The Lost Production Factor (LPF) indicates the share of wind not harvested by the wind turbine blades. In 2017, the LPF was 1.6 percent across 23,100 wind turbines with performance guarantee, a decrease of 0.2 percentage-points from last year, confirming the steady improvement in wind turbine performance.

Financial statements for **Vestas Wind Systems A/S**

Income statement 1 January – 31 December

mEUR	Note	2017	2016
Revenue	1.1	1,693	1,929
Production costs	1.2	(561)	(496)
Gross profit		**1,132**	**1,433**
Administration costs	1.2	(222)	(211)
Operating profit (EBIT)		**910**	**1,222**
Income/loss from investments in subsidiaries	3.3	150	73
Income/loss from investments in associates including joint venture	3.3	(40)	(101)
Financial income	4.1	162	113
Financial costs	4.1	(90)	(76)
Profit before tax		**1,092**	**1,231**
Income tax	5.1	(216)	(276)
Profit for the year		**876**	**955**
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		110	(28)
Retained earnings		499	694
Proposed dividends		267	289
Profit for the year		**876**	**955**

Balance sheet 31 December - Assets

mEUR	Note	2017	2016
Intangible assets	3.1	619	479
Property, plant, and equipment	3.2	143	233
Investments in subsidiaries	3.3	2,322	2,173
Investments in associates including joint venture	3.3	78	135
Marketable securities		196	190
Other investments		4	2
Other receivables		47	2
Tax receivables		51	59
Deferred tax	5.2	-	20
Total financial fixed assets		**2,698**	**2,581**
Total non-current assets		**3,460**	**3,293**
Inventories	2.1	75	89
Receivables from subsidiaries		3,379	4,341
Receivable from joint venture		14	4
Other receivables		91	69
Prepayments	3.4	8	4
Joint tax contribution		-	4
Total receivables		**3,492**	**4,422**
Marketable securities		7	11
Cash and cash equivalents		2,864	3,333
Total current assets		**6,438**	**7,855**
Total assets		**9,898**	**11,148**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2017	2016
Share capital		29	30
Reserve for net revaluation under the equity method		157	125
Reserve for capitalised development cost		267	187
Dividend		267	289
Retained earnings		2,219	2,400
Total equity		**2,939**	**3,031**
Warranty provisions	3.5	565	521
Deferred tax	5.2	33	-
Total non-current provisions		**598**	**521**
Other liabilities		2	-
Financial debt	4.3	497	496
Total non-current debt		**499**	**496**
Total non-current liabilities		**1,097**	**1,017**
Trade payables		156	105
Payables to subsidiaries		5,553	6,759
Other liabilities		99	162
Tax payables		54	74
Total current liabilities		**5,862**	**7,100**
Total liabilities		**6,959**	**8,117**
Total equity and liabilities		**9,898**	**11,148**

Contingent assets and liabilities	3.6
Financial risks	4.2
Audit fees	6.1
Contractual obligations	6.2
Related party transactions	6.3
Subsequent events	6.4
Ownership	6.5
General accounting policies	7.1

Statement of changes in equity 1 January – 31 December

2017 mEUR	Share capital	Reserve under the equity method	Reserve for capitalised development cost	Dividend	Retained earnings	Total
Equity as at 1 January	**30**	**125**	**187**	**289**	**2,400**	**3,031**
Exchange rate adjustments relating to foreign entities	-	(126)	-	-	3	(123)
Fair value adjustments of derivative financial instruments	-	93	-	-	65	158
Tax on fair value adjustments of derivative financial instruments	-	(22)	-	-	(15)	(37)
Fair value adjustments of derivative financial instruments, joint venture	-	(17)	-	-	-	(17)
Paid dividend	-	-	-	(278)	-	(278)
Paid dividend related to treasury stock	-	-	-	(11)	11	-
Proposed dividend	-	-	-	253	(253)	-
Proposed dividend related to treasury stock	-	-	-	14	(14)	-
Capitalised development cost	-	-	155	-	(155)	-
Tax on capitalised development cost	-	-	(75)	-	75	-
Acquisition of treasury shares	-	-	-	-	(694)	(694)
Sale of treasury shares	-	-	-	-	1	1
Share-based payments	-	(6)	-	-	24	18
Tax on share-based payments	-	-	-	-	5	5
Capital decrease	(1)	-	-	-	-	(1)
Profit for the year	-	110	-	-	766	876
Equity as at 31 December	**29**	**157**	**267**	**267**	**2,219**	**2,939**

1. Result for the year

1.1 Revenue

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

1.2 Costs

mEUR	2017	2016
Staff costs are specified as follows:		
Wages and salaries, etc.	254	235
Pension schemes	15	13
Other social security costs	1	1
	270	**249**

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

	2017	2016
Average number of employees in Vestas Wind Systems A/S	2,166	2,046

2. Working capital

2.1 Inventories

mEUR	2017	2016
Raw materials and consumables	73	87
Work in progress	2	2
	75	**89**

Inventories relate to the spare parts activity.

3. Other operating assets and liabilities

3.1 Intangible assets

2017 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	19	1,404	255	8	85	1,771
Reclassification	-	4	-	-	2	6
Exchange rate adjustments	0	(2)	(3)	0	0	(5)
Additions	56	-	8	6	221	291
Transfers	-	129	35	-	(164)	-
Cost as at 31 December	**75**	**1,535**	**295**	**14**	**144**	**2,063**
Amortisation as at 1 January	12	1,104	175	1	-	1,292
Reclassification	-	6	-	-	-	6
Exchange rate adjustments	0	(2)	(1)	0	-	(3)
Amortisation for the year	1	115	29	1	-	146
Impairment loss	-	3	-	-	-	3
Amortisation as at 31 December	**13**	**1,226**	**203**	**2**	**-**	**1,444**
Carrying amount as at 31 December	**62**	**309**	**92**	**12**	**144**	**619**
Amortisation period	5-20 years	3–5 years	3–5 years	3-7 years		

The Company has purchased intellectual property rights amounting to EUR 62m from an entity in the Group.

Included in software are internally completed IT projects amounting to EUR 72m as at 31 December 2017 (2016: EUR 55m). For development projects in progress, ref. note 3.1 to the Consolidated financial statements.

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

3.2 Property, plant, and equipment

2017 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools, and equipment	Property, plant and equipment in progress	Total
Cost as at 1 January	400	83	118	5	606
Additions	1	10	14	2	27
Disposals	(150)	(3)	(5)	(3)	(161)
Transfers	-	3	-	(3)	0
Cost as at 31 December	**251**	**93**	**127**	**1**	**472**
Depreciation as at 1 January	221	57	95	-	373
Depreciation for the year	10	10	10	-	30
Reversed impairment	(8)	-	-	-	(8)
Depreciations on disposals for the year	(58)	(3)	(5)	-	(66)
Depreciation as at 31 December	**165**	**64**	**100**	**-**	**329**
Carrying amount as at 31 December	**86**	**29**	**27**	**1**	**143**
Depreciation period	15–40 years	3–10 years	3–5 years		

The Company has during the year sold it's buildings at Hedeager 42 and 44, Aarhus.

3.3 Investments in subsidiaries and associates including joint venture

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

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

The items "Investments in subsidiaries" and "Investments in associates including joint venture" in the balance sheet includes the proportionate ownership share of the net asset value of the entities calculated under the accounting policies of the parent company with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of the positive differences (goodwill).

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

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

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

3.3 Investments in subsidiaries and associates including joint venture (continued)

Investments in subsidiaries, joint venture, and associates

mEUR	2017	2016
Subsidiaries	2,322	2,173
Joint venture	77	134
Associates	1	1
Carrying amount as at 31 December	**2,400**	**2,308**

Income/(loss) from investments in subsidiaries, joint venture, and associates

mEUR	2017	2016
Subsidiaries	150	73
Joint venture	(40)	(101)
Associates	0	0
	110	**(28)**

Income/(loss) from subsidiaries

mEUR	2017	2016
Share of profit/loss in subsidiaries after tax	162	89
Amortisation of goodwill	(12)	(16)
	150	**73**

Income/(loss) from joint venture

mEUR	2017	2016
Share of profit/loss in joint venture after tax	(40)	(101)
	(40)	**(101)**

3.3 Investments in subsidiaries and associates including joint venture (continued)

Investments in subsidiaries

mEUR	2017	2016
Cost as at 1 January	1,980	1,746
Exchange rate adjustments	(4)	5
Additions	64	229
Cost as at 31 December	**2,040**	**1,980**
Value adjustments as at 1 January	193	190
Exchange rate adjustments	(126)	8
Disposal	-	(1)
Share of profit/loss for the year after tax	162	89
Changes in equity, share-based payment	(6)	(12)
Changes in equity, derivative financial instruments	71	(65)
Amortisation of goodwill	(12)	(16)
Value adjustments as at 31 December	**282**	**193**
Carrying amount as at 31 December	**2,322**	**2,173**
Remaining positive difference included in the above carrying amount as at 31 December	79	142

Ref. note 6.8 to the Consolidated financial statements for an overview of the legal entities within the Group.

Investments in joint venture

mEUR	2017	2016
Cost as at 1 January	202	202
Cost as at 31 December	**202**	**202**
Value adjustments as at 1 January	(68)	22
Other adjustments	-	(2)
Share of profit/loss for the year after tax	(40)	(101)
Changes in equity	(17)	13
Value adjustments as at 31 December	**(125)**	**(68)**
Carrying amount as at 31 December	**77**	**134**

Ref. note 6.8 to the Consolidated financial statements for an overview of the legal entities within the Group.

3.4 Prepayments

Prepayments comprise of prepaid software license, insurance, and rent.

3.5 Provisions

Warranty provisions

mEUR	2017	2016
Warranty provisions as at 1 January	521	381
Warranty provisions for the year	185	228
Used warranty provisions for the year	(141)	(88)
Warranty provisions as at 31 December	**565**	**521**
The warranty provisions are expected to be consumed as follows:		
0–1 year	132	110
> 1 year	433	411
	565	**521**

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

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

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

3.6 Contingent assets and liabilities

mEUR	2017	2016
The company has provided guarantee and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	267	309

In addition, the company provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries, and their warranty obligations to customers. To secure guarantees issued by banks, the company has given securities in cash and cash equivalents with disposal restrictions, ref. note 4.4 to the Consolidated financial statements.

On 31 July 2017 General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its U.S. Patents No. 7,629,705 and No. 6,921,985 (the "705 Patent" and the "985 Patent"). The 705 Patent addresses Zero Voltage Ride Through technology. The 985 Patent addresses techniques to maintain functioning of the blade pitch system during low voltage events. Vestas answered and counterclaimed on December 15, 2017. As set forth in its counterclaims, it is Vestas assessment that GE's patents are invalid and unenforceable, and that Vestas does not infringe. Consequently, Vestas has made no provision to cover the complaint. However, in the event that Vestas is not successful in its defense in this case, and GE prevails, this case could potentially have significant financial impact on Vestas. As GE has not claimed any specific amount from Vestas, it is not possible for Vestas to estimate such financial impact any further at this point in time.

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

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

4. Capital structure and financing items

4.1 Financial items

mEUR	2017	2016
Financial income		
Interest income	18	54
Interest income from subsidiaries	104	41
Exchange rate adjustments	36	-
Financial instruments	-	17
Other financial income	4	1
	162	**113**
Financial costs		
Interest costs	29	21
Interest costs to subsidiaries	31	18
Exchange rate adjustments	-	29
Financial instruments	22	-
Other financial costs	8	8
	90	**76**

4.2 Financial risks

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

4.3 Financial liabilities

Financial debts

mEUR	2017	2016
Green corporate eurobond	497	496
	497	**496**
Financial debts break down as follows:		
< 1 year	-	-
1–2 years	-	-
> 2 years	497	496
	497	**496**

5. Tax

5.1 Income tax

mEUR	2017	2016
Current tax on profit for the year	181	252
Deferred tax on profit for the year	36	25
Foreign taxes	2	(1)
Adjustment related to previous years	(3)	0
Income tax for the year recognised in the income statement, (income)	**216**	**276**
Deferred tax on equity	10	(12)
Tax recognised in equity, expense/(income)	**10**	**(12)**
Total income taxes for the year, (income)	**226**	**264**

5.2 Deferred tax

mEUR	2017	2016
Deferred tax as at 1 January, net assets	20	73
Deferred tax on profit for the year	(36)	(25)
Prepaid tax	-	(48)
Tax on entries in equity	(10)	12
Adjustment relating to previous years	(7)	8
Deferred tax as at 31 December, net assets	**(33)**	**20**

6. Other disclosures

6.1 Audit fees

mEUR	2017	2016
Audit:		
PricewaterhouseCoopers	1	1
Total audit	**1**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	0
Tax assistance	1	1
Other services	1	1
Total non-audit services	**2**	**2**
Total	**3**	**3**

6.2 Contractual obligations

mEUR	2017	2016
The lease obligations relating to operating leases fall due:		
0–1 year	14	4
1–5 years	50	15
> 5 years	14	2

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

6.3 Related party transactions

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

6.4 Subsequent events

Ref. note 6.7 Subsequent events in the Consolidated financial statements.

6.5 Ownership

The Company has registered the following shareholders with more than 5 percentage of share capital voting rights or nominal value:

- Vestas Wind Systems A/S, Hedeager 42, 8200 Aarhus N., Denmark

7. Basis of preparation

7.1 General accounting policies

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

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

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

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

Cash flow statement
Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. See the Consolidated Cash Flow Statement on page 068.