Consolidated financial statements 1 January – 30 June

Condensed income statement 1 January – 30 June

mEUR	Note	Q2 2018	Q2 2017*	H1 2018	H1 2017*
Revenue	1.1, 1.2	**2,260**	**2,206**	**3,954**	**4,091**
Production costs		(1,844)	(1,722)	(3,257)	(3,230)
Gross profit		**416**	**484**	**697**	**861**
Research and development costs		(57)	(85)	(105)	(127)
Distribution costs		(37)	(52)	(86)	(114)
Administration costs		(63)	(68)	(121)	(130)
Operating profit (EBIT)	1.1	**259**	**279**	**385**	**490**
Income from investments in joint ventures and associates		(13)	(21)	5	(32)
Net financial items		(1)	(11)	(8)	3
Profit before tax		**245**	**247**	**382**	**461**
Income tax		(61)	(61)	(96)	(115)
Profit for the period		**184**	**186**	**286**	**346**
Profit is attributable to:					
Owners of Vestas		184	186	286	346
Non-controlling interests		(0)	-	(0)	-
Earnings per share (EPS)					
Earnings per share for the period (EUR), basic		0.92	0.87	1.42	1.62
Earnings per share for the period (EUR), diluted		0.92	0.87	1.41	1.61

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed income statement for the period should be read in conjunction with the accompanying notes.

Condensed statement of comprehensive income 1 January - 30 June

mEUR	Q2 2018	Q2 2017*	H1 2018	H1 2017*
Profit for the period	**184**	**186**	**286**	**346**
Items that may be reclassified subsequently to the income statement:				
Exchange rate adjustments relating to foreign entities	30	(80)	7	(85)
Fair value adjustments of derivative financial instruments for the period	(17)	39	43	60
Derivative financial instruments transferred to the initial carrying amount of hedged items	(24)	24	(27)	16
Gain/(loss) on derivative financial instruments transferred to the income statement (financial items)	(3)	-	(5)	-
Exchange rate adjustments relating to joint ventures	0	(1)	0	(1)
Share of fair value adjustments of derivatives financial instruments of joint ventures for the period	(0)	(2)	(0)	(9)
Tax on items that may be reclassified subsequently to the income statement	8	(16)	(3)	(19)
Other comprehensive income after tax for the period	(6)	(36)	15	(38)
Total comprehensive income for the period	**178**	**150**	**301**	**308**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed balance sheet – Assets

mEUR	Note	30 June 2018	30 June 2017*	31 December 2017*
Goodwill		378	306	304
Completed development projects		276	311	309
Software		107	82	95
Other intangible assets		57	48	49
Development projects in progress		202	98	144
Total intangible assets		**1,020**	**845**	**901**
Land and buildings		690	718	704
Plant and machinery		226	213	248
Other fixtures, fittings, tools and equipment		218	213	222
Property, plant and equipment in progress		126	103	73
Total property, plant and equipment		**1,260**	**1,247**	**1,247**
Investments in joint ventures and associates	4.1	152	156	150
Other investments		35	25	30
Tax receivables		68	49	51
Deferred tax		230	209	218
Other receivables	3.4	102	64	72
Financial investments	3.3, 3.5	202	204	196
Total other non-current assets		**789**	**707**	**717**
Total non-current assets		**3,069**	**2,799**	**2,865**
Inventories		4,182	3,056	2,696
Trade receivables		1,057	983	1,144
Contract assets		27	26	82
Tax receivables		66	37	53
Other receivables	3.4	496	369	371
Financial investments	3.3, 3.5	265	-	7
Cash and cash equivalents	3.2	2,108	2,928	3,653
Total current assets		**8,201**	**7,399**	**8,006**
Total assets		**11,270**	**10,198**	**10,871**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed balance sheet – Equity and liabilities

mEUR	Note	30 June 2018	30 June 2017*	31 December 2017*
Share capital	3.1	28	29	29
Other reserves		52	23	37
Retained earnings		2,835	3,090	3,046
Attributable to owners of Vestas		2,915	3,142	3,112
Non-controlling interests		4	-	-
Total equity		**2,919**	**3,142**	**3,112**
Provisions	2.2	414	461	483
Deferred tax		64	101	61
Financial debts	3.4	497	496	497
Tax payables		166	37	166
Other liabilities	3.4	32	55	19
Total non-current liabilities		**1,173**	**1,150**	**1,226**
Financial debt	3.2	8	-	-
Prepayments from customers		3,833	2,636	2,923
Contract liabilities		166	170	159
Trade payables		2,497	2,436	2,660
Provisions	2.2	195	146	148
Tax payables		70	101	108
Other liabilities	3.4	409	417	535
Total current liabilities		**7,178**	**5,906**	**6,533**
Total liabilities		**8,351**	**7,056**	**7,759**
Total equity and liabilities		**11,270**	**10,198**	**10,871**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed balance sheet should be read in conjunction with the accompanying notes.

Condensed statement of changes in equity – 6 months 2018

mEUR	Share capital	Reserves: Transla-tion reserve	Cash flow hedging reserve	Other reserves	Total other reserves	Retained earnings	Non-control-ling interests	Total
Equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**3,046**	**-**	**3,112**
Impact on change in accounting policy IFRS 15	-	-	-	-	-	(54)	-	(54)
Adjusted equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**2,992**	**-**	**3,058**
Profit for the period	-	-	-	-	-	286	(0)	286
Other comprehensive income for the period	-	7	8	0	15	-	-	15
Total comprehensive income for the period	-	7	8	0	15	286	-	301
Transaction with owners:								
Transactions with non-controlling interests	-	-	-	-	-	-	4	4
Reduction of share capital*	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(267)	-	(267)
Dividends distributed related to treasury shares	-	-	-	-	-	17	-	17
(Acquisition) /disposal of treasury shares	-	-	-	-	-	(201)	-	(201)
Share-based payments	-	-	-	-	-	7	-	7
Tax on equity transactions	-	-	-	-	-	0	-	0
Total transactions with owners	(1)	-	-	-	-	(443)	4	(440)
Equity as at 30 June 2018	**28**	**(14)**	**68**	**(2)**	**52**	**2,835**	**4**	**2,919**

* The share capital was reduced by 9,800,944 shares of DKK 1.00 in second quarter of 2018, due to cancellation of treasury shares. Furthermore, the share capital was changed in second quarter of 2017, second quarter of 2016 and first quarter of 2014. Except of these changes, the share capital has not changed in the period 2014-2018. Refer to note 3.1.

Condensed statement of changes in equity – 6 months 2017*

mEUR	Share capital	Reserves: Transla-tion reserve	Cash flow hedging reserve	Other reserves	Total other reserves	Retained earnings	Total
Equity as at 1 January 2017	**30**	**107**	**(61)**	**15**	**61**	**3,099**	**3,190**
Profit for the period	-	-	-	-	-	346	346
Other comprehensive income for the period	-	(85)	57	(10)	(38)	-	(38)
Total comprehensive income for the period	-	(85)	57	(10)	(38)	346	308
Transaction with owners:							
Reduction of share capital	(1)	-	-	-	-	1	-
Dividends distributed	-	-	-	-	-	(289)	(289)
Dividends distributed related to treasury shares	-	-	-	-	-	11	11
Acquisition (-) /disposal (+) of treasury shares	-	-	-	-	-	(95)	(95)
Disposal of treasury shares	-	-	-	-	-	1	1
Share-based payments	-	-	-	-	-	6	6
Tax on equity transactions	-	-	-	-	-	10	10
Total transactions with owners	(1)	-	-	-	-	(355)	(356)
Equity as at 30 June 2017	**29**	**22**	**(4)**	**5**	**23**	**3,090**	**3,142**

* Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed cash flow statement 1 January – 30 June

mEUR	Note	Q2 2018	Q2 2017*	H1 2018	H1 2017*
Profit for the period		184	186	286	346
Adjustment for non-cash transactions		223	255	266	488
Income tax paid		(24)	(23)	(139)	(141)
Financial items paid, net		(6)	(7)	(19)	(24)
Cash flow from operating activities before change in net working capital		377	411	394	669
Change in net working capital		(429)	(453)	(914)	(715)
Cash flow from operating activities		**(52)**	**(42)**	**(520)**	**(46)**
Purchase of intangible assets		(63)	(49)	(123)	(93)
Purchase of property, plant and equipment		(65)	(67)	(123)	(107)
Disposal of non-current assets held for sale		-	-	-	99
Purchase of other non-current financial assets		-	-	-	(3)
Proceeds from investment in joint venture	4.1	9	-	9	-
Addition of share in joint venture	4.1	(2)	-	(3)	-
Cash flow from investing activities before acquisitions of subsidiaries and financial investments		**(121)**	**(116)**	**(240)**	**(104)**
Free cash flow before acquisitions of subsidiaries and financial investments		**(173)**	**(158)**	**(760)**	**(150)**
Acquisition of subsidiaries, net of cash	4.2	-	-	(65)	-
Purchase of financial investments	3.5	(265)	-	(265)	-
Free cash flow		**(438)**	**(158)**	**(1,090)**	**(150)**
Dividend paid		(250)	(278)	(250)	(278)
Sales of own shares		-	1	-	1
Purchase of treasury shares		(106)	(43)	(201)	(98)
Transactions with non-controlling interests	3.6	4	-	4	-
Cash flow from financing activities		**(352)**	**(320)**	**(447)**	**(375)**
Net decrease in cash and cash equivalents		**(790)**	**(478)**	**(1,537)**	**(525)**
Cash and cash equivalents at the beginning of period		2,901	3,487	3,653	3,550
Exchange rate adjustments of cash and cash equivalents		(11)	(81)	(16)	(97)
Cash and cash equivalents at the end of the period	3.2	**2,100**	**2,928**	**2,100**	**2,928**

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

Notes

1 Result for the period

1.1 Segment information

mEUR	Power solutions	Service	Not allocated	Total Group
Q2 2018				
Revenue	1,847	413	-	2,260
Total revenue	**1,847**	**413**	**-**	**2,260**
Total costs	**(1,635)**	**(309)**	**(57)**	**(2,001)**
Operating profit (EBIT)	**212**	**104**	**(57)**	**259**
Income from investments in joint ventures and associates				(13)
Net financial items				(1)
Profit before tax				**245**
Amortisation and depreciation included in total costs	(85)	(9)	(10)	(104)

In second quarter of 2018, impairment losses of EUR 6m related to patents impacted the Power solutions segment.

mEUR	Power solutions	Service	Not allocated	Total Group
Q2 2017*				
Revenue	1,835	371	-	2,206
Total revenue	**1,835**	**371**	**-**	**2,206**
Total costs	**(1,572)**	**(299)**	**(56)**	**(1,927)**
Operating profit (EBIT)	**263**	**72**	**(56)**	**279**
Income from investments in joint ventures and associates				(21)
Net financial items				(11)
Profit before tax				**247**
Amortisation and depreciation included in total costs	(85)	(8)	(6)	(99)

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

In second quarter of 2017, impairment losses of EUR 28m related to R&D facilities and reversal of impairment losses from prior years of EUR 8m related to manufacturing facilities were reflected. Net EUR 20m has negatively impacted the Power solutions segment.

1.1 Segment information (continued)

mEUR	Power solutions	Service	Not allocated	Total Group
H1 2018				
Revenue	3,175	779	-	3,954
Total revenue	**3,175**	**779**	**-**	**3,954**
Total costs	**(2,885)**	**(577)**	**(107)**	**(3,569)**
Operating profit (EBIT)	**290**	**202**	**(107)**	**385**
Income from investments in joint ventures and associates				5
Net financial items				(8)
Profit before tax				**382**
Amortisation and depreciation included in total costs	(167)	(16)	(20)	(203)

In second quarter of 2018, impairment losses of EUR 6m related to patents impacted the Power solutions segment.

mEUR	Power solutions	Service	Not allocated	Total Group
H1 2017*				
Revenue	3,351	740	-	4,091
Total revenue	**3,351**	**740**	**-**	**4,091**
Total costs	**(2,897)**	**(597)**	**(107)**	**(3,601)**
Operating profit (EBIT)	**454**	**143**	**(107)**	**490**
Income from investments in joint ventures and associates				(32)
Net financial items				3
Profit before tax				**461**
Amortisation and depreciation included in total costs	(160)	(17)	(12)	(189)

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

In first quarter of 2017, write-offs on service inventory of EUR 14m has been recognised and consequently negatively impacted the Service EBIT.

In second quarter of 2017, impairment losses of EUR 28m related to R&D facilities and reversal of impairment losses from prior years of EUR 8m related to manufacturing facilities were reflected. Net EUR 20m has negatively impacted the Power solutions segment.

1.2 Revenue

Vestas has applied IFRS 15 using the modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018, and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from these under IFRS 15 and the impact of changes is disclosed in Note 5.3.

Group accounting policies
Revenue is measured based on the consideration specified in a contract with a customer. Vestas recognises revenue when it transfers control over a product or service to a customer.

In comparative period, sale of individual wind turbines and wind power plants based on standard solutions (supply-only and supply-and-installation) was recognised in the income statement, provided that risk was transferred to the buyer. Revenue from contracts to deliver wind power plants with a high degree of customisation was recognised as the wind power plants was constructed based on the stage of completion of the individual contracts (turnkey projects). Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, were recognised as revenue over the term of the agreement as the services were provided. Spare parts sales were recognised in the income statement provided that risk was transferred to the buyer.

Revenue recognition under IFRS 15
Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts. The following is a description of the principal activities from which Vestas generates its revenue.

Supply-only projects
Revenue from sale of individual wind turbines based on standard solutions is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue at a point in time, when control is transferred to the customer, and the consideration agreed is expected to be received. Control is generally deemed to be transferred upon delivery of the components in accordance with the agreed delivery plan.

Supply-and-installation projects
Revenue from sale of wind power plants based on standard solutions with alternative use is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue when control of the fully operational turbine is transferred to the customer, and the consideration agreed is expected to be received. Control is deemed to be transferred at the point in time when the turbine is fully operational.

Turnkey projects
Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised over time as the wind power plants are constructed based on the stage of completion of the individual contracts. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the cost incurred to the extent that it is probable that the costs will be recovered.

Service sales
Revenue from service sales, comprising services and maintenances agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised over the term of the agreement as the services are provided. Spare parts sales are recognised at a point in time when control has been transferred to the customer, and provided that consideration agreed is expected to be received.

Key accounting estimates and judgements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, Supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future.

Vestas applies the percentage-of-completion method in accounting for service contracts and certain wind power plants, in general projects with a high degree of customisation. The use of the percentage-of-completion method requires Management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method). Based on the estimated stage of completion, a respective portion of the consideration is recognised.

Disaggregation of revenue

In the following section, revenue is disaggregated by sale of projects and sale of service, by primary geographical market, major contract types, and timing of revenue recognition.

mEUR	Power solutions		Service		Total	
	Q2 2018	Q2 2017*	Q2 2018	Q2 2017*	Q2 2018	Q2 2017*
Timing of revenue recognition						
Products and services transferred at a point in time	1,553	1,720	68	66	1,621	1,786
Products and services transferred over time	294	115	345	305	639	420
	1,847	1,835	413	371	2,260	2,206
Revenue from contract types						
Supply-only	500	892	-	-	500	892
Supply-and-installation	1,140	828	-	-	1,140	828
Turnkey (EPC)	207	115	-	-	207	115
Service	-	-	413	371	413	371
	1,847	1,835	413	371	2,260	2,206
Primary geographical markets						
EMEA	484	735	247	210	731	945
Americas	766	973	120	121	886	1,094
Asia Pacific	597	127	46	40	643	167
	1,847	1,835	413	371	2,260	2,206

mEUR	Power solutions		Service		Total	
	H1 2018	H1 2017*	H1 2018	H1 2017*	H1 2018	H1 2017*
Timing of revenue recognition						
Products and services transferred at a point in time	2,538	3,170	114	122	2,652	3,292
Products and services transferred over time	637	181	665	618	1,302	799
	3,175	3,351	779	740	3,954	4,091
Revenue from contract types						
Supply-only	827	1,689	-	-	827	1,689
Supply-and-installation	1,883	1,481	-	-	1,883	1,481
Turnkey (EPC)	465	181	-	-	465	181
Service	-	-	779	740	779	740
	3,175	3,351	779	740	3,954	4,091
Primary geographical markets						
EMEA	1,217	1,428	471	408	1,688	1,836
Americas	1,135	1,723	228	255	1,363	1,978
Asia Pacific	823	200	80	77	903	277
	3,175	3,351	779	740	3,954	4,091

*) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 5.3.

2 Other operating assets and liabilities

2.1 Investments in associates and joint ventures

In May 2018, Vestas has entered into a partnership with Swedish utility, Vattenfall, and Danish pension fund, PKA, for a 353 MW wind energy project in Sweden. For the project, Vestas will become a shareholder through a share purchase agreement for 40 percent of the project. PKA and Vattenfall will own 30 percent project equity each. No capital contribution has been recognised in the interim report for second quarter of 2018. Financial close is expected to be finalised in the second half of 2018.

2.2 Warranty provisions (included in provisions)

mEUR	30 June 2018	30 June 2017	31 December 2017
Warranty provisions, 1 January	566	524	524
Impact on change in accounting policy – IFRS 15	(13)	-	-
Provisions for the period	64	76	185
Warranty provisions consumed during the period	(77)	(59)	(143)
Warranty provisions	**540**	**541**	**566**
The provisions are expected to be payable as follows:			
< 1 year	162	124	132
> 1 year	378	417	434

In the first half of 2018, warranty provisions charged to the income statement amounted to EUR 64m, equivalent to 1.6 percent of revenue. Warranty consumption amounted to EUR 77m – compared to EUR 59m in the second quarter of 2017. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.6 percent.

In general, provisions are made for all expected costs associated with wind turbine repairs or replacements, and any reimbursement from other involved parties is not offset unless a written agreement has been made to that effect. Provisions are made to cover possible costs of remedy and other costs in accordance with specific agreements. Provisions are based on estimates, and actual costs may deviate substantially from such estimates.

2.3 Contingent assets and liabilities

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 US 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 15 December 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 defence 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.

No other significant changes have occurred to contingent assets and liabilities or types and scale of assets and liabilities compared to what is disclosed in the consolidated financial statements in the Annual report 2017, note 3.6, page 92.

3 Capital structure and financing items

3.1 Share capital

Pursuant to authorisation granted to the Board of Directors by the Annual General Meeting on 6 April 2017, which authorised Vestas to acquire treasury shares at a nominal value not exceeding 10 percent of the share capital at the time of authorisation, Vestas initiated a share buy-back programme during 2018 on 12 February 2018.

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

Treasury shares

Number of shares / Nominal value (DKK)	30 June 2018	30 June 2017	31 December 2017
Treasury shares as at 1 January	11,843,929	7,770,888	7,770,888
Purchases for the period	3,498,469	1,298,749	10,503,515
Cancellation for the period	(9,800,944)	(6,047,780)	(6,047,780)
Sale of treasury shares for the period	(586,449)	(318,196)	(382,694)
Treasury shares	**4,955,005**	**2,703,661**	**11,843,929**

3.2 Cash and cash equivalents

mEUR	30 June 2018	30 June 2017	31 December 2017
Cash and cash equivalents without disposal restrictions	1,908	2,523	3,197
Cash and cash equivalents with disposal restrictions	192	405	456
Cash and cash equivalents	**2,100**	**2,928**	**3,653**
The balance is specified as follows:			
Cash and cash equivalents	2,108	2,928	3,653
Financial debt	(8)	-	-
Cash and cash equivalents	**2,100**	**2,928**	**3,653**

3.3 Financial risks

Financial risks, including liquidity, credit, and market risks were addressed in the notes to the Consolidated financial statements in the Annual report 2017, note 4.5, page 96-101. The risks remain similar in nature compared to 2017.

3.4 Financial instruments

As at 30 June 2018, the fair value of financial investments was EUR 467m, equal to book value. Derivative financial instruments was positive with a market value of net EUR 85m, equal to book value, and included in other receivables and other liabilities with EUR 180m and EUR 95m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the Annual report 2017, note 4.7, page 105. There have been no significant new items compared to 2017 and there have been no significant transfers between levels.

The book value of the Green Corporate Eurobond was EUR 497m with a corresponding fair value of EUR 531m as at 30 June 2018.

3.5 Financial investments

Financial investments consist of interest-bearing investments which do not meet the definition for cash and cash equivalents. On initial recognition, financial investments are recognised in the balance sheet at fair value and subsequently re-measured at fair value through profit and loss. Any change in the fair values of the financial investments are recognised in the income statement as financial items.

mEUR	30 June 2018	30 June 2017	31 December 2017
Marketable securities	202	204	203
Deposits	265	-	-
Financial investments	**467**	**204**	**203**
Financial investments specified as follows:			
0-1 year	265	-	7
> 1 year	202	204	196
Financial investments	**467**	**204**	**203**

3.6 Change in Vestas' ownership interest in a subsidiary

In April 2018, Vestas disposed 49 percent of its interest in Vestas Manufacturing Rus through capital injections from third parties, reducing its continuing interests to 51 percent. The proceeds from third parties of EUR 4m were received in cash. An amount of EUR 4m (being the proportionate share of the carrying amount of the net assets of Vestas Manufacturing Rus) has been transferred to non-controlling interest.

4 Other disclosures

4.1 Related party transactions

Vestas has had the following material transactions with joint ventures:

mEUR	Q2 2018	Q2 2017	H1 2018	H1 2017
MHI Vestas Offshore Wind A/S				
Revenue for the period	34	108	71	234
Receivables as at 30 June	40	50	40	50
Roaring Fork Wind, LLC				
Proceeds from sale of projects	9	-	9	-
Capital increase	(2)	-	(3)	-
Prepayments balance as at 30 June	82	74	82	74

No other significant changes have occurred to related parties or types and scale of transactions with these parties other than what is disclosed in the consolidated financial statements in the Annual report 2017, note 6.4, page 113.

4.2 Business combinations

Acquisition of Utopus Insights, Inc.

On 4 February 2018, Vestas acquired 100 percent of the share capital of Utopus Insights, Inc. (”Utopus”), a leading energy analytics and digital solutions company. The acquisition significantly improves Vestas’ existing market-leading capabilities for advanced analytics and integrated energy software solutions.

The goodwill of EUR 70m arising from the acquisition is attributable to synergies expected from combining the operations of Vestas and Utopus. None of the goodwill recognised is expected to be deductible for income tax purpose.

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

mEUR	Utopus
Cash	70
Contingent consideration	11
Total consideration	**81**

The acquisition price for Utopus is EUR 65m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

mEUR	Utopus
Technology (included in Other intangible assets)	13
Cash	5
Deferred tax liability	(3)
Trade payables	(1)
Other liabilities	(3)
Total identifiable net assets	**11**
Goodwill	70
Total	**81**

The contingent consideration arrangement requires Vestas to pay, in cash, to the former owners of Utopus, an earn-out up to EUR 16m, undiscounted, contingent on revenue in 2020.

The fair value of the acquired identifiable net asset of EUR 11m (including Technology) is provisional pending final valuations for those assets.

The revenue included in the consolidated income statement since 14 February 2018 contributed by Utopus was EUR 0m. Utopus also contributed loss after tax of EUR 2m over the same period.

Had Utopus been consolidated from 1 January 2018, the consolidated income statement would have been impacted with revenue of approx. EUR 4m and profit after tax of approx. EUR 0m.

The revenue, costs and EBIT from Utopus are allocated to the Service segment.

5 Basis for preparation

5.1 General accounting policies

The interim financial report of Vestas comprises a summary of the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries.

The interim financial report has been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the EU and additional Danish disclosure requirements for interim financial reporting of listed companies.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made during the interim reporting period.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected annual profit or loss.

5.2 Key accounting estimates and judgements

When preparing the interim financial reporting of Vestas, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of Vestas' assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances. Reference is made to the consolidated financial statements in the annual report for the year ended 31 December 2017, note 7.2, page 119.

5.3 Changes in accounting policies and disclosures

Except for the changes below, the accounting policies remain unchanged compared to the annual report for the year ended 31 December 2017, to which reference is made.

Impact of new accounting standards for second quarter 2018
Vestas has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2018 financial year, including:

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

None of these new or amended accounting standards and clarifications resulted in any significant changes to the accounting policies for Vestas or had significant impact on recognition or measurement in the consolidated financial statements in the first half of 2018. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

IFRS 15, Revenue from Contracts with Customers and Clarifications to IFRS 15
IFRS 15 has been implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2018. Vestas has applied IFRS 15 using modified retrospective application, with the cumulative effect of initially applying the standard to be adjusted to the opening balance of retained earnings 2018. The transition impact and the opening equity has been impacted negatively by EUR 54m as at 1 January 2018.

Consequently, 2017 comparative figures are reported according to IAS 11/IAS 18 and are not restated to reflect the numbers according to IFRS 15. In the table below, 2018 numbers according to both IFRS 15 and IAS 11/IAS 18 are disclosed so as to provide comparability between 2017 and 2018 and to disclose the effect from the changed regulation.

Under IFRS 15, total revenue of a contract will remain unchanged compared to IAS 11/IAS 18; however, the timing of the revenue recognition will be deferred for supply-only and turnkey contracts. The details of the changes and quantitative impact of the changes are set out below.

Supply-only projects
Vestas continues to recognise revenue for supply-only projects at a point in time; however, under IFRS 15 revenue is deferred as control is deemed to be transferred to the customer upon delivery of the components in accordance with the agreed delivery plan, which is at a later stage compared to IAS 11/IAS 18.

Turnkey projects

Vestas continues to recognise revenue for turnkey projects over time applying the percentage-of-completion method; however, under IFRS 15 work performed as part of the percentage-of-completion method is assessed to be executed at a later stage, which is deferring revenue.

Impact on financial statements

The following table summarise the impacts of adapting IFRS 15 in the consolidated financial statements. There is no material impact on Vestas' basic or diluted earnings per share for the first six months of 2018.

Impact on income statement	Q2 2018			H1 2018		
mEUR	**As reported**	**Adjustments Total**	**Balances without adoption of IFRS 15**	**As reported**	**Adjustments Total**	**Balances without adoption of IFRS 15**
Revenue	**2,260**	**(185)**	**2,075**	**3,954**	**(239)**	**3,715**
Production costs	(1,844)	166	(1,678)	(3,257)	209	(3,048)
Gross profit	**416**	**(19)**	**397**	**697**	**(30)**	**667**
Research and development costs	(57)	-	(57)	(105)	-	(105)
Distribution costs	(37)	-	(37)	(86)	-	(86)
Administration costs	(63)	-	(63)	(121)	-	(121)
Operating profit (EBIT)	**259**	**(19)**	**240**	**385**	**(30)**	**355**
Income from investments in joint ventures and associates	(13)	-	(13)	5	-	5
Net financial items	(1)	-	(1)	(8)	-	(8)
Profit before tax	**245**	**(19)**	**226**	**382**	**(30)**	**352**
Income tax	(61)	3	(58)	(96)	5	(91)
Profit for the period	**184**	**(16)**	**168**	**286**	**(25)**	**261**

The following table summarises the impact on net working capital of adapting IFRS 15 in Vestas' consolidated financial statements.

Impact on Net working capital 30 June 2018

mEUR	**As reported**	**Adjustments Total**	**Balances without adoption of IFRS 15**
Inventories	4,182	(38)	4,144
Receivables	1,553	-	1,553
Contract assets / liabilities*	(139)	107	(32)
Prepayments from customers	(3,833)	(12)	(3,845)
Trade payables	(2,497)	-	(2,497)
Other current liabilities	(409)	-	(409)
Net Working Capital as at 30 June 2018	**(1,143)**	**57**	**(1,086)**

*) As part of the implementation of IFRS 15, Vestas has changed the name of Construction contracts in progress to Contract assets and Contract liabilities

IFRS 9, Financial Instruments

As stated in the Annual report 2017, Vestas has adopted IFRS 9 effective from 1 January 2018. IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments. The implementation of IFRS 9 has not affected the recognition, measurement and classification of Vestas' financial instruments, but has aligned the way that Vestas undertakes risk management activities with the hedge accounting qualification criteria.

Figures and disclosures for the comparative periods are not restated as the classification and measurement requirements are not impacting Vestas.

The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is considered immaterial due to the low credit risk in Vestas. The immaterial effects of implementing IFRS 9 end of 2017 have been recognised in the first quarter of 2018.