balance sheet combined with the strong results achieved in 2016 has led the Board of Directors to recommend a dividend of DKK 9.71 (EUR 1.31) per share equivalent to 30.0 percent of the net result for the year after tax.

Earnings per share

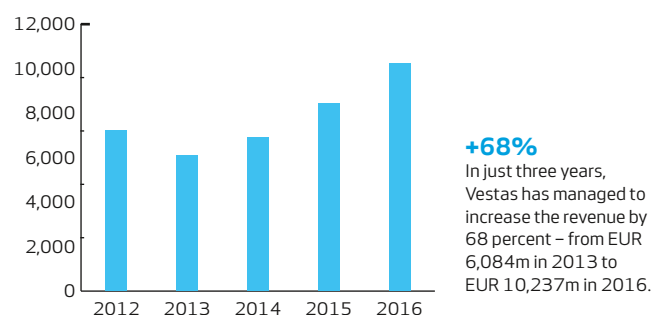
Earnings per share increased by 42 percent to EUR 4.4 in 2016, compared to last year, due to higher net profit and cancellation of treasury shares.

Net interest-bearing debt and cash equivalents

The average net interest-bearing position was positive of EUR 2,111m in 2016 compared to EUR 1,721m in 2015, which was an improvement of 23 percent, driven by strong cash flow during the year.

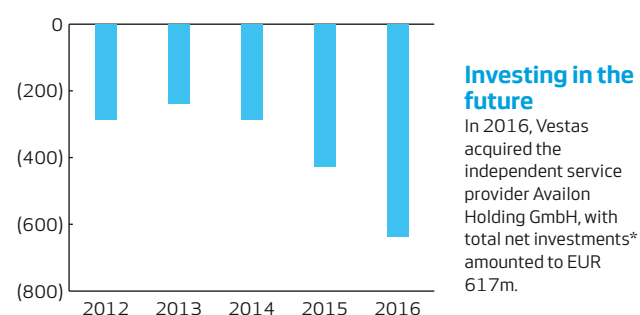
Revenue

mEUR



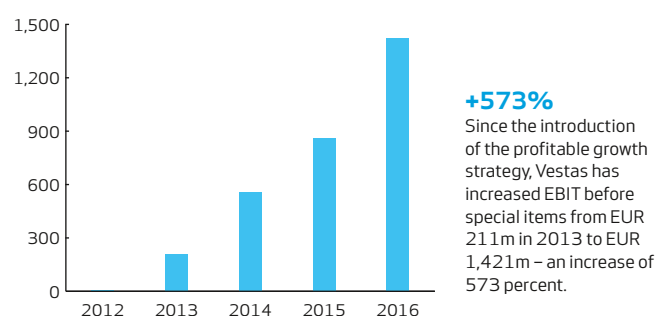
Total investments*

mEUR



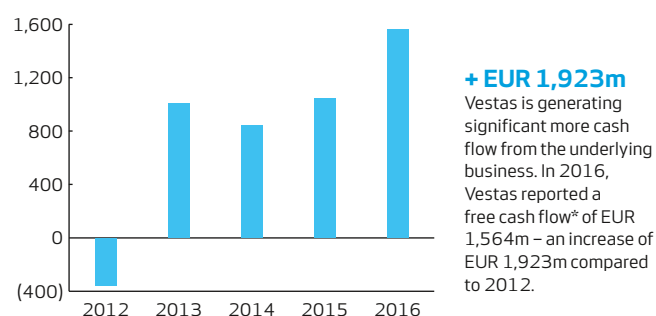
EBIT before special items

mEUR



Free cash flow*

mEUR



* Before investments in marketable securities and short-term financial investments.

At the end of 2016, net interest-bearing position was positive of EUR 3,255, an improvement of EUR 985m, compared to the end of 2015 with a positive net interest-bearing position of EUR 2,270m.

Net interest-bearing debt/EBITDA

The ratio net interest-bearing debt/EBITDA before special items of (1.8) by the end of 2016 was comparable to (1.9) in 2015.

Solvency ratio

At the end of December 2016, the solvency ratio was 32.1 percent, which was a decline of 1.7 percentage points from 2015. The solvency ratio was within the target of 30-35 percent.

Return on equity

Return on equity was 32.6 percent in 2016, which was an increase of 6.4 percentage points compared to 2015. The increase was a result of the higher net profit partly offset by an increase in equity.

Cash flow

Operating activities

Cash flow from operating activities was EUR 2,181m in 2016, which was an increase of 48 percent compared to last year. The increase was a result of the higher net profit for the year.

Net investments

Cash flow used for investing activities amounted to EUR 817m in 2016, up 92 percent from EUR 425m in 2015. Total net investments excluding investments in marketable securities and short-term financial investments amounted to EUR 617m in 2016, which was

in line with the updated guidance of approx EUR 600m announced 8 November 2016. The increase compared to 2015 was mainly driven by the acquisition of the Germany-based independent service provider Availon Holding GmbH and the investment in the blade facility in India.

Free cash flow

The free cash flow excluding investments in marketable securities and short-term financial investments amounted to EUR 1,564m, which was in line with the updated guidance of EUR 1,500m-1,600m announced 6 January 2017.

EUR 1,564m

Vestas reported a free cash flow before investments in marketable securities and short-term financial investments of EUR 1,564 – an increase of EUR 517m compared to 2015.

Cash position

Cash and cash equivalents amounted to EUR 3,550m in 2016, up 28 percent from EUR 2,765m in 2015. The cash position was at a record-high level, and the increase was significantly impacted by operating activities and the large prepayments received from customers by the end of the year.

Wind turbines – Sales and market development



“ 2016 order intake reached a new record level driven by improvements in all regions. We are comfortable maintaining our ambition to grow faster than the market and we believe the future is bright for wind energy.”

Juan Araluce
Executive Vice President & CSO

Global trends in the onshore wind energy market 2016

In 2016, global onshore installations is expected to decline to 55 GW compared to 59 GW installed in 2015.¹⁾ The deterioration was mainly caused by a slowdown in the Chinese market, where onshore wind power installations declined to 22 GW in 2016 – a decline of 22 per cent compared to 2015.²⁾

Excluding the Chinese market, global onshore installations is expected to increase by 2 GW in 2016.¹⁾ More importantly, Bloomberg New Energy Finance predicts the wind energy market to continue to expand its position amongst energy sources. While the share of total installed electricity generation capacity only constituted approx 7 percent in 2015, it is estimated that wind energy accounted for approx 18 per cent of the new installed electricity generation capacity in 2016.³⁾

Vestas' market development in 2016

Vestas' installed capacity increased from 74 GW in 2015 to almost 82 GW in 2016 – an increase of 11 percent.

With deliveries across 34 countries in 2016, Vestas' wide geographic diversification remains a key strategic strength, allowing it to balance out the inevitable ups and downs in any given market. Vestas' global presence in 76 countries across six continents underlines its ability to provide wind energy solutions anywhere in the world.

During 2016, Vestas continued its focus on early engagement, thereby offering more attractive cost-effective wind energy solutions to the benefit of both the customers and Vestas. By early engagement with customers, for example on site design, Vestas is able to unlock value and offer a more optimised solution.

Combined with the ongoing efforts to build closer and expand already existing customer relationships and partner with new customers in both mature and new wind power markets, Vestas experienced order

intake growth across all regions and signed orders in a total of 33 countries in 2016. Demand for wind turbines from Vestas' 2 MW and 3 MW platforms remains strong. In 2016, approx two-thirds of the order intake was based on the 3 MW platform, while the remaining one-third related to the 2 MW platform.

2016 order intake and backlog per region

MW

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Order intake	5,141	4,318	1,035	10,494
Wind turbine order backlog	4,974	3,448	1,108	9,530

Europe, Middle East, and Africa

Vestas delivered 3,991 MW to the markets in the Europe, Middle East, and Africa region in 2016, up from 3,672 MW in 2015. In 2016, Vestas had an order intake of 5,141 MW in the region, while the order backlog amounted to 4,974 MW as of 31 December 2016.

The European onshore market is expected to be stable in 2016, adding 12 GW of new installations, an increase from 11 GW in 2015.⁴⁾ The stable market development in Europe is founded on long-term targets and policy stability for renewable energy. However, Europe is still characterised by varying growth patterns on a national level due to differences in regulatory, economic, and geopolitical conditions. Europe continues to be driven by the EU member states' approach towards achieving their renewable energy targets for 2020 and 2030. Conventional utility groups across Europe are facing structural

1) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook, December 2016.

2) Source: Bloomberg New Energy Finance: 2016 China's top 10 wind turbine manufacturers, January 2017.

3) Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook 2016, June 2016

4) Source: Make Consulting: Global Wind Power Market Update, November 2016.

pressure as the energy markets are being re-regulated by policymakers to enforce de-carbonisation of the energy mix.

By demand of the EU state aid guidelines, European markets are moving towards more market-based support systems, putting greater focus on the development in power prices and cost of energy.

Northern Europe

Northern Europe remains a stable core market for Vestas. The German market continues to display its importance as it once again was Vestas' largest northern European market in terms of deliveries in 2016. Markets like Norway, Finland, and Sweden also supported Vestas' performance in 2016, while activity levels in the UK were more stable.

More specifically in Germany, 2016 marked another year with high installation activity, which reached 4.3 GW in 2016.⁵⁾ Repowering accounted for approx 679 MW of German installations in 2016 and thus, continued representing an interesting segment in Europe's largest onshore market.⁵⁾

In July 2016, the German parliament passed renewable energy legislation covering the shift from the current feed-in premium system to an auctioning system. The auctioning volume (including repowering) is fixed by law at 2.8 GW yearly, split over three to four rounds from 2017 to 2019 and at 2.9 GW yearly from 2020 onwards. The administratively fixed feed-in premium system will, however, remain valid for all projects permitted until end of 2016 and constructed until end of 2018 (transition period), which will drive important market activity in the near-term despite a sharpened support level regression.⁶⁾

The new auction system will influence market size in terms of installations from the second half of 2017 and onwards with the first winning bids of the auction rounds in 2017 starting to be installed. From 2019 onwards, the auctioned volume will entirely drive the market size. Vestas delivered 1,119 MW to the German market in 2016 and expects that Germany will remain one of its key markets in the years to come.

In 2016, Vestas signed the largest single project in the history of the company with the 1 GW Fosen/Hitra project in Norway. The Norwegian market continues to be driven by the joint green certificate system with Sweden, which was implemented in 2012. Further support came from new taxation rules approved in July 2016. Currently, the green certificate system is expected to be phased out by the end of 2021.

1 GW order

In February 2016, Vestas signed a 1 GW order in Norway consisting of

- 248 V117-3.45 MW turbines
- 30 V112-3.45 MW turbines

Finland experienced another strong year for wind energy in 2016 with installations reaching 570 MW – almost a doubling compared to 379 MW in 2015.⁵⁾ The Finnish market continues to be driven by a feed-in tariff mechanism implemented in 2011 and is expected to transition to an auction-based system as of 2018. With deliveries of 340 MW in 2016 – an increase of 54 percent compared to 2015 – Vestas solidified its market leading position in the Finnish market.

As expected, the Swedish market witnessed a weakening in 2016. Market installations reached 493 MW in 2016, down from 615 MW in 2015.⁵⁾ In the near-term, low power and green certificate prices are expected to dampen the activity level in the Swedish market. Despite the weakened Swedish market, Vestas strengthened its leading

position by securing an order intake of 496 MW in 2016 – an increase of 78 percent compared to 2015 – and delivering 343 MW, compared to 194 MW in 2015.

The UK market has been driven by developers seeking to qualify for the existing support scheme that requires projects to be operational by the end of March 2017. The regulatory environment for the development of onshore wind power is increasingly challenging in the UK, as exemplified by the decision to end the existing support scheme one year ahead of schedule. Vestas delivered 310 MW to the UK market in 2016, including 155 MW offshore via the joint venture MHI Vestas Offshore Wind, while order intake amounted to a total of 328 MW (read more about the joint venture on page 037). The wind power industry has so far been unaffected by British vote to withdraw from the EU whereas the long-term market impact from the referendum remains unclear.

Southern Europe

Stagnated demand for electricity and constrained economic conditions in several countries in southern Europe have dampened wind energy installations in the region. Even though demand is still below historical peak levels, a modest market improvement was observed in 2016. During the year, the market in southern Europe saw good support from France, Turkey, and Greece, while activity in Spain remains subdued.

France experienced another good year in terms of installed capacity and order intake in 2016. The approval of a new ambitious energy law during 2015 combined with a focus on simplifying permitting processes has paved the way for a stable market development. Total installations reached 1.6 GW in 2016, which was 45 percent higher compared to 2015.⁷⁾ Vestas delivered 534 MW in France in 2016, an increase of 54 percentage compared to 2015, while Vestas managed to sign orders totalling 642 MW.

Despite political turmoil, Turkey installed 1.4 GW of new wind power capacity in 2016, representing a new record for the Turkish market.⁵⁾ Near-term market activity should remain at a healthy level, supported by a pipeline of projects under construction and increasing electricity demand in the country. Vestas delivered 221 MW to the Turkish market in 2016, a decrease of 35 percent compared to 2015.

Greece commissioned 239 MW of new wind power capacity in 2016.⁵⁾ Representing an increase of 53 percent compared 2015.⁵⁾ Vestas has been successful in the country in 2016 with deliveries of 174 MW and an order intake of 149 MW.

In January 2016, Spain conducted its first renewable power auction in which 500 MW of new wind power capacity obtained approval to be built. However, low bid prices among the approved projects have created uncertainty as to when these projects are expected to be executed as they have until 2019 to be completed. Consequently, the Spanish wind energy market stayed at a very low level in 2016 with only 49 MW of new installations.⁵⁾

Eastern Europe

Despite the long-term growth potential, regulatory uncertainty and geopolitical conflicts are taking their toll on the markets in Eastern Europe. Even though several smaller markets are experiencing steadily increasing support for renewables, it has not been enough to compensate for the shortfall in activity that is affecting large markets such as Poland, Romania, and Ukraine.

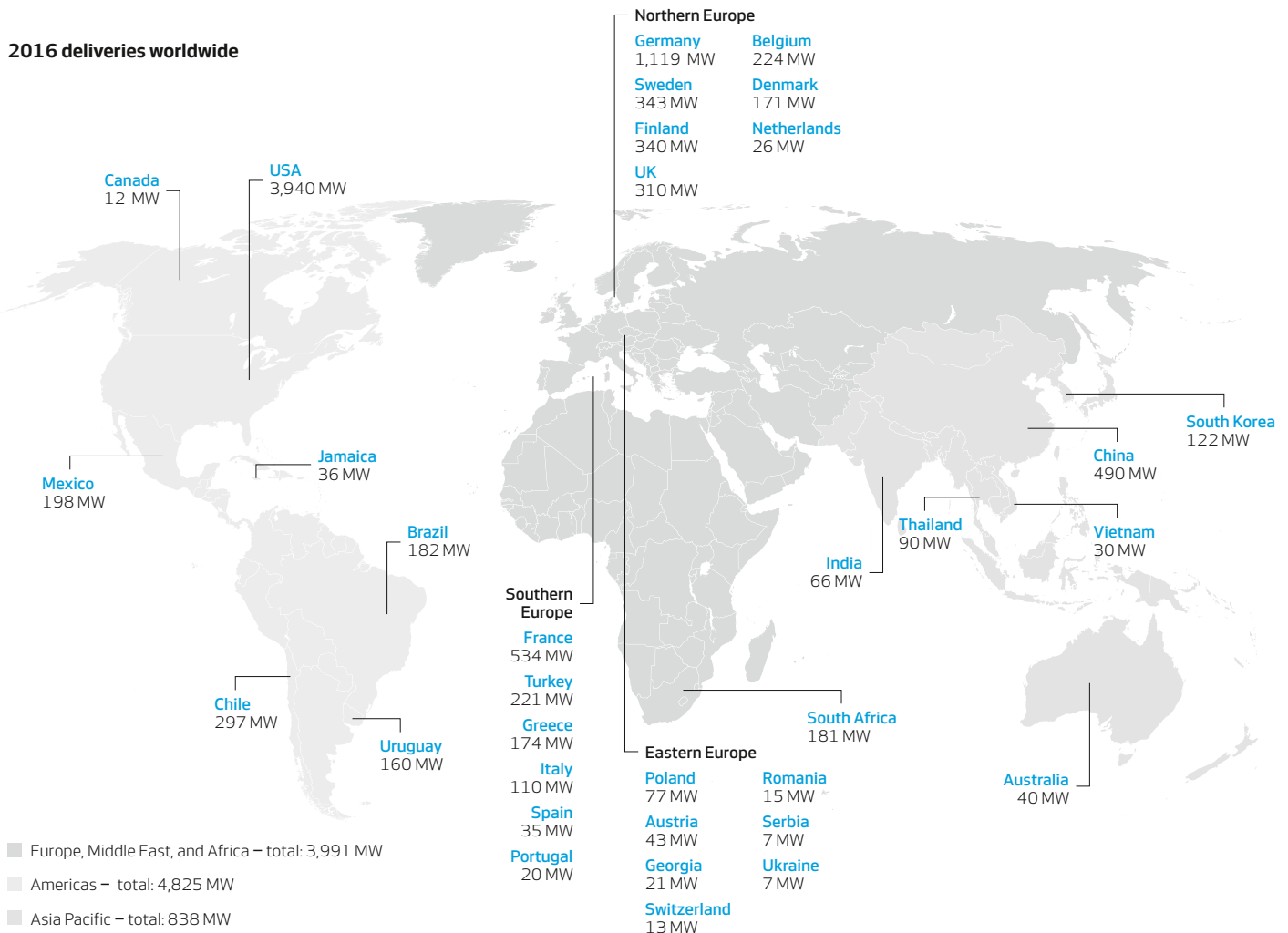
In Poland, notable regulatory changes took place in 2016. The subsidy scheme changed to an auction-based support system that has replaced the former green certificate system. This shift created record-high market activity in 2015 as developers permitted their projects under the previous subsidy scheme. Market installations in 2016 is expected

5) Source: WindEurope. February 2017.

6) Source: Bloomberg New Energy Finance: New Q4 2016 European Policy Outlook. December 2016.

7) Source: France Energie Eolienne: +45 % d'installations éoliennes raccordées en France 2016 : une année record pour l'éolien français. 11 January 2017.

2016 deliveries worldwide



to be markedly below the installation level in 2015 of 1.5 GW.⁸⁾ A new government was elected in 2015 and it has during 2016 for instance adopted stricter requirements for the distance between wind turbines and adjacent buildings, houses, and natural protected sites. Observers of the market are concerned that these stricter requirements will slow the build-out of wind power in Poland. Vestas delivered 77 MW in Poland during the year, down from 774 MW in 2015.

Africa and the Middle East

Africa and the Middle East offer growth potential, although from a low base. The region is characterised by good wind resources and holds an enormous potential due to the historical untapped nature of these markets. Vestas has been active in the region delivering 181 MW in South Africa and securing an order of 120 MW in Morocco.

Vestas continued making solid progress in connection with the Lake Turkana Wind Power project in Kenya – its largest-ever project in terms of the number of wind turbines being installed.

Americas

Vestas delivered 4,825 MW to the markets in the Americas region in 2016, up from 3,357 MW in 2015. In 2016, Vestas had an order intake of 4,318 MW in the region, while the order backlog amounted to 3,448 MW as of 31 December 2016.

North America

In the USA, an extension of the American Production Tax Credit (PTC) was approved in December 2015, the main element of which was a

two-year extension of the 100 percent value followed by a three-year phase-down period. The PTC extension provides the policy certainty necessary for effective business planning and investment. The longer-term expected certainty, alongside wind energy's natural competitiveness against other power generation sources, will ensure an expected solid future for wind energy in the USA.

The US market is currently at very high activity levels and during 2016, Vestas has successfully broadened its customer base. In terms of order intake, the USA was once again Vestas' largest market with 3,465 MW, corresponding to one third of total order intake in 2016. Components orders that enable future project pipeline constituted 1,640 MW.

In 2016, Vestas delivered almost 4 GW in the USA.

Canadian wind power installations reached 702 MW in 2016, representing a decrease of 53 percent compared 2015.⁹⁾ Vestas had deliveries of 12 MW and an order intake of 224 MW.

Latin America

In Latin America, the Brazilian market drove installations, while the introduction of power auctions in Argentina and Mexico opens up for new growth opportunities in the region.

In 2016, total installations in Brazil are expected to be fairly stable compared to the 2.7 GW realised in 2015.⁸⁾ The same goes for Vestas' order intake in the market, which landed at 371 MW in 2016, showcasing its reignited efforts in the market in accordance with its local

8) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016.

9) Source: The Canadian Wind Energy Association: Wind energy continues strong growth in Canada in 2016. January 2017.

strategic plan. However, 2016 also marked a year for Brazil where no energy auction took place and Brazil is therefore expected to be a challenging market near term.

The potential in the remaining Latin American markets is strong, driven by demand for energy security and diversity of supply. During 2016, markets such as Argentina and Mexico have carried out their first power auctions where wind power won a substantial part of the new electricity contracts.

Vestas delivered 873 MW to the markets in the Latin American region in 2016, compared to 336 MW in 2015.

Asia Pacific

Asia Pacific is expected to see an overall decline in market installations in 2016 compared to 2015, driven by a sharp decline in Chinese wind power installations. Installations in China reached almost 30 GW in 2015, but due to changes in the subsidy regime, installations declined to 22 GW in 2016.¹⁰⁾ An expected increased activity in the rest of Asia Pacific will not compensate for the large decline in the Chinese market and hence, installations for Asia Pacific is expected to reach 29 GW representing a decrease of around 9 percent compared to 2015.¹¹⁾

The long-term outlook remains very promising for Asia Pacific. According to the International Energy Agency (IEA), the growth level of electricity demand in Asia Pacific is expected to be higher than in any other region of the world.¹²⁾

The Chinese market remained the largest global wind energy market in 2016. However, a feed-in tariff reduction has taken its toll on installations. According to preliminary data, installations in China declined by 21 percent in 2016 compared to 2015.¹⁰⁾ Part of the strong development in 2015 can be attributed to a rush in the market for securing subsidies under the previous feed-in tariff scheme. It remains to be seen how the change to the feed-in tariffs will impact the level of installations going forward. Grid curtailment remains a challenge though the Chinese authorities are taking responsive actions to solve this.

During 2016, Vestas introduced its largest onshore wind turbine – the V136-3.45 MW turbine – to the Chinese market. Vestas will manufacture and sell the wind turbine and introduce an unprecedented level of service flexibility to the Chinese market. Thus, Vestas continues to show commitment to its strategy in China by focusing entirely on the relatively smaller, but still attractive, addressable segments of the market where Vestas' offerings are relevant. Vestas delivered 490 MW in China in 2016 and signed orders totalling 415 MW.

India's energy sector is currently undergoing a huge transformation towards greater deployment of renewables in the country. The Government has set an ambitious target of 60 GW by 2022.¹³⁾ Despite the high ambitions, the Indian market continues to be challenging and short-term the market performance could potentially be impacted by policy uncertainty.

Vestas took an important step forward in 2015 by announcing its plans to build a new blade facility in India. Once completed in early 2017, this new blade facility is expected to improve Vestas' competitiveness in the Indian market. Vestas made its mark on the market in 2016 by delivering 66 MW in India.

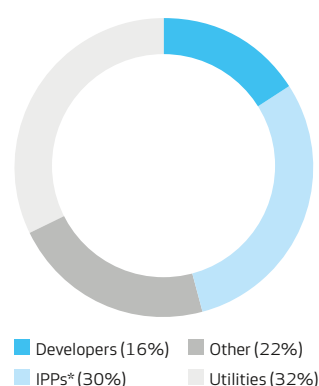
In Australia, the first effects of the new Renewable Energy Target (RET) became visible in 2016. Installations in the market remain at a low level in 2016 but within the year, Vestas secured three orders in the market with a total capacity of 480 MW. The RET will give much needed clarity for the future of the Australian wind energy market. Historically, Australia has been a Vestas stronghold, and with a market share of almost 50 percent based on total expected installed capacity as of 2016,¹⁴⁾ Vestas welcomes the new RET resolution.

Customer relations

Vestas maintains its focus on its key account management programme, which it expanded in 2016.

With a diverse set of offerings encompassing both products and services, Vestas has broad access to all relevant segments and markets and an undisputed global ability to target value driving growth. Vestas directly or indirectly serves a broad base of customers, including utilities, developers, independent power producers, pension funds, large corporations, and others.

Customer segmentation based on order intake 2016
Percent



10.5 GW in order intake

Vestas experienced order intake growth across all regions and signed orders in a total of 10.5 GW in 33 countries.

* IPP includes community wind power plant customers.

Vestas measures its customer relationships through an annual survey. The most recent survey took place from 2 to 22 November 2016 and included around 300 respondents in more than 40 countries representing around 180 customers.

Overall, customer perception of Vestas improved from 2015 to 2016. The Net Promoter Score increased from 40 to 54 index points with more than two-thirds of Vestas customers being considered as promoters. The results are above industry average for large industrial companies.

10) Source: Bloomberg New Energy Finance: 2016 China's top 10 wind turbine manufacturers. January 2017.


11) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016.

12) Source: International Energy Agency: World Energy Outlook 2016. November 2016.

13) Source: Recharge News: India is on track to installing 175 GW of renewable energy by 2020. 28 September 2016.

14) According to the Global Wind Energy Council, total installed capacity in Australia by end 2015 amounted to 4.2 GW (Source: Global Wind Energy Council: Global Wind Report 2015. April 2016) and with added installations in 2016 (Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016), total capacity by end 2016 is around 1.26 GW. At the end of 2016, Vestas had installed 2 GW in Australia.

Service – Sales and market development



“Through our unparalleled experience and portfolio under service, Vestas is the wind power industry’s leading service provider and helps customers increase their power production and extend the lifetime of their wind power assets, which ultimately lower the cost of energy for our customers.”

Christian Venderby
Group Senior Vice President of Global Service

Outlook and market trends for the service business

The service market is expected to provide a strong long-term platform for Vestas to grow its business.

The service market is growing faster than the market for wind turbines and is becoming more and more important to Vestas as customers shift their focus from capital expenditure to total cost of ownership. The latest market reports indicate that the service market is expected to grow by 9 percent annually over the next 10 years.¹⁾

The Vestas service business is a key element in the company’s long-term corporate strategy. With data derived from the world’s largest installed fleet and more than 35 years of technical insight, Vestas’ goal is to release the full potential of Vestas customers’ wind power businesses. That is why a service partnership with Vestas stands apart.

Changes in customer needs are creating new trends in the market. Vestas is observing a customer trend away from availability toward a greater focus on lifetime service costs and output optimisation. Other general trends that can be observed within wind turbine operations and maintenance are the increased demand for unique offerings as opposed to standard products as well as greater importance of data solutions.

Finally, to succeed in the service market, understanding the commercial needs and the strategies of the asset owners are crucial.

Strategic position and ambitions for the future

More customers choose to build in-house service capabilities while more independent service providers are emerging, leading to increased competition. Thus, to maintain its leading position in the service market, Vestas will continue to invest in its service business.

Vestas’ extensive data processing and asset management capabilities enable anticipating and planning service requirements. This means that Vestas has been able to keep a Lost Production Factor consistently under 2 percent. Vestas’ technology and service know-how are mutually reinforcing elements in maximising wind power plant output and lowering the cost of energy.

As part of Vestas’ goal to become the leader in the service solutions market, Vestas will grow its multi-brand service solutions. Multi-brand service solutions offer a large opportunity as Vestas turbines cover approx 16 percent of the total installed fleet worldwide.

Vestas’ service business is expanding with an installed base of more than 37,000 wind turbines under service by the end of 2016, and with a revenue increase of 171m from EUR 1,138m in 2015 to EUR 1,309m in 2016. Combined with the global footprint of the service organisation and the unmatched ability to analyse data related to wind and weather conditions, the installed base of wind turbines gives Vestas a distinctive advantage, which provides ideal conditions for stable growth going forward.

During the year, the service business grew by 15 percent – excluding impact from acquisitions and foreign exchange rate developments, the organic growth amounted to 8 percent.

Vestas will continue to expand the catalogue of service offerings and improve existing solutions to increase the customers’ output and lower the cost of energy. Based on current market opportunities and order intake, Vestas has an ambition towards 2020 to grow the service business organically by more than 50 percent.

At the end of 2016, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 10.7bn an increase of EUR 1.8bn compared to 2015, and the expectation is that the service business will continue to grow with stable margins in 2017. The main dilutive effects from acquisitions are expected to be fully absorbed by the end of 2017.

Four service business areas

Vestas’ service offerings are divided into four business areas:

- Maintenance partnering
- Parts & repair offerings
- Fleet optimisation solutions
- Data & consultancy services

1) Source: MAKE Consulting: Global Wind Turbine O&M. 22 November 2016.

– each of which contributes to increasing performance and lowering the cost of energy for customers' wind power plants. Vestas works closely with its customers to tailor service packages to meet site-specific wind power plant requirements. Responding to Vestas customers' evolving demands, Vestas offers a new generation of flexible fleet optimisation capabilities such as advanced plant and data management, diagnostics, and forecasting.

Maintenance partnering

The core of Vestas' service business is the partnerships the company engages in with customers that need Vestas to monitor the wind energy production, do preventive maintenance, and ensure continuous maximum performance of the wind power plant throughout its lifetime.

Vestas customers benefit from the Group's scale and its efficient, cost-effective global supply chain, thus creating a great advantage in the competitive market. Vestas' service organisation operates on a global basis, with warehouses and service centres distributed across more than 50 countries, plus three 24-hour surveillance centres located in Portland, USA; Madrid, Spain; and Chennai, India.

The Active Output Management® (AOM) concept addresses this need: The service programme ensures the highest output at all times, giving customers a predictable return on investment.

Average contract length per contract type (initial contract and renewal) has increased in recent years, a testament to Vestas that its customers continue to value its contract offerings. Vestas has several examples of 20-year service contracts, indicating the long-term partnership Vestas strives to have with its customers.

Service agreements signed with new wind turbine orders*

Percent (of MW service order intake)

Type of contract	2016	2015
AOM 2000	6.0	4.3
AOM 3000	11.4	6.4
AOM 4000	45.9	42.3
AOM 5000	36.7	47.0

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

Parts and repair offerings

Choosing the right repair solution at the right time is critical when taking care of the components, thereby reducing cost and increasing output of the wind turbines. Vestas' parts and repair set-up allows its customers to access a one-stop parts and repair shop, where all service needs are covered, from preventive inspections to advanced repairs. Vestas distributes more than 500,000 parts per year and co-operates with more than 1,000 suppliers globally, to make sure that costs are minimised.

In 2016, Vestas established a new global repair function: Global Repair Operations. The new function takes over all responsibility for Vestas' repair operations and locations. The aim with the new function is to align all internal and external repair activities in Vestas and create a centre of excellence for industry leading fleetwide repair offerings.

During the year, Vestas also introduced an eCommerce channel within parts and repairs. Vestas' ambition is to provide a simple and convenient way for the customer to identify and order spare parts and consumables.

While the parts & repair business is more variable compared to the rest of the service operation, it remains an interesting area to further develop as it supplements the offerings provided under the maintenance partnering concepts.

Fleet optimisation solutions

With more than 35 years of experience in optimising wind turbines, Vestas knows that individual needs deserve a tailor-made approach. Vestas' fleet optimisation solutions can help customers release the full potential of their wind power business.

Vestas PowerPlus™ is a key offering targeted existing wind power plants. Vestas PowerPlus™ optimises the performance of the wind power plant by up to 5 percent.

In addition, a wind turbine life extension programme has been developed, called Vestas LifePlus™ that allows the owners to continue operating the wind turbines beyond their initially estimated design lifetime. Vestas LifePlus™ solutions offer up to 25-50 percent extended life.

Data & consultancy services

In 2016, Vestas strengthened its data & consultancy offerings by establishing a separate business area devoted to commercialising the current extensive in-house data insight and processing capabilities applied to create transparency on historical and future asset performance and anticipate and plan service activities to lower the cost of energy. Vestas has the largest data source in the wind power industry with more than 32,000 wind turbines online.

Vestas ensures that customers can transfer and access data through the optimal applications, allowing them to focus on the core of their business. From the biggest fleet of wind turbines in the world, Vestas is able to transfer huge amounts of data real-time to the Vestas data eco-system enabling its customers to take decisions based on insights. Depending on customers' organisational needs, Vestas identifies possibilities for optimising their infrastructure and tailor solutions that fits their needs. Vestas is also able to integrate any other renewable energy asset into Vestas' own data system.

In 2016, the company introduced Vestas ClearSight™, which is an industry leading data tool that offers a combination of infrastructure solutions, analytical/computational software, data products, consulting services, and operational services.

Acquisitions support fleetwide partner growth

In December 2015, Vestas acquired the independent US service provider UpWind Solutions, Inc., followed by the announcement in early 2016 of the agreement to acquire the German-based company Availon Holding GmbH. These acquisitions have strengthened Vestas' offerings within servicing of both Vestas and non-Vestas wind turbines and are expected to further accelerate the corporate strategy within the service area. The ambition is to become the preferred fleetwide lifetime service partner globally.

Vestas currently services more than 71 GW of installed capacity, of which the service backlog consist of approx 8 GW non-Vestas turbines. Vestas will use its unmatched database and analytics capabilities to further accelerate servicing of third-party wind turbines. Today, Vestas covers approx 16 percent of the total installed capacity, but the ambition is to increase this share by growing services on third-party wind turbines along with keeping renewal rates at a steady high level. On top of Vestas' regular service offerings, Vestas experience an increasing demand for advanced service offerings, driven by customers' search for new improvement levers.

In May 2016, UpWind Solutions, Inc., a fully owned subsidiary of Vestas, announced the signing of a multi-site service contract with Berkshire Hathaway Energy and its subsidiaries MidAmerican Energy Co. and PacifiCorp, to provide maintenance services for 1.75 GW of third party wind turbines across 15 sites located in USA. The contract was a great achievement and Vestas recognises that customers are increasingly demanding a lifetime service provider that can maximise performance across a variety of wind turbine models.

Customer relations

On the service business, the 2016 survey results show that overall, customer perception of Vestas Service improved year-on-year, reflected by the Net Promoter Score (NPS), which rose from 22 to 52. The NPS especially improved in the German service customer base.

Technology



“Vestas has a clear ambition to lower the cost of energy faster than anyone in the wind power industry by bringing commercially valuable products and services to the market.”

Anders Vedel
Executive Vice President & CTO



Vestas' technology strategy

Being the global wind power leader requires a long-term line of sight in technology development. Vestas continuously strives to bring commercially competitive products to the market in a profitable way. Vestas' technology strategy derives its strength from market-driven product development and extensive testing at Vestas' test facilities in Denmark – the largest test facilities in the wind power industry – and the UK. This enables Vestas to continuously introduce new and integrate proven technologies to create high-performing products and services in pursuit of the overriding objective: lowering the cost of energy.

By building on the existing 2 MW and 3 MW platforms, Vestas secures an ability to grow profitably and deliver highly competitive and reliable products and services for its customers' projects in all wind classes. For Vestas, industrialisation means moving from a “one-size-fits-all” approach to custom configurations based on modularised building blocks that enable Vestas to offer customers tailored solutions to meet project-specific requirements.

The modularity increases the flexibility of Vestas' product range by combining different modules with standardised interfaces, making it possible to optimally configure the wind turbine as well as the wind power plant for the local wind and grid environment. Vestas' product range can thus match an increasingly wider variety of wind conditions, even within the same wind class, and in this way optimise wind turbine output and strengthen customers' business case.

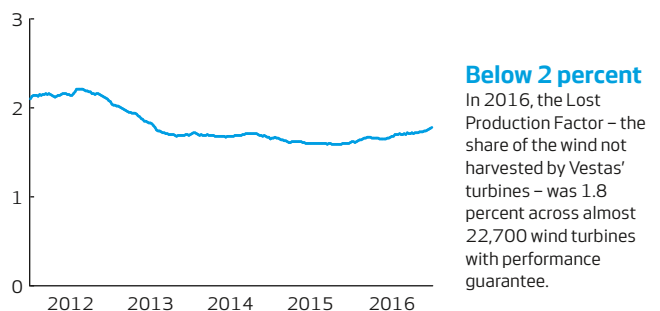
In addition to industrialisation and modularisation, Vestas works with more than 40 product options to ensure that specific market requirements are met. These range from simple add-ons to fully integrated options. An example of the latter is the de-icing option. To date, more than 1 GW of wind turbines with the de-icing option have been ordered by customers in Austria, Canada, Finland, Germany, Norway, Sweden, and Japan.

With an increased strategic focus, Vestas works more and more with external technology and innovation partners such as suppliers, research institutes, universities as well as adjacent industries. This approach gives Vestas insights and access to new, innovative technologies and materials that may already be in use in other ways. Vestas

integrates these “external” technologies in unique ways that result in new products or configurations that contribute to efficiently increasing power output and lowering the cost of energy.

The efforts made as part of the technology strategy have resulted in steady reductions in the levelised cost of energy year-on-year.

Lost Production Factor Percent



Committed to remain the technology leader

Vestas continue to be the technology leader in the wind power industry by translating its global reach and industry knowledge into new investments. Vestas combines its superior technical knowledge and insight in how Vestas maximises components and technical systems to deliver the lowest levelised cost of energy for Vestas customers.

From the design of the first wind turbine on the 3 MW platform years back, comprising just one size and suitable for a single type of site, Vestas has now developed a whole family of wind turbines within the same platform, based on relatively few, interchangeable parts. Rotor diameters now range from 105 to 136 metres and cover all wind classes within the wind segment. Using proven technologies like a full-scale converter, the 3 MW platform meets even the most challenging grid requirements providing excellent energy yield in all wind and weather conditions.

The flexible portfolio means that Vestas can offer the optimal wind turbine configuration and maximise energy production under all types of wind and site conditions across the world, underpinning Vestas' aim to expand its global reach. In September 2015, Vestas introduced the V136-3.45 MW turbine, its latest and as yet largest addition to the 3 MW platform. The V136-3.45 MW turbine has been very well-received after its launch, particularly in the low wind segment across several markets due to the wind turbine's compelling balance between advanced technology and proven performance, enabling an increase in energy output and reduction in the cost of energy.

The 2 MW platform continues to be a preferred choice by many of Vestas' customers. Vestas' 2 MW platform is one of the most trusted platforms in the industry providing customers with great business case certainty. With many new large orders in the USA for the V110-2.0 MW turbine in 2016, the platform once again confirmed its flagship status in the market.

Vestas' two highly competitive turbine platforms – 2 MW and 3 MW – are continuously subject to performance upgrades by introducing new technical features.

Vestas wind turbine portfolio - a product for every site

	IEC III (6.0 – 7.5 m/s)	IEC II (7.5 – 8.5 m/s)	IEC I (8.5 – 10.0 m/s)	Above 10.0 m/s
2 MW PLATFORM*				
V90-1.8/2.0 MW* IEC IIA/ IEC IIIA	■	■	■	
V100-1.8/2.0 MW™ IEC IIIA/IEC S	■	■		
V100-2.0 MW* IEC IIB		■	■	
V110-2.0 MW™ IEC IIIA	■	■		
3 MW PLATFORM*				
V105-3.45 MW™ IEC IA			■	■
V112-3.45 MW™ IEC IA			■	■
V117-3.45 MW™ IEC IB/IEC IIA		■	■	■
V126-3.45 MW™ IEC IIA		■	■	
V126-3.45 MW™ IEC IIB	■	■		
V136-3.45 MW™ IEC IIB/IIIA	■	■		

Wind classes - IEC ■ Standard IEC conditions ■ Site dependent

*Wind turbine application is flexible depending on site specific conditions.
All wind turbines can be deployed on sites with lower wind speeds than indicated.

In 2016, the V136-3.45 MW turbine was upgraded to IEC 2B 3.6 MW power mode, while an upgrade of the 2 MW platform has resulted in additional annual energy production on the V110-2.0 MW and improved reactive power capabilities on both V100-2.0 MW and V110-2.0 MW, lowering balance of plant costs.

Vestas' tower roadmap has resulted in new way to customise towers for specific sites, resulting in an improvement of performance, cost, and sustainability for its customers. Further, 2016 also marked updated regulatory certifications of Vestas Obstacle Collision Avoidance System (OCAS) an innovative solution that only activates the aviation lights when an aircraft is operating in the immediate vicinity of a wind power plant. OCAS minimises the visual impact on local environment and opens up new commercial opportunities for sites with regulatory lightning restrictions.

During 2016, Vestas received the first wind turbine certification under the new system administered by the International Electrotechnical

Committee conformity assessment system for Renewable Energy (IECRE). The new certification system creates a clearer, more harmonised and less costly process to certify wind turbines and other renewable energy equipment.

Customers and official bodies require certifications in almost all markets, and with the increasingly broad adoption of the new IECRE certificates, customers will be able to bring wind power projects online more quickly and less expensively. The first wind turbine certificate under the new system was issued on 27 October 2016 by certification body DNV GL for the Vestas 2 MW platform V100-2.0 MW version.

Vestas Customer Advisory Board, which was established in 2013 with participation of selected key customers, is creating great value, working as a compass for the medium- to long-term technology strategy. At the annual meetings, customers provide feedback on the broader product vision and have the opportunity to advise on specific challenges that Vestas can help overcome from a technological standpoint.

Investing in digitalisation

Leveraging on Vestas' world-class data collection is key when developing new technologies and solutions to Vestas' customers. Vestas' product development, value chain simulation, and operations & maintenance performance and optimisation, are all founded on high performance data computing. Vestas and its external partners utilise big data in all stages of the innovation and implementation process of new technologies.

Vestas took a big leap forward in the first half of 2000s, with major investments in its supercomputing analytics capabilities. Over time, this included the Vestas Diagnostics and Performance Centre in 2006, introducing the Firestorm supercomputer in 2011, and continuing today integrating an even more powerful new supercomputer.

These investments have contributed to creating the highly data-driven business Vestas is today with an unmatched ability in the wind power industry to create and utilise smart data to lower the cost of energy. Equally important is to use Vestas' knowledge to overcome and eliminate risks associated with new technology.

The multi-rotor spins off new knowledge

Continuing to reduce the levelised cost of energy in the long-term will require new solutions and new ways of thinking. In cooperation with the Technical University of Denmark, Vestas has installed a concept demonstrator to test the technical feasibility of operating and controlling a multi-rotor wind turbine.

The multi-rotor concept demonstrator was installed in April 2016 and entered the second test phase mid-September, during an official launch event at the Risø test site in Denmark.

By challenging the scaling rules of wind turbine efficiency and energy output, the aim with the multi-rotor demonstrator is to address two main challenges in the industry:

1. The ability to continuously reduce the Levelised Cost of Energy (LCOE)
2. The ability to continuously improve Annual Energy Production (AEP) without an exponential scaling in cost

The multi-rotor demonstrator uses four refurbished V29-225 kW nacelles, which were produced by Vestas from 1990 to 1997. This nacelle and rotor size was chosen because it is a well-proven product suitable for the concept demonstrator. At the same time, using an existing wind turbine keeps the demonstrator investment as low as possible.

This process of innovation is extremely important for Vestas. It provides essential knowledge that can help Vestas bring down further the cost of clean energy in the future, demonstrating its position as technology leader in the industry.

Manufacturing and sourcing



“ This was another busy year with MW produced and shipped up by 25 percent, while leveraging on our scale made us a cost-effective market player. We remain flexible and agile to adjust to market fluctuations.”

Jean-Marc Lechêne
Executive Vice President & COO

Manufacturing strategy

As is often the case in infrastructure businesses, national political climates around the world change, which calls for an agile organisation that can adjust quickly to changes in demand. By continuing to manufacture core components in-house, while acquiring non-core wind turbine components from a group of sub-suppliers chosen through a careful selection process, the current manufacturing setup of Vestas is lean and scalable, with the Vestas quality stamp on every single wind turbine sold.

Vestas' manufacturing strategy is built on four key pillars:

- leveraging scale,
- managing suppliers at a global level,
- building flexibility through outsourcing, and
- manufacturing and sourcing in best-cost countries.

Vestas uses its geographic reach to generate economies of scale on new projects and to ensure its manufacturing, transportation, and sourcing costs are continuously optimised.

Managing Vestas suppliers at a global level is key to ensure optimised manufacturing and sourcing. Vestas has continued its comprehensive global supplier selection process in 2016, resulting in a stronger supplier portfolio to better meet customer requirements.

Building flexibility through outsourcing made another step forward in 2016 with several new agreements in every region. The goal is to accelerate Vestas' flexibility and competitiveness by moving production to cost-efficient countries and outsource production where it is relevant.

In support of the corporate strategy, cost savings and achieving cost leadership within the wind power industry remains a priority for the company.

Safety is always number one

Safety is an integral part of achieving operational excellence. Over the last 10 years, Vestas has been through a remarkable journey building a strong safety culture. In 2015, Vestas changed its main safety-related key performance indicator to "Incidence of total recordable injuries

per one million working hours" and in 2016, the incident rate was 6.9, below the full-year 2016 target of 8.0. The 2016 rate corresponds to less than one recordable incident per day for a workforce of more than 22,000.

Flexible, asset-light, and low-cost manufacturing footprint

2016 was another busy year for Vestas. The number of MW produced and shipped reached 9,957 MW (4,264 wind turbines), compared to 7,948 MW (3,330 wind turbines) in 2015. A further ramp-up of the production was required in 2016 due to the high activity level. In the USA, Vestas increased produced and shipped MW by 25 percent to 4,150 MW from an already record-high activity level in 2015 of 3,315 MW.

Produced and shipped per region in 2016 compared to 2015

Percent

Produced and shipped, Europe, Middle East, and Africa:

Vestas produced and shipped 4,282 MW to Europe, Middle East, and Africa

- an increase of 18 percent

+ 18%

Produced and shipped, Americas:

Vestas produced and shipped 4,826 MW to Americas

- an increase of 27 percent

+ 27%

Produced and shipped, Asia Pacific:

Vestas produced and shipped 849 MW to Asia Pacific

- an increase of 66 percent

+ 66%

Total produced and shipped:

+ 25%

The increased activity level in 2016 was achieved without adding new factories to the current manufacturing footprint, highlighting the flexibility and strength of the operating model that was introduced during the turnaround years.

The collaboration with suppliers has generally moved to a new level of maturity, and a supplier account management programme is now being rolled out, similar to the one used for customers.

Vestas is forming close partnerships with large suppliers and involve these in the development of products and processes, as the suppliers often possess many years of knowledge and experience that can be utilised to the benefit of both parties. An example of this approach is Vestas' annual supplier day, during which workshops are held to identify initiatives through which suppliers can become more active contributors to developing new ways of working.

Vestas has an established manufacturing agreement with TPI Composites in China. In addition, Vestas has chosen to expand its business relationship with TPI Composites and further outsource parts of its blade production in the Europe, Middle East, and Africa and Americas regions. TPI Composites will also supply Vestas with blades from its factory in Turkey.

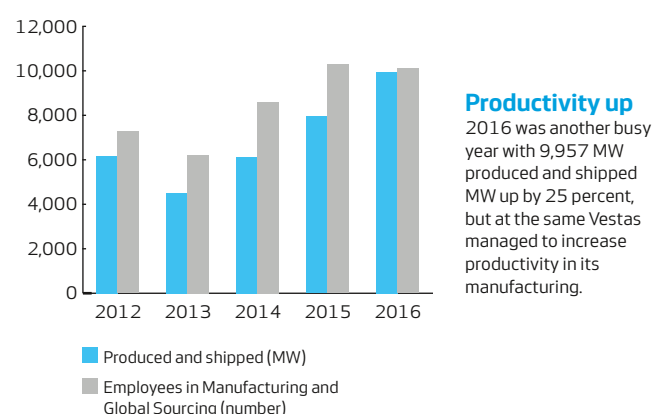
Work continues in close collaboration with R&D to phase-in the various new subsystems for the 2 MW and 3 MW platforms at Vestas' factories. During 2016, Vestas took a great step forward with cost-out programmes in all markets, making its cost set-up even more competitive. Competition remains high in all markets so further progress on the cost-out journey will have to continue in coming years.

Warranty consumption was EUR 90m in 2016 compared to EUR 95m the year before. The Lost Production Factor remains at a low level of under 2 percent. Both indicators demonstrate Vestas' high quality levels and that Vestas has maintained a well-functioning operation throughout the ramp-up.

In 2016, Vestas unfortunately had to reduce the staffing levels at the blades factory in Lem, Denmark by approx 300 employees. The reduction at the Lem factory was necessary due to its high manufacturing costs compared to the market level as well as the need to strengthen Vestas' overall manufacturing and supply chain competitiveness in response to evolving market conditions. However the factory in Lem remains a very important part of Vestas' global manufacturing footprint.

Globally in 2016, Vestas decreased the workforce in Manufacturing and Global Sourcing by 1.7 percent compared to last year. Total recordable injuries was reduced with an even higher rate (10 percent), showing the strength of Vestas' safety culture.

Productivity MW · Number



Evolution of manufacturing footprint

To ensure profitability in new markets with high growth potential, Vestas has outlined separate plans for the target markets China, India, and Brazil. Local presence and local sourcing is of great importance in these countries, be it for reasons of proximity to customers, cost-effectiveness, or fulfilling local content requirements in manufacturing.

In 2016, Vestas announced that it will manufacture and intend to sell its largest onshore wind turbine in China the V136-3.45 MW turbine. Vestas is continuously bringing its latest technologies, products, and service solutions to China and is determined to grow together with its partners in the country while simultaneously leveraging on the continuous supply chain localisation.

Beside China, the V136 blade is also produced in Lauchhammer, Germany.

The Brazilian Development Bank (BNDES) has in recent years required increasing levels of local content supply for developers seeking the low-rate BNDES financing through the FINAME programme, which in turn reflects on the wind turbine manufacturers.

Vestas has been present in Brazil since 2000 and announced 371 MW in firm orders in 2016. In addition to the sales office in São Paulo, Vestas inaugurated a hub and nacelle production facility in Aquiraz (Ceará) as well as established successful partnerships for producing blades and generators locally. Vestas is today included in BNDES' approved list of suppliers.

Late in 2015, Vestas announced that it would build a blade factory in India, the construction of which is progressing according to plan. This will be the first significant addition to the manufacturing footprint since 2011 and is an example of Vestas' ambitions to grow in its strategic focus markets. The new factory will support Vestas' operations in the Indian market as well as potentially servicing activities in other markets. It is expected to be fully operational by early 2017.

Equally important, during 2016, Vestas started sourcing of blades from third parties in China, Turkey, and Brazil. Integrating external manufacturers into Vestas' global manufacturing set-up illustrate the scalability and flexibility of Vestas' supply chain and its ongoing commitment to providing cost-effective wind power plant solutions for its customers.

In addition to these three specific growth markets, Vestas continues working on establishing supply chains in new markets with growth potential around the world. Strategic collaboration with large, global suppliers that have an understanding of the market conditions to be able to meet regulatory and customer requirements in new markets is key to succeed. As the company is maturing, the need for flexibility and agility is also extended to supplier partnerships, requiring key suppliers to be able to act quickly and adapt to market shifts.

Working capital management

Due to the high activity in 2016, focus was mainly on keeping working capital under control. This highlights the fact that the efforts undertaken during the turnaround period have not been forgotten but remain an inherent part of the DNA of the transformed business. Vestas continues to work on improving all parameters in net working capital, which will remain important focus area.

In 2016, Vestas introduced new tools to optimise make-to-order and standard lead times. Overall, Vestas has taken a further step to align its working capital management with the goal of reducing levelised cost of energy.

Social and environmental performance



Sustainability inherent in Vestas' way of working

Vestas' vision is to be the global leader in sustainable energy solutions. This requires excellence in everything that Vestas does. In addition to creating sustainable products, Vestas also strives to produce them in a sustainable way.

Vestas believes that in the long term, it is in the best interests of the company, its employees, and its owners to be accountable for Vestas' impact on its surroundings: the environment as well as the local, national, and global communities.

Standards, goals, and priorities

Vestas' standards and goals within sustainability build on global certificates for the three standards: ISO 9001 for Quality, ISO 14001 for Environment, and OHSAS 18001 for Health and Safety as well as recognised conventions established by international organisations such as the UN, ILO, and OECD.

Vestas joined the UN Global Compact in 2009. The UN Global Compact is a commitment to 10 universally accepted principles in the areas of human rights, labour, environment, and anti-corruption.

These standards and goals are reflected in Vestas' social and environmental priorities:

- The lowest possible incidence of recordable as well as lost time injuries – the ultimate goal being to avoid accidents altogether.
- CO₂ impact from wind power must excel against other energy forms.
- The lowest possible percentage of waste from the wind turbines.
- Avoid or minimise negative impacts on communities where Vestas operates, whilst enhancing Vestas' positive impacts.

The priorities and associated policies and due diligence address the principal risks related to Vestas' operations, which are identified as: occupational injuries of employees and contractors; carbon footprint of wind turbines; and negative impacts on human rights of communities where Vestas operates.

Combined with additional information about Vestas' sustainability initiatives at vestas.com, this annual report constitutes Vestas' 'Communication on Progress' (COP)¹⁾ under the UN Global Compact. In this way, Vestas applies the option stipulated in section 99a of the Danish Financial Statements Act concerning the statutory duty of large enterprises to report non-financial information by referring to the COP report.

To take sustainability at Vestas to the next level, a Sustainability Committee with cross-functional participation has been established. The role of the Sustainability Committee is to oversee, prioritise, and coordinate cross-functional sustainability initiatives in Vestas and ensure sustained conformity according to UN Global Compact. The Committee reports to the Executive Management and has met five times in 2016, with a planned meeting frequency of four times a year going forward.

This year the Committee conducted an internal materiality assessment to determine the focus areas in sustainability for improvement. Three areas have been identified for priority: stakeholder dialogue, supply chain management, and local community development. Separate working groups have been established for each respective area and report to the Committee on an ongoing basis. The Committee will also oversee Vestas' work with the UN Sustainable Development Goals.

How Vestas works: Code of Conduct

In 2016, Vestas revised its Code of Conduct, dividing it into two: one dedicated to Vestas employees and one specifically for Vestas' business partners. The revision reflects an increase in ambition level to match Vestas' own standards and the external expectations and requirements of Vestas today as an international company. The Employee Code of Conduct and the Business Partner Code of Conduct were launched in the fourth quarter of 2016.

Vestas' Employee Code of Conduct and the Business Partner Code of Conduct form the foundation for how Vestas does business as a global company operating in many countries. The Employee Code of Conduct and Business Partner Code of Conduct outline the rules and principles

1) Read more: www.vestas.com/en/about/sustainability.

by which the company expects its employees and business partners to behave. The Codes cover the areas of health and safety, human rights, bribery and corruption, environment, and protect company assets, information and reputation.

To support employees in understanding Vestas' expectations, Vestas has developed new training on the Employee Code of Conduct and the Business Partner Code of Conduct. All white collar employees must take the new Employee Code of Conduct e-learning; high risk employees receive tailored face-to-face training. All new employees enrolled in Vestas must also take the training as part of their onboarding training.

Human rights and labour practices in Vestas projects

Vestas recognises its responsibility to respect human rights as set out in the UN Guiding Principles on Business and Human Rights. This commitment, which includes its expectations for Vestas' business partners, is outlined in the Vestas Human Rights Policy and implemented across the organisation. Read more on vestas.com/about/sustainability under "Human rights and labour".

To support Vestas' emerging markets entry strategy, Vestas has developed a Social Due Diligence (SDD) methodology. The SDD is targeted on ensuring that social risks and impacts are identified, prevented and mitigated in Vestas wind power plant projects. For projects in scope, Vestas conducts an assessment of the project and the affected local communities. The assessment includes, for example, a review of stakeholder engagement and development, including whether Free, Prior, and Informed Consent (FPIC) is required, considerations of involuntary resettlement, and potential impacts on communities' health and safety, and cultural heritage.

The results from the SDD include mitigation actions, which are integrated into project plans to ensure integrity in the project execution. The SDD is based on the International Finance Corporation's Environmental and Social Performance Standards and the World Bank Group's Environmental, Health, and Safety Guidelines for Wind Energy, ensuring that, regardless of where the customer obtains financing, Vestas supports the project's execution according to accepted international standards.

The first contact with potential project-affected communities is taken by Vestas' customer, with the aim to obtain the social license prior to project development. As a wind turbine supplier, Vestas strives to work closely with its customers to assist them in securing and maintaining the social license to operate during construction and operation, according to international standards. Vestas' SDD process plays a central role in informing its dialogue with the customer concerning their social license to operate in the particular project. In addition to the ongoing dialogue with relevant stakeholders, the establishment of project-level grievance mechanisms available to workers, affected local communities and other stakeholders plays a vital role.

Ethical compliance

In 2016, Export Control & Sanctions and Competition Law was consolidated into Compliance. This has resulted in a more simplified process, as Integrity Due Diligence (IDD) and Sanctions is a joint effort, and a more focused approach towards Export Control and Competition Law.

During 2015, Vestas undertook a Bribery Risk Assessment with the purpose of raising awareness of bribery risks, determine Vestas' risk appetite and act as a starting point for establishing an enhanced compliance programme.

Three focus areas were identified, resulting in three key activities: revising the business partner due diligence process, building awareness of bribery risks, and updating related compliance policies.

Since the completion of the Bribery Risk Assessment, Vestas has taken a number of actions to further support an ethical behaviour among its employees and business partners, including:

- Development of a revised Business Partner Compliance Programme, which includes a web-based portal to help manage Business Partner relationships and incorporates a risk based approach to the selection of Vestas business partners.
- Increasing awareness of bribery and other compliance risks through face-to-face business ethics training.
- Revision of compliance guidelines associated with the Code of Conduct; Conflict of Interest, Gifts and Business Entertainment, Voluntary Contributions, Facilitation Payments, Anti-Bribery, Export Control & Sanctions and Competition Law.
- Revision of the process for registering gifts and business entertainment through an online register.

Ethical behaviour in all Vestas does, will be maintained by introducing employee sign-off of the Employee Code of Conduct, launch new targeted e-learning in the business ethics areas, continue face-to-face awareness and training sessions.

EthicsLine

Vestas' employees, business partners, and stakeholders should feel empowered to report unethical behaviour – anonymously or openly. Vestas continued to raise awareness of the EthicsLine throughout 2016. The revised Employee Code of Conduct makes it mandatory for managers to report compliance violations to EthicsLine and employees are strongly advised to speak up. Vestas aims to ensure that inappropriate behaviour or incidents are always brought forward and handled immediately.

Vestas received a total of 111 cases/reports through EthicsLine in 2016 compared to 91 in 2015.

The substantiated cases closed in 2016 have led to various disciplinary actions such as 5 warnings and 15 dismissals.

Reporting categories

Number

	2016	2015*
Questions submitted to EthicsLine	8	4
Compliance cases reported	103	87
– hereof substantiated	19	24
– hereof non-substantiated	68	63
– Case under investigation end year	16	0
Total	111	91

* 2015 cases have been updated with status at end of 2016.

Suppliers

Vestas works closely with sub-suppliers of components and raw materials to improve the sustainability of Vestas' products. The risk management covers the whole process from qualifying and developing suppliers to the daily business. The expected conduct of its suppliers is described both in the Business Partner Code of Conduct as well as in purchase agreements. Vestas takes action to ensure that suppliers comply with its policies by screening significant suppliers on sustainability issues, including human rights and labour standards using the supplier assessment tool.

In 2016, 104 suppliers were assessed on site by Vestas in all regions. Of these 92 were approved, 3 were rejected and 9 are under approval. Similar assessments are conducted for service, installation, and transportation contractors. Furthermore 17 Code of Conduct audits were provided by third parties.

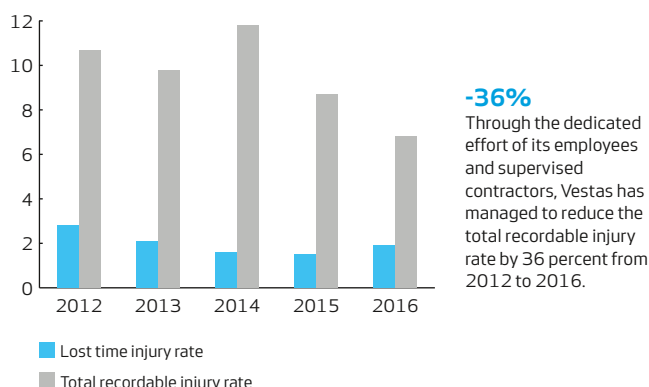
Health & Safety

Through the dedicated efforts of its employees and supervised contractors, Vestas reduced the rate of total recordable injuries in 2016. At the end of 2016, the incidence rate was 6.9 compared to 8.7 in 2015. The target for 2016 was 8.0 total recordable injuries per million working hours and the target was reached. The target for 2017 is 6.0. In 2016, the incidence of lost time injuries was 1.9 per one

million working hours. By putting safety first, Vestas has significantly improved its injuries per one million working hours for 10 years in a row.

Incidence of injuries

Per one million working hours



While the overall incidence rate on injuries was kept at a satisfactory low level, during 2016 an employee of a Vestas contractor sadly suffered fatal injuries. The root cause of the incident has been identified as human errors due to lack of compliance with existing safety processes.

In 2016, absence due to illness increased by 0.3 percentage points for hourly-paid and increased by 0.1 percentage points for salaried employees compared to 2015.

New safety initiatives implemented

Vestas continually raises safety awareness regarding the dangers of complacency. As a direct result of the fatality in Denmark in October 2015 a safety dialogue was initiated, involving more than 15,000 employees across Vestas. The safety dialogue enabled Vestas to identify seven lifesaving rules that will contribute to the prevention of fatalities and serious incidents in the future. The seven rules have been implemented throughout Vestas and is now a part of the mandatory safety training.

To support the lifesaving rules and have global alignment on lifting activities such as equipment, tools, procedures, and training, a global craning committee is introduced with subject matter experts available to support the manufacturing organisation.

Vestas continuously focuses on the safety of its employees, both at and away from work. Following the tragic fatality of an employee while driving home, Vestas implemented a Safe Driving tool box, which also supports the lifesaving rules. "My Team, My Responsibility", a framework to achieve consistent safety behaviour standards across Vestas was launched in 2016 and will be rolled out in 2017.

An occupational health and safety strategy has been identified and will be implemented in 2017. A Global Occupational Health Committee has been established with the overall ambition that when employees leave or retire from employment with Vestas they should be able to reflect on their career and consider that their physical and mental well-being has been enhanced due to the conscientious focus Vestas places on occupational health and safety.

Employees

Throughout 2016, Vestas has experienced an increase in activity level within the production area. As a result, Vestas has increased the number of full time employees (FTE) with 1,317 compared to 2015. The increase can primarily be attributed to an increase in the amount of hourly-paid employees.

Vestas employees at 31 December 2016

Number of full time employees

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Manufacturing & Global Sourcing	4,516	3,188	2,408	10,112
Sales and service	5,441	2,265	1,250	8,956
Technology & Service Solutions	1,099	41	274	1,414
Others	793	121	428	1,342
Total	11,849	5,615	4,360	21,824

Satisfaction survey

Each year, Vestas conducts an employee engagement/satisfaction survey to measure how Vestas employees perceive their daily workplace, and subsequently finds areas where Vestas can become an even better place to work. Vestas conducted the annual employee satisfaction survey in October 2016, and the response rate was 95 percent – 1 percentage point higher than in 2015. The overall satisfaction and motivation index was 72 in 2016, compared to 71 in 2015, which is a satisfactory development, and the best result ever for Vestas.

Global bonus programme

All employees contribute to the same value creation and provide support to the same customers, regardless of whether they work in a support function or in developing, manufacturing, marketing, selling, installing, or servicing wind turbines. As such, all employees are rewarded when Vestas achieves a set of KPIs, which helps accomplish Vestas' strategic goals.

As the targets for bonus pay-out were achieved in 2016, a global bonus of EUR 120m will be paid out to all employees (cash effect 2017), compared to EUR 101m in 2015 (cash effect 2016).

Statutory report on gender diversity at management levels

As required in section 99b of the Danish Financial Statements Act, Vestas has a policy to offer all employees equal opportunities. Vestas aims for a more equal distribution of gender among employees in leadership positions.

Once a year, the Nomination and Compensation Committee discusses the status of diversity and the strategy for the diversity area in Vestas for the coming year – and the Board of Directors discusses the overall principles regarding diversity.

Vestas is working with a number of activities to ensure relevant diversity at management levels, such as:

- assuring that both genders are represented in the search process – and in the last process of the selection of the new employee, and
- exposing the engineering opportunities to women, including specific events for female engineering candidates.

In 2016, the share of women at management level within Vestas was 19.4 percent, compared to 18.2 percent in 2015.

By the end of 2016, Vestas' workforce represented 86 nationalities. Non-Danish nationals held 60 percent of the positions in the top management layers – an increase of 4 percentage points over the course of the last five years. The development mirrors the continued globalisation of the Vestas Group with Vestas' Executive Management team itself as an example of increased diversity with members from Denmark, France, Spain, and Sweden.

The Board of Directors of Vestas Wind Systems A/S

The Board of Directors believes that its members should be chosen for their overall competences, yet it also recognises the benefits of a diverse board in respect of culture, gender, and other factors.

The Board of Directors pursues the goal of having members representing multiple nationalities as well as both genders. In addition, the Board of Directors focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

The Board of Directors consists of eight members elected by the shareholders:

- two women and six men;
- one from Finland, three from Sweden, and four from Denmark; and
- mean age of approx 54.

The Board of Directors' ambition regarding diversity is unchanged – the under-represented gender should constitute two to three board members elected by the general meeting no later than in 2017.

The Board of Directors of Vestas' subsidiaries

Among the Group's Danish subsidiaries five companies are subject to the reporting requirement for the underrepresented gender according to Article 99b in the Danish Financial Statements Act.

Four subsidiaries have set a target to reach equal gender distribution no later than 2017, and the fifth company has already achieved equitable gender distribution in the company's board of directors, and is therefore not subject to the requirement to set a target.

The directors in the boards in the subsidiaries is appointed based on key positions in Vestas Wind Systems A/S, and the current constitution of the boards is therefore reflecting who is currently holding these positions within Vestas Wind Systems A/S.

Environmental footprint

A single Vestas wind turbine will generate around 25 to 40 times more energy than it uses in its entire lifecycle. A single Vestas wind turbine only emits around 1 percent of carbon dioxide when compared to a coal power plant.

As the wind power industry is expected to account for a growing share of the future energy mix, it is important that Vestas acknowledge that when producing solutions to harness wind energy a small negative impact on the environment is made.

Vestas is committed to reducing this impact to the extent possible together with its suppliers and customers and believe that it is a prerequisite for Vestas' continued development.

Life Cycle Assessment

In 2016, 96 percent of the MW delivered by Vestas was covered by a publicly available, full ISO 14040/44 Life Cycle Assessment (LCA). LCA is used to identify and evaluate the environmental impact throughout the lifetime of a wind power plant. Based on the LCA, informed decisions are made to minimise overall environmental impacts.

Environmental strategy

Vestas' environmental strategy for 2016-2020 aims to support our business offering and operational excellence.

Carbon footprint

The target for reduction in product carbon footprint will be 5 percent by 2020 from a baseline of 6.9 grams CO₂ per kWh in 2015. In order to further reduce carbon footprint, Vestas continues to improve and optimise wind turbine performance through technology development and innovation.

The next generation of 3 MW wind turbines offers higher power rating at 3.45 MW and increased energy production in all wind classes. For example, the new V136-3.45 MW™ combines Vestas' most advanced aerofoil design to date with the proven 3 MW nacelle and Large Diameter Steel Tower (LDST) technology, to deliver a 16 percent²⁾ increase in annual energy production. Currently, the ISO life cycle assessment

of the new range is under completion and results will be available in 2017.

Product waste

Vestas' aim within product waste is that a wind turbine will be at least 3 percent more efficient compared to the 2015 baseline by 2020, and that it will generate no more than 3.9 grams of waste per kWh.

Nearly all parts of a Vestas wind turbine are recyclable. The composite materials of the blades are the largest barrier to achieving 100 percent recyclability. To address this issue, Vestas has engaged in development projects funded by the Innovation Fund of Denmark.

One project called Genvind ended November 2016 and aimed at developing and demonstrating technologies for reusing and recycling end of life composite materials.

In Genvind, valuable knowledge and lessons were learned from investigating potential applications of composites in e.g. furniture or building materials. These composites were either used directly, after pre-treatment and shaping or even after advanced recovering and cleaning of fibers. Potential future solutions were demonstrated but at the same time technical and market driven barriers were also revealed.

Another newly established project called DreamWind (Designing Recyclable Advanced Materials for Wind Energy) aims at focusing on developing sustainable composite materials for blades. Furthermore Vestas is cooperating with the Ellen MacArthur Foundation on circular economy and retaining materials that create value – even after the product's end of life.

Renewable energy

The target for Vestas' energy consumption is to reach a 60 percent share of renewable energy in 2020 from 55 percent in 2015. The road to the target will be both improvements in energy efficiency and further transition to renewable energy. The non-renewable energy is used in equal share in Manufacturing and Service. The target is challenging given the growth of Service and limited availability of suitable vehicles able to use non-fossil fuel.

Vestas has defined a goal that 100 percent of electricity consumption in Vestas must come from renewable energy sources, subject to availability, which continued to be fulfilled in 2016. This was achieved partly by purchasing renewable electricity where available, partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants.

Vestas activities

For Vestas' activities in designing, manufacturing, installing and servicing wind turbines, performance is reported in terms of inputs of resources and outputs of CO₂ emissions and waste. Increased production and service in 2016 compared to 2015 was not to the same degree reflected in the consumption of water and energy and emissions of CO₂ and waste, which increased relatively less than the increased production level due to improved efficiency.

Resource utilisation

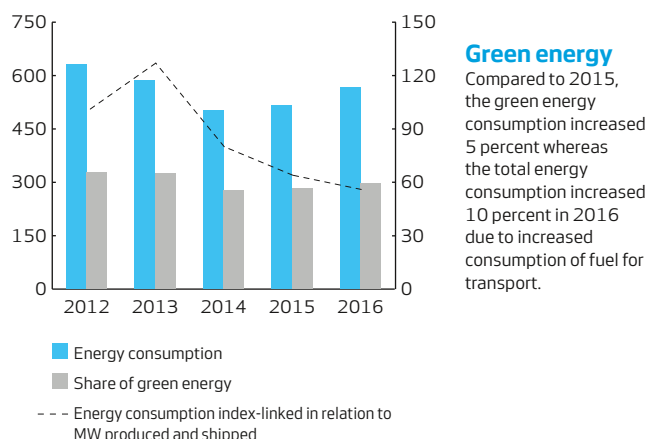
In 2016, Vestas' total energy consumption increased by 10 percent. When index-linked to MW produced and shipped, Vestas' energy consumption decreased 12 percent compared to 2015. The share of renewable energy in Vestas' total energy consumption decreased from 55 percent in 2015 to 52 percent in 2016 due to increased consumption of fuel for transport. In 2016, the MW serviced by Vestas increased 24 percent compared to 2015. Since 2012, the MW under service has increased by 60 percent.

In 2016, water consumption increased by 0.2 percent. When index-linked to MW produced and shipped, water consumption decreased 20 percent compared to 2015.

2) Compared to V117-3.3 MW™.

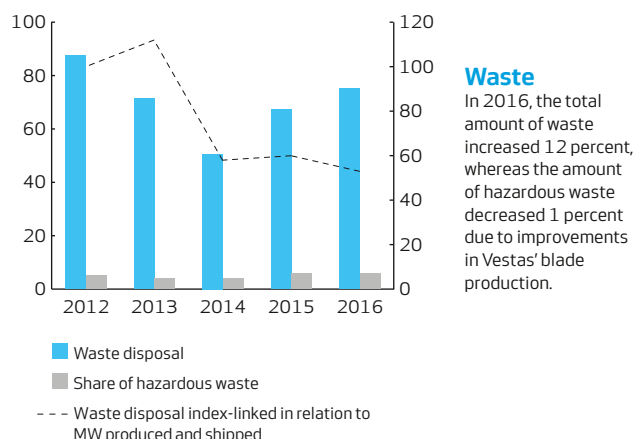
Energy consumption and share of green energy

1,000 MWh · Index



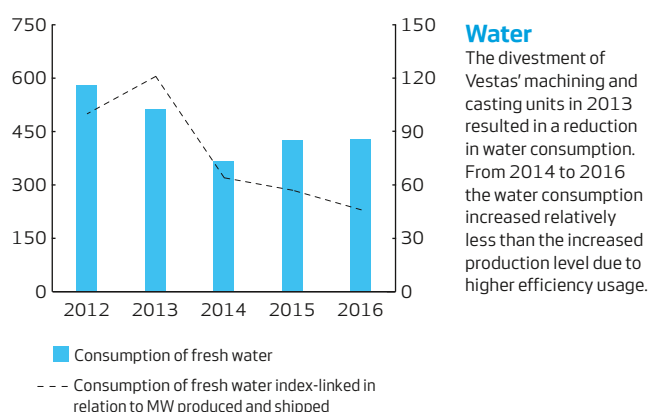
Waste disposal and share of hazardous waste

1,000 tonnes · Index



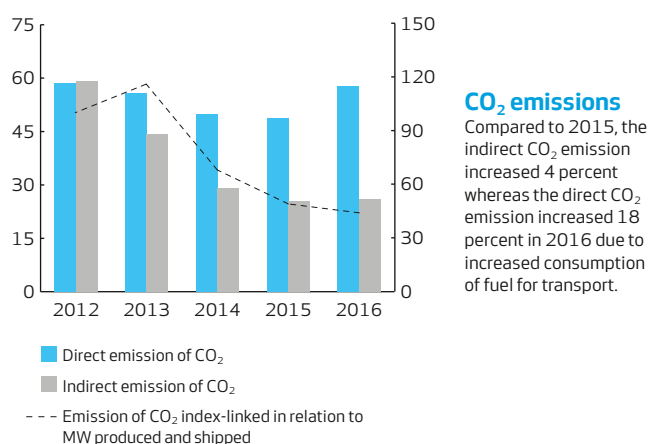
Consumption of fresh water

1,000 m³ · Index



Direct and indirect CO₂ emissions

1,000 tonnes · Index



Waste disposal

In 2016, the amount of waste increased by 12 percent compared to 2015. When index-linked to MW produced and shipped in 2016, Vestas decreased its amount of waste by 11 percent compared to 2015.

In 2016, 49 percent of the total volume of waste was recycled, the same share as the year before. In 2016, the share of hazardous waste was 5,862 tonnes compared to 5,930 tonnes in 2015.

CO₂ emissions

Vestas increased its direct CO₂ emissions by 18 percent in 2016, and the indirect CO₂ emissions by 4 percent. When index-linked to MW produced and shipped in 2016, Vestas decreased its CO₂ emissions by 10 percent compared to 2015.

Local community

In the first quarter of 2016, a breach of the internal inspection conditions was observed at the towers factory in the USA as air emissions exceeded permit levels. The root cause has been identified and corrected to ensure proper control of the emissions levels.

Products

A wind turbine in operation saves CO₂ emissions. The CO₂ savings over the lifetime for the MW produced and shipped in 2016 will be 281m tonnes, an increase of 25 percent compared to 2015, due to a higher amount of MW produced and shipped in 2016.

Accounting policies

Accounting policies for health & safety, employees, resource utilisation, waste disposal, CO₂ emissions, local community, and products are available on page 052.

MHI Vestas Offshore Wind



Cost of offshore wind falls

Offshore wind power continues to mature as a fast-growing renewable energy technology. As the offshore industry grows and technology improves, various players turn to offshore as a realistic solution for deploying large-scale wind power plants.

In recent years, the offshore wind power industry has made considerable progress in reducing levelised cost of energy (LCOE), the most visible evidence stemming from the Danish and Dutch tender systems. Even though some of the difference in support levels obtained in those markets can be explained by different wind conditions at the respective sites, the main progress derives from technology improvements and increased competition in the market, from companies like MHI Vestas Offshore Wind.

Observers of the global offshore industry expect it to grow by approx 10 to 20 percent per year over the medium term¹⁾, however, coming from a small base of 14 GW of accumulated installations in 2016.²⁾

The northern European markets remain the most mature offshore markets with UK and Germany expected to be the largest. Installations are, however, also expected in countries such as the Netherlands, Belgium, France, and Denmark in coming years.

The US offshore industry took a major step during 2016 after the legislature in Boston, Massachusetts passed a bill mandating the state's utilities to procure 400 MW of offshore wind power in 2017 on route to 1.6 GW installed by 2027. It is expected that USA will commission its first large-scale offshore wind power plant around 2020.

Increasingly, forecasters are also expecting Asia Pacific to grow its offshore wind power installations.³⁾ China already has an established market, while new offshore wind markets such as Taiwan and Japan are exploring the opportunities to install large-scale offshore wind power plants.

Good order activity in 2016

During the year, the joint venture MHI Vestas Offshore Wind announced four firm and unconditional orders for the following projects: Blyth project in the UK (42 MW), Horns Rev III project in Denmark (406 MW), Norther project in Belgium (370 MW) and the Aberdeen Bay project in the Scotland (92 MW). Furthermore, the joint venture also announced that it had been appointed preferred supplier for the Deutsche Bucht project in Germany (252 MW) and a small project at lake Eire in the USA – Icebreaker (21 MW). With the announcement of Borssele III & IV (2 x 340 MW), the company also ended the year by adding another preferred supplier agreement to the list - a milestone project for the offshore industry in cost competitiveness with a reported price of EUR 54.50 per MWh (excluding transmission costs).

Based on these levels of order activity, the joint venture finds itself well positioned as one of the strongest players in the offshore market. MHI Vestas Offshore Wind has been a very active participant in the market, and has generally had a presence in most tenders taking place since its formation.

All V164-8.0 MW turbines installed at Burbo Bank Extension

During 2016, MHI Vestas Offshore Wind completed installation of the first large-scale commercial project based on the V164-8.0 MW wind turbine at DONG Energy's 258 MW Burbo Bank Extension project off the coast of Liverpool, UK. The project started installation in September, where the first of 32 V164-8.0 MW wind turbines was installed, with the last wind turbine being installed in December. The Burbo Bank Extension project will set a new benchmark as the first large-scale offshore project to utilise the world's most powerful wind turbine.

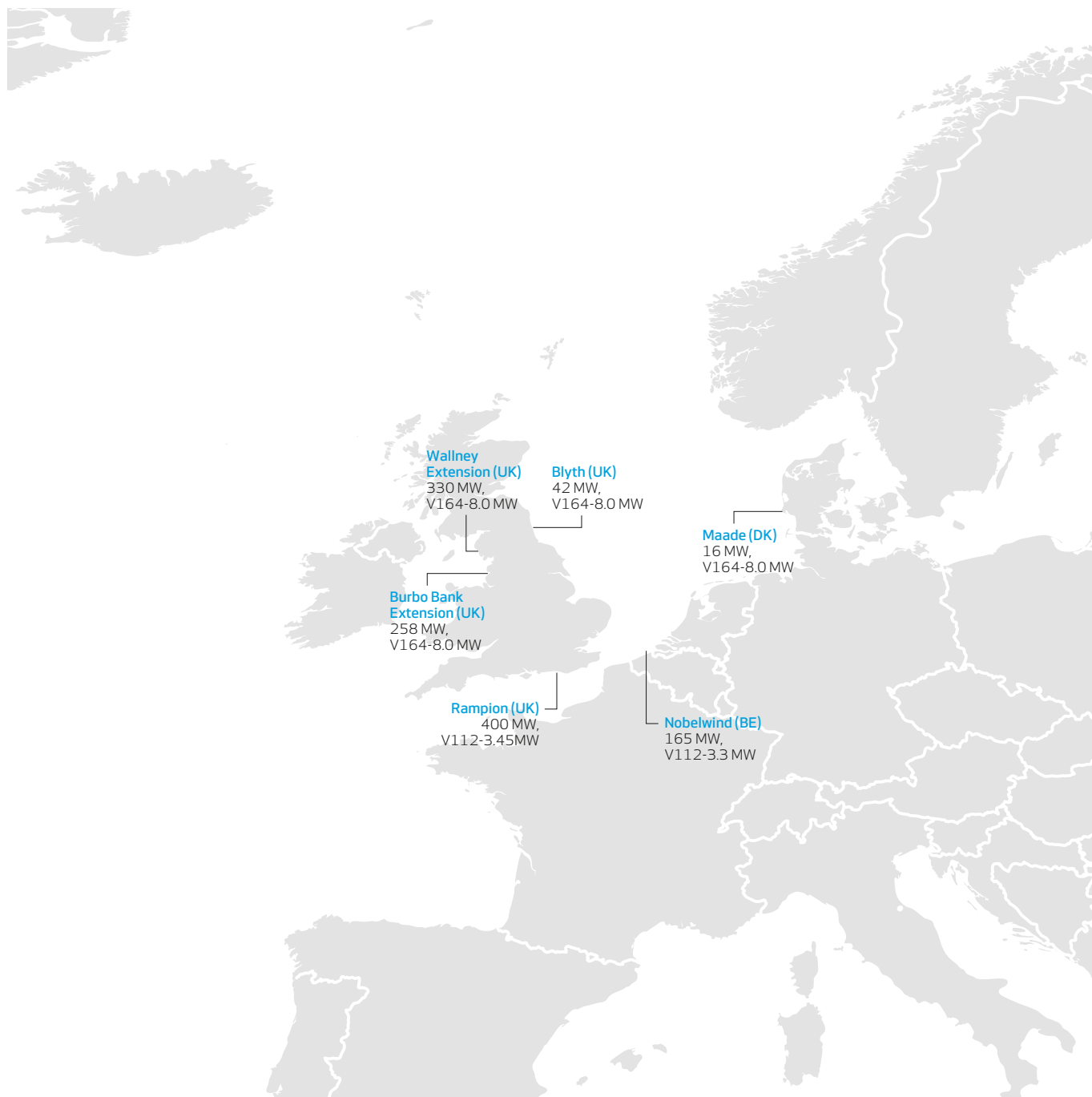
Most of the blades for the project have been produced at the manufacturing facility on the Isle of Wight, off the southern coast of the UK – the first facility with the capacity to serial produce blades for future UK offshore projects.

1) Sources: Bloomberg New Energy Finance : Q4 2015 Global Wind Market Outlook. November 2015; MAKE Consulting: Global Wind Power Market Update. August 2016.

2) Based on 12 GW of total installed offshore capacity by end 2015 (Source: Global Wind Energy Council: Global Wind Report 2015. April 2016) and an estimated 1,802 MW of added capacity in 2016 (Source: MAKE Consulting: Global Wind Power Market Update. November 2016).

3) Source: MAKE Consulting: Global Offshore Wind Power Market. December 2016.

Delivered projects in 2016 and projects currently under work-in-progress



Ramping up for higher activity

During the year, MHI Vestas Offshore Wind has almost completed delivery of the 165 MW Nobelwind project located in Belgium, comprising 50 V112-3.3 MW turbines.

As planned, the joint venture ramped-up production of the V164-8.0 MW turbine in anticipation of delivery of the 258 MW Burbo Bank Extension project, the 330 MW Walney Extension project, and the 42 MW Blyth project in 2017, all located in the UK. Further, it is planned for the coming financial year that MHI Vestas Offshore Wind will hand-over 116 V112-3.45 MW turbines for the 400 MW Rampion project in the UK.

During 2016, MHI Vestas Offshore Wind has recruited and trained over 500 employees due to increased demand. The production ramp-up is progressing according to plan.

Financial guidance

MHI Vestas Offshore Wind continues to enjoy success in the marketplace and activity levels are expected to continue to increase with factories ramping up for new installations of V164-8 MW projects. In the short-term, this will adversely impact earnings. In addition, large amortisations of the 8 MW platform will likewise impact financial performance.

Accordingly, MHI Vestas Offshore Wind expects to double its revenue over the next three years (based on the latest completed joint venture fiscal year) while EBITDA is expected to reach break-even by 2018 while pre-tax profit is anticipated to reach break-even by 2019.

The expected development is in line with previous internal expectations and the strong financial position secured during the first years of operation is tailored to cope with this strategy.

Risk management



Risk management remains important

The Group is exposed to a variety of risks in the daily business. Vestas works actively to ensure that such risks are understood, monitored and, to the extent possible, mitigated to ensure that they do not adversely impact the realisation of Vestas' strategic and financial targets.

In order for the Group to take risk-adjusted decisions, Vestas has integrated a group-wide enterprise risk management framework. This framework focuses on identification, evaluation, treatment, monitoring, and communication of risks, where risk owners are responsible for managing risks within their area of responsibility.

Group risk management governance

All parts of the organisation report relevant risks on a quarterly basis. A selection of these are discussed in the Group Risk Management Committee and mitigation activities are evaluated for potential implementation. The Group Risk Management Committee is chaired by Vestas' CFO and includes other senior management members from relevant parts of the business.

On a semi-annual basis, the Executive Management as well as the Board of Directors review key risks. These reviews are based on the ongoing work in the Group Risk Committee and focus on the main risks of the Group.

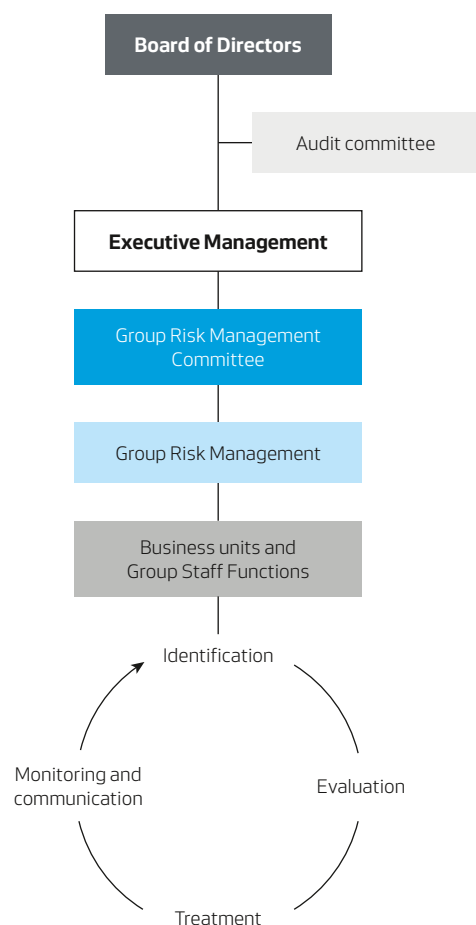
Financial risks, including risks related to currency, interest rate, tax, credit, and commodity exposures are addressed in the notes to the consolidated financial statements. These risks are also reported to the Board of Directors and evaluated by the Audit Committee.

Main Group risks

The main risks of the Group are:

- Transition to auction-based markets and risk of reduced support to wind energy
- Adapting to markets with greater complexity hereunder sanctions and social performance
- Cyber risks

Risk management



Transition to auction-based and risk of reduced support to wind energy

Description

While renewable energy continues gaining in importance in the energy mix, this is increasingly happening through competitive bidding and auctions and in some markets combined with demands for local content, which in turn has changed the market dynamics. This increased focus on price creates a pressure on the wind power industry in general and Vestas specifically to understand the dynamics of the competitive landscape.

Impact

The design of auction systems differs from market to market and can, depending on structure, create uncertainties in relation to size and timing of available projects and order intake. Auction-based markets are generally seen to be quite competitive, however the competitive structure of those markets vary significantly based on individual market characteristics.

Mitigation

Vestas monitors the developments in the different markets and works closely with its customers to continuously adapt sales strategies and product offerings to meet the different auction criteria.

Adapting to markets with greater complexity hereunder sanctions and social performance

Description

A number of the markets in which Vestas is exploring business opportunities has characteristics that differ from the more mature markets in Europe and USA. Some of the main differing areas and risks to be understood and addressed are:

- Security in relation to employees and subcontractors
- Corporate social responsibilities in relation to local communities
- Sanctions and export control according to international law
- Protection of intellectual property rights

Impact

The adverse impacts related to risk in complex markets are many and different but amongst others, adverse reputational impact may occur if risks are not mitigated. Risks related to intellectual property rights may amongst others lead to reductions in the competitive positioning of Vestas whereas other risks may prevent Vestas from engaging in business relationships or undertaking projects.

Mitigation

To prevent and mitigate potential risks within these areas, Vestas uses a stage gate based process to systematically evaluate and adapt the project offering during the contracting, construction, and servicing phases of the projects.

Cyber risks

Description

As many other corporations, Vestas' dependence on its commercial, technical, and operational IT infrastructure is significant and hence, Vestas is exposed to potential loss or harm related to this.

Impact

Risks include economical theft and theft of intellectual property rights or personal data, which may result in monetary losses in the form of lost business opportunities or fines and penalties from authorities.

Malicious hacking activities can in addition harm the infrastructure and create physical loss of property and consequential difficulties for Vestas to meet its contractual obligations.

Mitigation

Vestas works systematically to educate its organisation in methods to address exposure and is continuously working on improving the technical ability to protect against, detect and to respond to any attempts to enter its commercial, technical, and operational IT infrastructure.

Share and financial management



The Vestas share

Vestas Wind Systems A/S' total share capital amounts to DKK 221,544,727, and its shares are listed on Nasdaq Copenhagen. Vestas has one share class and a total of 221,544,727 shares, which are 100 percent free float.

In 2016, the Vestas share was the second most traded share on NASDAQ Copenhagen with a turnover of EUR 17bn.

The share price ended the year at DKK 459.00, equal to a market capitalisation of EUR 14bn.

During 2016, the price of the Vestas share declined by 5 percent. This was in line with the general trend in NASDAQ Copenhagen's C20 index, which fell by 2 percent in 2016.

Ownership

At the end of the year, the company had 145,267 shareholders registered by name (212,871,304 shares), including custodian banks – a decrease of approx 3 percent during 2016.

No shareholders have reported that they have a shareholding of 5 percent or more in accordance with the Danish Companies Act, article 55.

Management's ownership

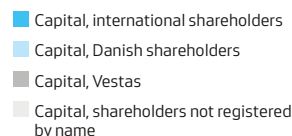
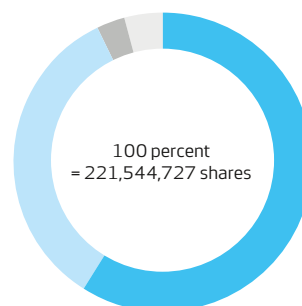
At 31 December 2016, members of Vestas' Board of Directors held a total of 52,018 Vestas shares, and Vestas' Executive Management held 140,569 Vestas shares. These shareholdings represented a combined market value of EUR 12m. Furthermore the members of the Executive Management are exposed to the Vestas share via Vestas' long term incentive programme.

The members of Vestas' Board of Directors and Executive Management are registered on Vestas Global Insider List's permanent insider section. As a general rule, they may only trade in Vestas shares, Vestas debt instruments, derivatives or other financial instruments linked thereto during a four-week period following the release of financial reports or other similar financial announcements. Furthermore they have a duty to report any such transactions to Vestas, and an overview of the transactions made during the year is available at vestas.com/investor.

As per 31 December 2016, Vestas owned 7,770,888 treasury shares corresponding to 3 percent of the share capital.

Share capital distribution at 31 December 2016

Number of shares · Percent



Ownership

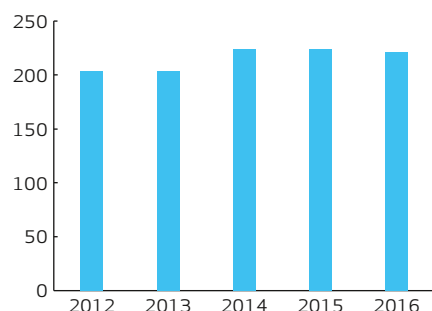
As per 31 December 2016, the international shareholders, Danish shareholders, and Vestas held 130m (59 percent), 75m shares (34 percent), and 8m shares (3 percent) respectively – and capital not registered by name amounted to 9m shares (4 percent).

Financial management

The Board of Directors continuously evaluates to which extent the company's capital structure, including equity capital and other financial resources, are reasonable in consideration of the Group's operations and the stakeholders' interests. Read more about financial and capital structure strategy on page 016.

Development in number of shares

Number in 1,000,000



At the Annual General meeting in 2016, the shareholders decided to cancel 2,529,786 shares from Vestas' holding of treasury shares.

Distribution to shareholders

In general, the intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year. In addition, Vestas may from time to time supplement with share buy-back programmes. However, any distribution of cash to shareholders will always be decided with due consideration of capital structure targets and availability of excess cash.

Dividend

In March 2016, the shareholders approved a dividend of DKK 6.82 per share to be paid out for the financial year 2015. This was equivalent to a dividend percentage of 29.9 percent measured against the net profit for the year. For the financial year 2016, the Board of Directors recommends a dividend of DKK 9.71 (EUR 1.31) per share equivalent to 30.0 percent of the net result for the year after tax.

Distribution

	2016	2015
Dividend per share (DKK)	9.71*	6.82
Dividend per share (EUR)	1.31*	0.91
Dividend (EURm)**	289*	205
Payout ratio (%)	30.0*	29.9
Share buy-back (EURm)	401	150

* Based on recommended dividend.

** Based on issued shares as per 31 December.

Share buy-back programme 2016

On 18 August 2016, the Board of Directors initiated a new share buy-back programme. The programme was implemented in accordance with Article 5 of Regulation No 596/2014 of the European Parliament and Council of 16 April 2014 (MAR) (the "Safe Harbour" rules).

The share buy-back programme was initiated pursuant to the authorisation granted to the Board of Directors by the General Meeting. The main purpose of the share buy-back programme was to adjust Vestas' capital structure and secondly to meet the obligations arising from share based incentive programmes to employees of Vestas. It was completed on 30 December 2016. In total, Vestas paid EUR 401m for 6.0m shares.

Holding of treasury shares as per 31 December 2016

Number

Treasury shares as per 31 December 2015	5,170,588
Reduction of the share capital – 28 April 2016	(2,529,786)
Acquisition of treasury shares outside buy-back programme	+300,000
Bought under the share buy-back programme 2016	+6,047,780
Exercised share options and performance shares	(1,217,694)
Total holding of treasury shares as per 31 December 2016	7,770,888

At Vestas' Annual General Meeting in 2017, a resolution will be proposed that 6,047,780 shares out of Vestas' holding of 7.8m treasury shares will be cancelled.

Authorities granted to the Board of Directors

Vestas' articles of association include an authorisation to Vestas' Board of Directors to increase the company's share capital in one or more issues of new shares up to a nominal value of DKK 22,407,451 (22,407,451 shares), ref. article 3 of the articles of association. The authorisation is valid until 1 March 2019.

At the Annual General Meeting in 2016, the shareholders authorised the Board of Directors to let the company acquire treasury shares in the period until 31 December 2017 equal to 10 percent of the share capital at the time of the authorisation, provided that the nominal value of the company's total holding of treasury shares at no time exceeds 10 percent of the company's share capital at the time of the authorisation.

Communication with shareholders

Vestas aims to be visible and accessible to existing and potential shareholders and other stakeholders with due consideration to legislative requirements and based on corporate governance standards.

To maintain the interest in the Vestas share at a high level, Vestas regularly provides information to the company's stakeholders by means of:

- broad distribution of the company's financial reports and company announcements;
- live audiocasts in connection with the company's presentation of financial results;
- an informative website;
- roadshow activities following each financial presentation;
- meetings for investors and analysts, investor seminars, exhibitions, conference calls, capital markets days, company visits, and other events; and
- daily contact and correspondence through Investor Relations.

Executive Management and Investor Relations also travel extensively to ensure that all investors with a major holding of Vestas shares can meet with the company on a regular basis and other shareholders and potential investors also have access to the company's Management and Investor Relations.

Vestas aims to continuously improve the communication with its shareholders to inform them about Vestas' goals and to safeguard long-term shareholder interests.

However, in order to optimise communication it is necessary for Vestas to know the identity of its shareholders. Vestas therefore recommends that its shareholders have their Vestas shares registered by name in the company's register of shareholders.

Financial calendar

3 March 2017	Convening for the Annual General Meeting
6 April 2017	Annual General Meeting
5 May 2017	Disclosure of Interim financial report first quarter 2017
17 August 2017	Disclosure of Interim financial report second quarter 2017
9 November 2017	Disclosure of Interim financial report third quarter 2017

Analyst coverage

Vestas is currently covered by 24 sell-side analysts, including the major global investment banks that regularly produce research reports on Vestas. A list of analysts covering Vestas can be found at vestas.com/investor, where other information such as annual and quarterly reports, company announcements, information about annual general meetings, and the composition of the Board of Directors are available.

Corporate governance

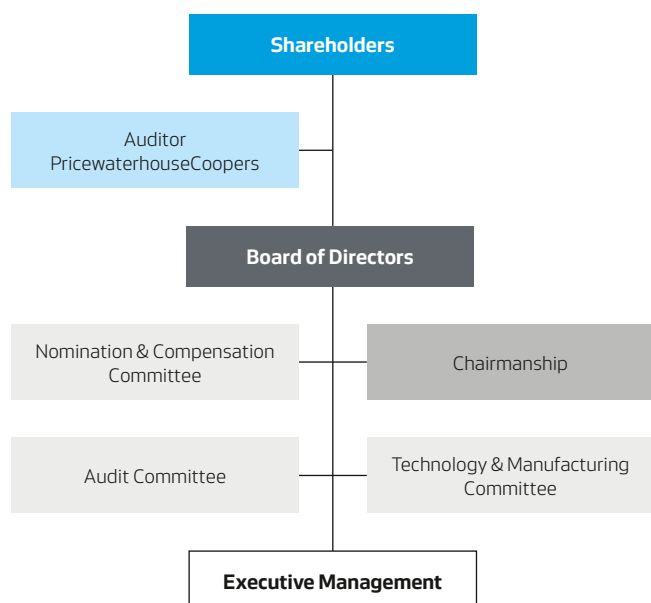


Management structure

Vestas Wind Systems A/S is a Danish limited liability company with a two-tier management system in which the Board of Directors and the Executive Management handle the management of the company's affairs. No persons hold dual membership of the Board of Directors and the Executive Management, and no member of the Board of Directors is a former member of the Executive Management. The company is also the parent company of the Vestas Group.

The management of the company and the Group is governed by the company's articles of association, the Danish Companies Act, and other applicable Danish laws and regulations.

Vestas' management structure



Shareholders

At the end of the year, the company had 145,267 shareholders registered by name, including custodian banks. Vestas seeks to have an international group of shareholders and to inform everyone openly about the company's long-term targets, priorities, and initiatives conducted as well as short-term opportunities and limitations.

General meeting

The general meeting, consisting of the company's shareholders, is the supreme management body of Vestas Wind Systems A/S and is the supreme authority in all company matters, subject to the limits laid down by Danish legislation and the company's articles of association. Shareholders may exercise their rights to make decisions in the company at the general meeting.

The general meeting is held at least once a year. All shareholders are entitled, in compliance with a few formal requirements, to have equal access to submit proposals, attend, vote, and speak at general meetings, ref. articles 4 and 6 of the articles of association.

Attendance

Shareholders wishing to exercise their influence at the general meeting must first register their shares by name in order to subsequently request an admission card and voting papers.

The right of a shareholder to attend the general meeting and to vote is based on the shares held by the shareholder at the record date. The record date is one week before the general meeting. The shares held by each shareholder at the record date are calculated on the basis of registration of the shareholder's ownership in the register of shareholders and notifications about ownership received by the company, but which have not yet been registered in the company's register of shareholders.

Voting and amendment requirements

Vestas has a single class of shares, and no shares carry any special rights. Each share carries one vote. Proposals put to the vote are adopted by a simple majority of votes, unless the Danish Companies Act or the articles of association prescribe special rules regarding the adoption. Amendments to the articles of association, dissolution, demerger and merger, which under Danish law must be passed by the general meeting, can only be passed by a majority of no less than

two-thirds of all votes cast and of the voting capital represented at the general meeting unless otherwise prescribed by the Danish Companies Act. Read more about Share and financial management on page 041.

The Board of Directors encourages all shareholders to exercise their influence and recommends that all shareholders ensure that their holding of Vestas shares are registered by name in the company's register of shareholders.

The Board of Directors also encourages all shareholders to express their opinions by voting at the general meeting.

Board of Directors

Pursuant to the company's existing articles of association, the company is managed by a Board of Directors composed of five to 10 members elected by the general meeting and a number of representatives elected by the employees. The Board of Directors currently consists of 12 members, of which eight are elected by the general meeting and four are elected by and among the employees. Read more about the members of the Board of Directors on page 050.

The Board of Directors is responsible for the overall operation of the Group and, through the independent oversight of management, accountable to shareholders for the performance of the business. They also deal with the overall and strategic management of the company, including:

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

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

Composition of the Board

The existing Board members elected by the general meeting were elected in 2016 and their election term expires in 2017, as Board members elected by the general meeting must retire at the following annual general meeting. However, such Board members shall be eligible for re-election, ref. article 8(1) of the articles of association.

Board members elected by the general meeting may be recommended for election by the shareholders or by the Board of Directors.

When proposing candidates for Board membership, the Board of Directors seeks to ensure that it is possible for the general meeting to elect a continuing Board of Directors that:

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

When proposing new board candidates, the Board of Directors pursues the goal of having several nationalities of both genders represented.

In addition, the Board of Directors focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

As it is not considered good corporate governance by international shareholders and to not limit shareholders' ability to nominate candidates, the articles of association do not stipulate a retirement age for members of the Board of Directors. But according to the rules of procedure for the Board of Directors, the Board of Directors will not nominate candidates who have reached the age of 70.

In 2016, the Annual General Meeting re-elected all members of the Board of Directors. After the Annual General Meeting, the Board of Directors held a statutory board meeting. At the meeting, Bert Nordberg was re-elected as Chairman of the Board and Lars Josefsson was re-elected as Deputy Chairman of the Board.

Assessment of the work performed by the Board of Directors

Pursuant to the rules of procedure for the Board of Directors, once a year, the Board of Directors must evaluate its work. In connection with the approval of the interim financial report for the third quarter, the Board evaluates its working methods and the results of its work and each Board member's contribution in an open dialogue at the Board meeting. The evaluation is headed by the Chairman.

The Nomination & Compensation Committee has the responsibility of conducting an annual evaluation of:

- the contributions and results of the individual members of the Board of Directors – and the combined board;
- the contributions and results of the individual members of the Executive Management – and the combined Executive Management; and
- the co-operation between the Board of Directors and the Executive Management.

The Chairman presents the result of the evaluation at a board meeting – and the result of the evaluation is discussed.

In October 2016, the three board committees evaluated their performance for 2016. The evaluations were conducted as an open dialogue among the members of the Committees. An evaluation form was used to guide the members of the Committees in their preparation and to make sure that all relevant issues were touched upon in connection with the evaluations. The evaluations did not result in any significant changes.

The same procedure was used when the Board of Directors conducted their evaluation in November 2016. The evaluation did not result in any significant changes.

Board committees

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

Vestas has established three permanent Board committees.

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

The Nomination & Compensation Committee – supports the Board of Directors in evaluation of the performance and achievement of the Board of Directors and Executive Management and overall staff-related topics, including assessments of remuneration.

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

All members of the committees are elected by the Board of Directors from among its members.

Executive Management

The Executive Management of Vestas Wind Systems A/S is appointed by the company's Board of Directors and among the members of the Executive Management they have appointed a Chief Executive Officer who is the manager of the day-to-day work of the Executive Management. Moreover, the Board of Directors lays down the distribution of competences among the members of the Executive Management.

The work of the Executive Management

The Executive Management is responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board of Directors.

The Executive Management is also responsible for presenting proposals for the company's overall objectives, strategies, and action plans as well as proposals for the overall operating, investment, financing, and liquidity budgets to the Board of Directors.

The Executive Management monitors compliance with relevant legislation and other financial reporting regulations and provisions.

Corporate governance principles

Corporate governance, defined as "the system used to manage and control a business", is to a wide extent reflected in the provisions concerning the Board of Directors set out in the Danish Companies Act.

To the Board of Directors of Vestas Wind Systems A/S corporate governance is not just a set of rules but a constant process. Consequently, the Board of Directors continuously addresses the guidelines and processes for the overall management of the Vestas Group. This ensures that the management is at any time able to conduct its managerial tasks professionally and with due consideration to current legislation, practices, and recommendations.

Financial reporting risks

Based on Vestas' financial risk management policy, the Global Finance function prepares a description of the key risks relating to financial reporting and measures taken to control such risks.

Global Finance works actively with anchoring financial risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks relating to financial reporting.

As part of the financial risk assessment, Vestas' Board of Directors and Executive Management annually assess the risk of fraud and the measures to be taken to reduce and/or eliminate such risks, including assessing any possibility of the general management overriding controls and affecting the financial reporting. Read more about risk management on page 039.

Control activities

Global Finance is responsible for the implementation and monitoring of Vestas' global financial processes. This helps to ensure a uniform design and structure of the Group's internal controls. The objective of the Group's control activities is to ensure compliance with the targets, policies, manuals, procedures, etc. defined by the Executive Management.

Furthermore, the activities must help ensure that any errors, deviations, and shortcomings are prevented, discovered, and rectified.

Vestas continuously adjusts and implements global financial processes and controls for all units and functions aimed at further mitigating the risk of incorrect financial reporting.

Information and communication

Vestas' policies, adopted by the Board of Directors, lay down, among other things, overall requirements on financial reporting and external financial reporting in accordance with current legislation and applicable regulations.

The information systems are designed to identify, collect, and communicate relevant information, reports, etc. on an ongoing basis and on all levels to facilitate an effective, reliable workflow and the performance of controls. This is done in due consideration of the confidentiality required as a listed company.

Code of Conduct

As Vestas gradually grows bigger with employees and business partners with widely different cultural backgrounds, business practices, religious beliefs, and political convictions, it is becoming more and more important to have a formal set of common values. The purpose of Vestas' Code of Conduct is to ensure that all employees and other persons acting on behalf of Vestas know what correct Vestas behaviour is.

Vestas' Code of Conduct sets the framework for the work of supporting the principles of the UN Global Compact. Vestas will endeavour to ensure that its business partners also respect these principles. Read more about Vestas' Code of Conduct on page 032.

Statutory report on corporate governance

Pursuant to section 107b of the Danish Financial Statements Act and clause 4.3 of "Rules for Issuers of Shares – Nasdaq Copenhagen", listed companies shall give a statement on how they address the Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance. The recommendations of the report specify that the circumstances of each company will govern the extent to which the recommendations are complied with or not, as the key issue is to create transparency in corporate governance matters.

Danish recommendation regarding corporate governance

Number

	2016	2015
Complies with the recommendation	43	44
Partly complies with the recommendation	4	3
Does not comply with the recommendation	0	0
Number of recommendations	47	47

Vestas' statutory report, which is part of the annual report, is only available at www.vestas.com/investor/corporate_governance#!statutoryreports.



Annual General Meeting 2017

The Annual General Meeting of Vestas Wind Systems A/S will be held on 6 April 2017 at 1 p.m. (CET) at Crown Plaza Copenhagen Towers in Copenhagen, Denmark.

Time schedule

22 February 2017	Deadline for proposals for the agenda
3 March 2017	Disclosure of the convening
30 March 2017	Record date
31 March 2017	Deadline for ordering an admission card Deadline for submitting a proxy
5 April 2017	Deadline for voting by correspondence
6 April 2017	Annual General Meeting 2017

Dividend

For the financial year 2016 the Board of Directors recommends a dividend of DKK 9.71 (EUR 1.31) per share be paid for 2016. This is equivalent to a dividend payout ratio of 30.0 percent measured against the net profit for the year.

Election of board members

The board members' election terms expire in 2017, as board members elected by the general meeting must retire at the following annual general meeting. The board members elected by the general meeting have all informed the Board of Directors that they will stand for re-election.

Appointment of auditors

The Board of Directors proposes that PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab be re-appointed as the company's auditor.

Proposals from the Board of Directors

The Board of Directors expects to propose that the share capital be reduced by 6,047,780 number of treasury shares. The proposal can only be adopted by a majority of not less than two-thirds of all votes

cast and of the share capital represented. The shares were acquired as part of the company's share buy-back programme as disclosed in company announcement No. 26/2016 of 18 August 2016.

The Board of Directors will also propose that the Board of Directors is granted an authorisation to, in the period until 31 December 2018, allow the company to acquire treasury shares up to an aggregate nominal value of 10 percent of the company's share capital at the time of the authorisation, provided that the company's total holding of treasury shares does not at any time exceed 10 percent of the company's share capital. The purchase price paid in connection with acquisition of treasury shares must not deviate from the price quoted on Nasdaq Copenhagen at the time of acquisition by more than 10 percent. The proposal can be adopted by a simple majority of votes.

The Board of Directors proposes that articles 6(3) and 6(4) of the articles of association are amended since it is not a requirement pursuant to the Danish Companies Act that shareholders request an admission card in order to attend a General Meeting. It is however a requirement that shareholders notify the company of their attendance. The articles will hereafter read as follows:

- Article 6(3) Any shareholder who is entitled to attend a General Meeting, ref. Article 6(2), and who wishes to attend a General Meeting or to be represented by proxy, must notify the Company of their attendance no later than three days before the date of the relevant General Meeting. Notification of participation shall not prevent the shareholder from deciding to be represented by proxy after notification has taken place.
- Article 6(4) Voting rights may be exercised by proxy, provided that the proxy holder documents the right to attend the General Meeting and presents a written and dated proxy form.

Members of the Board of Directors

	Born	Independent	Date of election	Expiry of election period	Share trading in 2016	Number of shares 2016 ¹⁾
Mr Bert Nordberg	23/03/1956	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	0	14,000
Mr Lars Josefsson	31/05/1953	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	+ 500	2,500
Mr Carsten Bjerg	12/11/1959	Yes	March 2011 and re-elected for subsequent terms, most recently in 2016	2017	0	4,019
Ms Eija Pitkänen	23/04/1961	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	0	1,250
Mr Henrik Andersen	31/12/1967	Yes	March 2013 and re-elected for subsequent terms, most recently in 2016	2017	+1,500 +1,000	7,000
Mr Henry Sténson	10/06/1955	Yes	March 2013 and re-elected for subsequent terms, most recently in 2016	2017	- 5,000	5,000
Mr Kim Hvid Thomsen	08/08/1963	-	May 1996 and re-elected for subsequent terms, most recently for 2016	2020	0	5,810
Ms Lykke Friis	27/10/1969	Yes	March 2014 and re-elected for subsequent terms, most recently for 2016	2017	+ 594	2,305
Mr Michael Abildgaard Lisbjerg	17/09/1974	-	April 2008 and re-elected for subsequent terms, most recently for 2016	2020	0	834
Mr Peter Lindholst	25/02/1971	-	March 2016	2020	0	500
Ms Sussie Dvinge Agerbo	05/10/1970	-	November 2005 and re-elected for subsequent terms, most recently for 2016	2020	0	3,300
Mr Torben Ballegaard	07/02/1951	Yes	March 2015 and re-elected in 2016	2017	0	5,500

Members of the Executive Management

	Born	Position	Date of appointment	Fiduciary positions / positions of trust	Share trading in 2016	Number of shares 2016 ¹⁾
Mr Anders Runevad	16/03/1960	Group President & CEO	September 2013	Deputy chairman of the board of MHI Vestas Offshore Wind A/S (DK). Member of the board of NKT Holding A/S (DK). Member of the General Council of the Confederation of Danish Industries (DK) and The Industrial Policy Committee of the Confederation of Danish Industries (DK).	+ 12,627 ²⁾ - 7,675 + 1,500	11,452
Mr Anders Vedel	06/03/1957	Executive Vice President & CTO	February 2012	Member of the boards of Hvide Sande Harbour (DK) and MHI Vestas Offshore Wind A/S (DK).	+ 26,823 ³⁾ + 18,938 ³⁾ - 33,761	16,941
Mr Jean-Marc Lechêne	29/10/1958	Executive Vice President & COO	July 2012	Member of the board of Norican Global A/S (DK).	+ 11,758 ⁴⁾ + 18,938 ⁴⁾ - 5,000	27,696
Mr Juan Araluce	17/01/1963	Executive Vice President & CSO	February 2012	Member of the board of MHI Vestas Offshore Wind A/S (DK).	+ 46,578 ⁵⁾ + 18,938 ⁵⁾ - 18,354 + 6,589	66,353
Ms Marika Fredriksson	04/11/1963	Executive Vice President & CFO	May 2013	Member of the boards of SSAB (SE) and ÅF AB (SE).	+ 12,627 ⁶⁾	18,127

1) The mentioned number of shares includes both own and related parties' total shareholdings. At 31 December 2016, the shares of the Board of Directors and the Executive Management represented a combined market value of approx EUR 12m.

2) In 2016, Mr Anders Runevad was granted 12,627 performance shares (DKK 0 per share).

3) In 2016, Mr Anders Vedel exercised 22,426 and 4,397 share options (DKK 57.76 and DKK 181.16 per share, respectively) – and was granted 18,938 performance shares (DKK 0 per share).

4) In 2016, Mr Jean-Marc Lechêne exercised 11,758 share options (DKK 57.76 per share) – and was granted 18,938 performance shares (DKK 0 per share).

5) In 2016, Mr Juan Araluce exercised 33,952 and 12,626 share options (DKK 57.76 and DKK 181.16 per share, respectively) – and was granted 18,938 performance shares (DKK 0 per share).

6) In 2016, Ms Marika Fredriksson was granted 12,627 performance shares (DKK 0 per share).

Remuneration report 2016 · Board of Directors

In 2016, Vestas' remuneration policy for members of Vestas Wind Systems A/S' Board of Directors was updated, and approved at the Annual General meeting in March 2016. The amendment of the remuneration policy concerned the remuneration of the chairmen of the board committees.

Efforts are made to ensure that the remuneration of the Board of Directors matches the level in comparable companies, whilst also taking into

consideration board members' required competencies, efforts and the scope of the board work, including the number of meetings.

In 2016, the Board of Directors held nine board meetings, six Audit Committee meetings, four Nomination & Compensation Committee meetings, and four Technology & Manufacturing Committee meetings.

Fixed remuneration

Members of the Board of Directors receive a fixed cash amount (basic remuneration), which is approved by the general meeting for the current financial year. The chairman receives a triple basic remuneration and the deputy chairman receives a double basic remuneration for their extended board duties.

Annual committee remuneration is paid to board members who are also members of one of the board committees. The remuneration is determined as a base fee, and the committee chairman receives an additional remuneration of 80 percent of the base committee remuneration.

Board members elected by the employees receive the same remuneration as the board members elected by the general meeting.

On any takeover, retiring board members will not receive any compensation for their lost board remuneration and similar benefits.

· Basic remuneration of EUR 53,619 (DKK 400,000) - compared to EUR 52,763 in 2015.

· Basic committee remuneration of EUR 33,512 (DKK 250,000) - compared to EUR 26,382 in 2015

· Chairmen of the committees receive EUR 60,322 (DKK 450,000) - compared to EUR 52,764 in 2015

Remuneration for ad hoc tasks

Individual board members may take on specific ad hoc tasks outside their normal duties assigned by the Board of Directors. In each such case, the Board of Directors shall determine a fixed remuneration for the work carried out in relation to those tasks. The fixed remuneration will be presented for approval at the following annual general meeting.

In 2016, no members of the Board of Directors have taken on specific ad hoc tasks.

Social security taxes and similar taxes

In addition to the remuneration, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.

EUR 106,263 - compared to EUR 95,809 in 2015.

Incentive programme, bonus pay, etc.

According to the remuneration policy the members of the Board of Directors are not included in incentive programmes (share programmes, bonus pay, or similar plans).¹⁾

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Reimbursement of expenses

Expenses in connection with board and committee meetings are reimbursed as per account rendered.

EUR 22,069 - compared to EUR 40,308 in 2015.

Pension scheme

The Board of Directors is not covered by any Vestas pension scheme or a defined benefit pension scheme.

-

Members of the Board of Directors


Number

2014 

2015 

2016 

 Members elected by the general meeting

 Members elected by the employees

The Board of Directors has defined a target outlining that members of the underrepresented gender should constitute two to three board members elected by the general meeting no later than in 2017.

Board of Directors remuneration for the financial year²⁾

	2016		2015	
	Number of members	EUR	Number of members	EUR
Board	12	804,285	12	791,445
Committees:				
Audit	4	160,858	4	131,910
Nomination & Compensation	4	160,858	4	131,910
Technology & Manufacturing	4	160,858	4	131,910

1) Employee elected members of the Board of Directors participate in incentive programmes, bonus pay, etc. on equal terms with other Vestas employees, ref. note 6.2 to the consolidated financial statements. Vestas annual report 2016, page 100.

2) Exclusive of social security taxes and similar taxes.

Remuneration report 2016 · Executive Management

The Board of Directors believes that a combination of fixed and performance-based pay to the Executive Management helps ensure that the company can attract and retain key employees. The Executive Manage-

ment is paid partly through variable performance-based elements to motivate performance, align with short- and long-term business targets, and to enable flexible remuneration costs.

Fixed salary The fixed salary is based on market level to attract and retain talented executives with the required competencies.	EUR 4.3m – compared to EUR 4.2m in 2015.
Cash bonus The bonus scheme is based on the results for the year and is paid out annually after adoption of the annual report for the relevant financial year. The bonus pay-out-level is defined by a weighted target achievement and is capped at a certain percentage of the fixed salary with the target and maximum pay-out levels set at 50 percent and 75 percent of the annual base salary, respectively. The bonus scheme is based on target achievement of a number of parameters, including financial key performance indicators like EBIT as well as any other targets approved by the Board of Directors. No pay-out will be made if the target for EBIT is not met at the defined minimum acceptable performance level. The members of the Executive Management will not receive any extraordinary compensation in the event of termination in connection with a change of ownership of the company's voting majority or if the company is dissolved through a merger or demerger. The Executive Management's notice of termination will, however, be extended to 36 months. There is no agreed redundancy pay or compensation for voluntary or non-voluntary termination.	EUR 3.1m – compared to EUR 2.8m in 2015.
Share-based incentives The focus of the share-based programme is to retain executive talent and create long-term shareholder value. The targets may be based on financial key performance indicators as well as the Group's market share as defined by the Board of Directors. For any financial year, the number of shares to be granted to the combined Executive Management may amount to a total of 120,000 performance shares based on an initial target level. The programme is based on three performance years. The maximum size of the grant is 150 percent of the target, corresponding to a total grant to the Executive Management of 180,000 performance shares. The number of shares available for grant may be adjusted in the event of changes in the company's capital structure. The performance shares will be granted in two portions; the first half of the shares will be granted after the three performance years following the disclosure of the programme and the second half of the shares will be granted five years after the disclosure, with the total grant size based on the results in the three performance years. If the minimum requirements for financial performance are not met, there will be no grant of performance shares.	97,467 shares – compared to 136,000 shares in 2015.
Personal benefits Members of the Executive Management have access to a number of work-related benefits, including company car, free telephony, broadband at home, and work-related newspapers and magazines.	–
Pension scheme Members of the Executive Management are not covered by Vestas' employer administered pension plan or a defined benefit pension scheme. Pension is considered included in the fixed salary.	–

Members of the Executive Management

Number

2014 

2015 

2016 

In 2016, there has been no change in the composition of the Executive Management.

Executive Management's remuneration¹⁾

	2016	2015
Fixed salary (EUR)	4,338,163	4,214,731
Bonus (EUR)	3,082,664	2,840,118
Performance shares:		
For the financial year (number)	97,467 ²⁾	136,000 ³⁾
Options:		
Total outstanding options for the period 2008-2012 (number)	-	85,159
Expired options (number)	-	9,376
Options exercised (number)	85,159	15,475

1) Ref. note 1.3 and note 6.2 to the consolidated financial statements. Annual report 2016.

2) The number of shares has been adjusted based on current estimate of performance in 2016. Allocation of performance shares for the 2016-2018 performance programme will be adjusted based on the level of actual achievement in the measurement period. The 2016 performance shares will be granted equally to the Executive Management in 2019 and 2021.

3) The 2015 performance shares will be granted equally to the Executive Management in 2018 and 2020.

Fiduciary positions of the members of the Board of Directors

The members of the Board of Directors have informed the company of the following competencies and fiduciary positions in Danish and foreign companies and organisations.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
Bert Nordberg Director	<ul style="list-style-type: none"> Chairman of the Board of Directors Chairman of the Nomination & Compensation Committee 	Member of the boards of AB Electrolux (SE), Axis AB (SE), Saab Group AB (SE), and Svenska Cellulosa Aktiebolaget SCA (SE).		Special competence in restructuring, services and infrastructure business; several years of international business experience; development market knowledge.
Lars Josefsson Independent consultant	<ul style="list-style-type: none"> Deputy Chairman of the Board of Directors Chairman of the Technology & Manufacturing Committee Member of the Nomination & Compensation Committee 	<p>Chairman of the Boards of Driconeq AB (SE), Ouman Oy (FI), and TimeZynk AB (SE).</p> <p>Member of the Boards of Holmen AB (SE) and Metso Oyj (FI).</p>		In-depth knowledge of managing international companies including research and development, technology and production.
Carsten Bjerg Director	<ul style="list-style-type: none"> Member of the Board of Directors Member of the Technology & Manufacturing Committee Member of the Audit Committee 	<p>Chairman of the boards of PCH Engineering A/S (DK), Ellegaard A/S (DK), and Guldager A/S (DK).</p> <p>Deputy chairman of the boards of Højgaard Holding A/S (DK) and Rockwool International A/S (DK).</p> <p>Member of the boards of Agrometer A/S (DK), MT Højgaard A/S (DK), and Nissens A/S (DK).</p>		In-depth knowledge of managing an international group including thorough knowledge of R&D, manufacturing, and strategic management.
Eija Pitkänen Sustainability and Compliance Officer Sonera	<ul style="list-style-type: none"> Member of the Board of Directors Member of the Technology & Manufacturing Committee 		Member of the board of Finnish Refugee Council (FI).	Extensive international experience in developing and executing global sustainability strategies as part of business in several international companies.
Henrik Andersen Group President & CEO of Hempel A/S	<ul style="list-style-type: none"> Member of the Board of Directors Chairman of the Audit Committee¹⁾ Member of the Nomination & Compensation Committee 	Member of the board of Maj Invest Holding A/S (DK).	Member of The investment committee of Maj Invest Equity 4 K/S (DK).	In-depth knowledge of accounting, finance and capital markets, international business experience including restructuring and strategic management of international companies.
Henry Sténson Executive Vice President of Corporate Communication & Sustainability Affairs, Volvo Group	<ul style="list-style-type: none"> Member of the Board of Directors Member of the Audit Committee 	Member of the boards of Braathens Regional AB (SE) and Stonghold Invest AB (SE).		More than 20 years' experience from executive teams in global business and extensive experience from communications with media, capital markets and international public affairs. Furthermore, experience from industrial turnaround processes and crisis management.
Kim Hvid Thomsen HR Business Partner, People & Culture, Vestas Wind Systems A/S	<ul style="list-style-type: none"> Member of the Board of Directors (elected by Group employees) Member of the Technology & Manufacturing Committee 			In-depth knowledge of production processes and human resources, etc. of the Vestas Group.

1) Fulfills the demand for qualifications within financial accounting and meets the definition of independence of audit committee members as set out in the Danish Auditors Act.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
Lykke Friis Prorector for Education, University of Copenhagen	<ul style="list-style-type: none"> Member of the Board of Directors Member of the Nomination & Compensation Committee 	<p>Member of the boards of European Council of Foreign Relations (UK), Rockwool Foundation, and VELUX A/S (DK).</p> <p>Member of the European Commission's high level group on Horizon 2020 (EU).</p>	<p>Chairman of the Danish Foreign Policy Society (DK).</p> <p>President of the Danish Cancer Society.</p> <p>Member of The Danish-German Chamber of Commerce (DK).</p>	In-depth knowledge of international energy policy and European Union regulation. Furthermore, experience from public affairs and managing research and development.
Michael Abildgaard Lisbjerg Senior Shop Steward and Skilled Worker, Production, Vestas Manufacturing A/S	<ul style="list-style-type: none"> Member of the Board of Directors (elected by Group employees) 	Deputy chairman of the boards of DM Skjern-Ringkøbing P/S (DK) and DMSR af 24. oktober 2016 ApS (DK).		In-depth knowledge of production processes and human resources, etc. of the Vestas Group.
Peter Lindholm Vice President, Concept Development, Power Solutions, Vestas Wind Systems A/S	<ul style="list-style-type: none"> Member of the Board of Directors (elected by company employees) 			In-depth knowledge of wind turbine design and innovation, and experience from Vestas in managing R&D activities in an international set-up.
Sussie Dvinge Agerbo Management Assistant, Power Solutions, Vestas Wind Systems A/S	<ul style="list-style-type: none"> Member of the Board of Directors (elected by company employees) 			In-depth knowledge of project management and organizational structures including human resources and staff development.
Torben Ballegaard Director	<ul style="list-style-type: none"> Member of the Board of Directors Member of the Audit Committee 	<p>Chairman of the boards of AS3 Companies A/S (DK), CAPNOVA A/S (DK), Tajco Group A/S (DK), and Liquid Vanity A/S (DK).</p> <p>Member of the board of Egmont International Holding A/S (DK).</p>	<p>Chairman of The Foundation Capnova Invest Zealand (DK).</p> <p>Member of the boards of The Egmont Foundation (DK) and Centre for Advanced Technology (CAT) Foundation (DK).</p>	Experience from growth and continuous improvement of global and complex industrial organizations. Leadership development. Product and business innovation and strategic execution. International sales and marketing. Value adding board work, financial controlling, and interaction with capital markets.

Accounting policies social and environmental highlights

Basis for preparation of the statement

General reporting standards

Vestas' reporting contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The below description of accounting policies of social and environmental performance refer to the social and environmental key figures and indicators presented on page 007 of the annual report.

All Vestas' wholly owned companies are covered by the report. Newly established companies are included from the time of production start and for acquired companies from the time when coming under Vestas' control. Companies are excluded from the reporting from the time when they leave Vestas' control.

Defining materiality

Vestas bases its materiality assessment on an analysis of significant economic, environmental and social impacts of the Group's activities. The analysis is based on internal priorities as well as experience from dialogue with and direct involvement of customers, investors, policy makers, employees and media. The result of the analysis is incorporated in Vestas' COP.

Vestas has previously selected a number of social and environmental key figures that are relevant to understand Vestas' development, results and financial position. These key figures have been maintained after the materiality assessment. The status of the key figures is monitored closely and for relevant key indicators specific targets have been defined.

Change in accounting policies

The same measurement and calculation methods are applied at all Vestas sites. There have been no significant changes from previous reporting periods in the scope and boundary applied in the report.

Social performance

Occupational health & safety

Occupational health & safety is measured for all activities under the organisational structure. Lost time injuries of all employees are stated on the basis of registration of incidents that have caused at least one workday of absence after the day of the injury. Total recordable injuries include Lost time injuries, Restricted work injuries and Medical treatment injuries.

Injuries and working hours for external supervised employees are also included. The incidence of injuries is defined as the number of lost time injuries including fatalities per one million working hours. The number of working hours is measured on the basis of daily time cards registered in the payroll system for hourly-paid employees and prescribed working hours for salaried employees. For external supervised employees, the injuries are reported by Vestas, and working hours are reported by the external suppliers.

Absence due to illness does not include absence caused by lost time injuries, maternity leave and child's illness leave. Absence due to illness is measured by means of registrations in the payroll system based on daily time cards for hourly-paid employees and absence records for salaried employees, respectively.

Employees

The number of employees is calculated as the number of full time employees (FTE) who have a direct contract with Vestas. Employee information is determined on the basis of extracts from the company's ordinary registration systems with specification of nationality, gender and IPE level (Mercer's International Position Evaluation). Employee indicators are calculated based on head counts.

Environmental performance

Energy consumption, water consumption, waste generation and CO₂ emission are reported on the basis of significance. All production facilities are included as well as larger offices, warehouses and other facilities ensuring a comprehensive and sufficient statement of these environmental aspects.

Utilisation of resources

Electricity, gas and district heating are measured on the basis of quantities consumed according to direct meter readings per site including related administration. Consumption of electricity comprises electricity purchased externally and consumption of production from own wind turbines. Oil for heating is stated on the basis of external purchases adjusted for inventories at the beginning and at the end of the period. Fuel for transport has been recognised on the basis of supplier statements. Electricity from renewable energy sources is calculated on the basis of supplier statements.

Renewable energy is energy generated from natural resources, which are all naturally replenished – such as wind, sunlight, water and geothermal heat. Nuclear power is not considered to be renewable energy. Consumption of electricity from non-renewable sources purchased as a result of not being able to purchase renewable electricity at some locations, is in the Group statement balanced with renewable electricity produced by wind power plants owned by Vestas and sold to the local grid.

The consumption of water is stated as measured consumption of fresh water. Cooling water from streams, rivers, lakes, etc. that is solely used for cooling and released to the stream after use without further contamination than a higher temperature, is not included.

Waste disposal

Waste is stated on the basis of weight slips received from the waste recipients for deliveries affected in the accounting period, apart from a few types of waste and non-significant volumes which are estimated on the basis of subscription arrangement and load. Waste disposal is based on supplier statements.

Emissions of CO₂

Direct emission of CO₂ is calculated on the basis of determined amounts of fuel for own transport and the direct consumption of oil and gas, with the usage of standard factors published by the UK Department for Environment, Food & Rural Affairs. Indirect emission of CO₂ is calculated on the basis of direct consumption of electricity and district heating, with the usage of national grid emissions factors published by International Energy Agency. Indirect CO₂ emissions from electricity consumption based on non-renewable sources is balanced out by CO₂ emission savings in the production and sale to the grid from Vestas owned wind turbines.

Local community

Environmental accidents are accidental releases of substance and chemicals which are considered by Vestas to have a significant impact on the environment. Breaches of internal inspection conditions are stated as the conditions for which measurements are required, and where measurements show breaches of stated conditions.

Products

CO₂ savings from the produced and shipped MW are calculated on the basis of a capacity factor of 30 per cent of the produced and shipped MW, an expected lifetime of 20 years of the produced and shipped MW, and the latest updated standard factor from the International Energy Agency of average CO₂ emission for electricity in the world, at present 536 grams of CO₂ per kWh.