Consolidated financial statements

Income statement 1 January – 31 December

mEUR	Note	2018	2017
Revenue	1.1, 1.2	10,134	9,953
Production costs	1.3, 1.4, 2.2	(8,503)	(7,990)
Gross profit		**1,631**	**1,963**
Research and development costs	1.3, 1.4	(229)	(235)
Distribution costs	1.3, 1.4	(189)	(229)
Administration costs	1.3, 1.4	(254)	(269)
Operating profit (EBIT) before special items		**959**	**1,230**
Special items	1.4, 1.6	(38)	-
Operating profit (EBIT)		**921**	**1,230**
Income/(loss) from investments in joint ventures and associates	3.4	40	(40)
Financial income	4.4	17	45
Financial costs	4.4	(68)	(43)
Profit before tax		**910**	**1,192**
Income tax	5.1	(227)	(298)
Profit for the year		**683**	**894**
Profit is attributable to:			
Owners of Vestas Wind Systems A/S		684	894
Non-controlling interests	4.2	(1)	-
Earnings per share (EPS)	4.3		
Earnings per share (EUR)		3.41	4.23
Earnings per share (EUR), diluted		3.39	4.20

Statement of comprehensive income 1 January - 31 December

mEUR	Note	2018	2017
Profit for the year		**683**	**894**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		(1)	(128)
Fair value adjustments of derivative financial instruments	4.9	21	174
Gain/(loss) on derivative financial instruments transferred to the income statement	4.9	(49)	(16)
Exchange rate adjustments relating to joint ventures	3.4	(0)	(1)
Share of fair value adjustments of derivatives financial instruments of joint ventures	3.4	(1)	(2)
Share of fair value adjustments of derivative financial instruments transferred to the income statement of joint ventures	3.4	0	(14)
Tax on fair value adjustments that may be subsequently reclassified to the income statement		5	(37)
Other comprehensive income after tax		**(25)**	**(24)**
Total comprehensive income		**658**	**870**

Balance sheet 31 December

Assets

mEUR	Note	2018	2017
Intangible assets	3.1, 3.3	1,096	901
Property, plant and equipment	3.2	1,318	1,247
Investments in joint ventures and associates	3.4	233	150
Other investments	4.6	35	30
Tax receivables	5.1	98	51
Deferred tax	5.2	281	218
Other receivables	2.5, 4.6	79	72
Financial investments	4.6	204	196
Total non-current assets		**3,344**	**2,865**
Inventories	2.2	2,987	2,696
Trade receivables	4.6, 4.7	967	1,144
Contract assets	2.3, 4.6	330	82
Contract costs	2.4	328	-
Tax receivables	5.1	88	53
Other receivables	2.5, 4.6	515	371
Financial investments	4.6	422	7
Cash and cash equivalents	4.5, 4.6	2,918	3,653
Total current assets		**8,555**	**8,006**
Total assets		**11,899**	**10,871**

Liabilities

mEUR	Note	2018	2017
Share capital	4.1	28	29
Other reserves		22	37
Retained earnings		3,042	3,046
Equity attributable to Vestas		3,092	3,112
Non-controlling interests	4.2	12	-
Total equity		**3,104**	**3,112**
Provisions	3.5	491	483
Deferred tax	5.2	120	61
Financial debts	4.6, 4.7	498	497
Tax payables	5.1	212	166
Other liabilities	2.6, 4.6	69	19
Total non-current liabilities		**1,390**	**1,226**
Contract liabilities	2.3	4,202	3,082
Trade payables	4.6	2,417	2,660
Provisions	3.5	126	148
Tax payables	5.1	112	108
Other liabilities	2.6, 4.6	548	535
Total current liabilities		**7,405**	**6,533**
Total liabilities		**8,795**	**7,759**
Total equity and liabilities		**11,899**	**10,871**

Statement of changes in equity 1 January – 31 December

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	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 year	-	-	-	-	-	684	(1)	683
Other comprehensive income for the year	-	(1)	(23)	(1)	(25)	-	-	(25)
Total comprehensive income for the year	-	(1)	(23)	(1)	(25)	684	(1)	658
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	10	-	10	-	-	10
Transactions with owners:								
Transactions with non-controlling interests	-	-	-	-	-	-	13	13
Reduction of share capital [1]	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(267)	-	(267)
Dividends distributed related to treasury shares	-	-	-	-	-	17	-	17
Acquisitions of treasury shares	-	-	-	-	-	(402)	-	(402)
Share-based payment	-	-	-	-	-	18	-	18
Tax on equity transactions	-	-	-	-	-	(1)	-	(1)
Total transactions with owners	(1)	-	-	-	-	(634)	13	(622)
Equity as at 31 December 2018	**28**	**(22)**	**47**	**(3)**	**22**	**3,042**	**12**	**3,104**

1) During 2018, the share capital was reduced by 9,800,944 shares of DKK 1.00, due to cancellation of treasury shares. Ref. note 4.1 for changes on share capital in the period 2014-2018.

A dividend of DKK 7.44 (EUR 1.00) per share, corresponding to EUR 205m in total, is proposed for the financial year 2018. The proposed dividends are included in retained earnings. Dividends of EUR 250m, net of treasury shares, have been paid in 2018 relating to the financial year 2017.

Ref. to the parent company's statement of changes in equity on page 109 for information about which reserves are available for distribution. For proposed distribution of profit, ref. to note 4.1 and page 112 of the parent company's financial statements.

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	Total
Equity as at 1 January 2017	**30**	**107**	**(61)**	**15**	**61**	**3,099**	-	**3,190**
Profit for the year	-	-	-	-	-	894	-	894
Other comprehensive income for the year	-	(128)	121	(17)	(24)	-	-	(24)
Total comprehensive income for the year	-	(128)	121	(17)	(24)	894	-	870
Transactions with owners:								
Reduction of share capital	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(289)	-	(289)
Dividends distributed related to treasury shares	-	-	-	-	-	11	-	11
Acquisitions of treasury shares	-	-	-	-	-	(694)	-	(694)
Sale of treasury shares	-	-	-	-	-	1	-	1
Share-based payment	-	-	-	-	-	18	-	18
Tax on equity transactions	-	-	-	-	-	5	-	5
Total transactions with owners	(1)	-	-	-	-	(947)	-	(948)
Equity as at 31 December 2017	**29**	**(21)**	**60**	**(2)**	**37**	**3,046**	-	**3,112**

Dividends of EUR 278m, net of treasury shares, were paid in 2017 relating to the financial year 2016.

Statement of cash flows 1 January – 31 December

mEUR	Note	2018	2017
Profit for the year		683	894
Adjustments for non-cash transactions	6.6	716	845
Interest received		13	17
Interest paid		(27)	(33)
Income tax paid	5.1	(195)	(262)
Cash flow from operating activities before change in net working capital		1,190	1,461
Change in net working capital	2.1	(169)	164
Cash flow from operating activities		**1,021**	**1,625**
Purchase of intangible assets	3.1	(295)	(223)
Purchase of property, plant and equipment	3.2	(312)	(268)
Disposal of property, plant and equipment		8	8
Disposal of non-current assets held for sale		-	99
Purchase of other financial assets		-	(8)
Proceeds from investment in joint venture	3.4	10	-
Additions of shares in joint ventures and associates	3.4	(14)	(15)
Cash flow from investing activities before acquisition of subsidiaries and financial investments		**(603)**	**(407)**
Free cash flow before acquisition of subsidiaries and financial investments		**418**	**1,218**
Acquisition of subsidiaries, net of cash	6.5	(65)	-
Purchase of financial investment		(422)	-
Free cash flow		**(69)**	**1,218**
Acquisition of treasury shares		(402)	(697)
Disposal of treasury shares		-	1
Dividends paid		(250)	(278)
Transactions with non-controlling interest		13	-
Cash flow from financing activities		**(639)**	**(974)**
Net increase in cash and cash equivalents		**(708)**	**244**
Cash and cash equivalents as at 1 January		3,653	3,550
Exchange rate adjustments on cash and cash equivalents		(27)	(141)
Cash and cash equivalents as at 31 December	4.5	**2,918**	**3,653**

Overview of notes

1. Result for the year

1.1 Segment information

Reportable segments
Vestas operates in the two business segments, Power solutions and Service.

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

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

The measure of revenue, costs and EBIT included in the segment reporting are the same as those used in the consolidated financial statements. No segment information is provided to CODM on a regular basis for assets and liabilities and the measures below EBIT.

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

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

2018 mEUR	Power solutions	Service	Not allocated	Total
Revenue	8,465	1,669	-	10,134
Total revenue	**8,465**	**1,669**	**-**	**10,134**
Total costs	**(7,711)**	**(1,248)**	**(216)**	**(9,175)**
Operating profit (EBIT) before special items	**754**	**421**	**(216)**	**959**
Special items, ref. note 1.6				**(38)**
Operating profit (EBIT)				**921**
Income/(loss) from investments in joint ventures and associates, ref. note 3.4			40	40
Financial income			17	17
Financial costs			(68)	(68)
Profit before tax				**910**
Amortisation and depreciation included in total costs, ref. note 1.4	(348)	(35)	(43)	(426)
Investments in joint ventures and associates, ref. note 3.4				233

During 2018 impairment losses of EUR 6m related to patents impacted the Power solution segment. Impairment losses of EUR 23m and provision for severance and closure costs of EUR 15m related to the León assembly factory in Spain has been recognised in special items where impact is not allocated, ref. note 1.4 and 1.6.

1.1 Segment information (continued)

2017 mEUR	Power solutions	Service	Not allocated	Total
Revenue	8,431	1,522	-	9,953
Total revenue	**8,431**	**1,522**	**-**	**9,953**
Total costs	**(7,289)**	**(1,216)**	**(218)**	**(8,723)**
Operating profit (EBIT) before special items	**1,142**	**306**	**(218)**	**1,230**
Special items				-
Operating profit (EBIT)				**1,230**
Income/(loss) from investments in joint ventures and associates, ref. note 3.4			(40)	(40)
Financial income			45	45
Financial costs			(43)	(43)
Profit before tax				**1,192**
Amortisation and depreciation included in total costs, ref. note 1.4	(335)	(33)	(30)	(398)
Investments in joint ventures and associates, ref. note 3.4				150

During 2017 impairment loss of EUR 23m has negatively impacted Vestas' EBIT, of which the largest contributors is EUR 31m related to R&D activities. However, this was partially offset by reversal of EUR 8m under production facilities. Both the impairment and the reversal are impacting the Power solutions segment.

Revenue specified by country

mEUR	2018	2017
USA	2,589	2,968
Denmark	291	380
Other countries	7,254	6,605
Total	**10,134**	**9,953**

Revenue is broken down based on geographical supply point.

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

Intangible assets and property, plant and equipment specified by country

mEUR	2018	2017
Denmark	1,181	1,101
USA	557	455
Other countries	676	592
Total	**2,414**	**2,148**

Intangible assets and property, plant and equipment are broken down geographically based on the physical location of the assets.

The intangible assets and property, plant and equipment in all other countries did not individually exceed 10 percent of total intangible assets and property, plant and equipment.

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.

Vestas 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 periods, 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 were 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 the 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.

Transaction price
The transaction price for sale of wind power plants, wind turbines normally includes a fixed consideration. The transaction price for service contracts includes a fixed consideration and often a variable consideration. The estimated amount of variable consideration will be included in the transaction price only to the extent that a significant reversal in revenue recognised is highly unlikely to occur when the uncertainty associated with the variable consideration is subsequently resolved.

All wind turbines- and wind power plants contracts include a standard warranty clause. For further details on warranty, ref. note 3.5 Provisions.

Key accounting estimates and judgements
Estimate regarding recognition of contract elements
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.

Judgement regarding method for recognition of revenue from Supply-and-installation contracts
Management applies judgement when determining whether revenue from Supply-and-installations contracts shall be recognised at a point in time or over time.

Management has determined that Supply-and-installation projects based on standard solutions have an alternative use. Consequently, revenue of such contract is recognised at the point in time when the turbine is fully operational and control is transferred to the customer.

For certain projects, Vestas agrees to delivery of wind power plants based on non-standard solutions to the customer. Management assesses whether such non-standard solutions have an alternative use. The judgements made takes into consideration technology used, the degree of customisation, and remoteness of the wind power plant. Revenue from sale of non-standard solutions, which are judged to have no alternative use is recognised over time (percentage-of-completion) and form an insignificant part of revenue from Supply-andinstallation contracts.

Estimates of stage of completion
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.

1.2 Revenue (continued)

Recognition of revenue and operational highlights

Operational highlights	Timeline	Revenue recognition

Operational highlights

Order backlog
The value of future contracts end of period. Combined backlog comprise firm **order intake** from Power solutions and Service, less deliveries made under Power solutions and less Service performance.

Order intake
Orders are included as order intake when an order becomes firm and unconditional.

Deliveries
Deliveries for the Power solution segment are included as deliveries, and deducted from the wind turbines backlog, when the related revenue is recognised.

Sales from turnkey projects are deducted from wind turbines backlog simultaneously as the customer has taken delivery of the wind turbines under the term of the contract.

Sales from supply-only and supply-and-installation are deducted from backlog at a point in time.

Service performance
Sales from Service agreements are deducted from Service backlog simultaneously as revenue is recognised over the term of the agreement.

Timeline

Revenue recognition

Supply-only
Revenue is recognised at a **point in time** when control is transferred to the customer. This point in time occurs upon delivery of the components in accordance with the agreed delivery plan.

Turnkey projects
Revenue is recognised **over time** as the wind power plants are constructed based on the stage of completion of the individual contracts.

Supply-and-installation
Revenue is recognised at a **point in time**, when control of the turbine is transferred to the customer. This point in time occurs when Vestas has proven a fully operational turbine.

Service
Service contracts are normally recognised **over time** as the services are provided over the term of the agreement. Spare parts sales are recognised at a point in time when control has been transferred to the customer.

1.2 Revenue (continued)

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.

	Power solutions		Service		Total	
mEUR	**2018**	**2017 [1)]**	**2018**	**2017 [1)]**	**2018**	**2017 [1)]**
Timing of revenue recognition						
Products and services transferred at a point in time	7,174	7,784	304	267	7,478	8,051
Products and services transferred over time	1,291	647	1,365	1,255	2,656	1,902
Total	**8,465**	**8,431**	**1,669**	**1,522**	**10,134**	**9,953**
Revenue from contract types						
Supply-only	2,413	3,360	-	-	2,413	3,360
Supply-and-installation	5,256	4,424	-	-	5,256	4,424
Turnkey (EPC)	796	647	-	-	796	647
Service	-	-	1,669	1,522	1,669	1,522
Total	**8,465**	**8,431**	**1,669**	**1,522**	**10,134**	**9,953**
Primary geographical markets						
EMEA	3,354	3,992	956	848	4,310	4,840
Americas	3,903	3,676	541	518	4,444	4,194
Asia Pacific	1,208	763	172	156	1,380	919
Total	**8,465**	**8,431**	**1,669**	**1,522**	**10,134**	**9,953**

1) Vestas has initially applied IFRS 15 using modified retrospective application. Under this method, the comparative information is not restated, ref. note 7.3.

Transaction price allocated to the remaining sales contracts (Order backlog)

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the financial year.

bnEUR	**2018**	**2017**
Order backlog - wind turbines	11.9	8.8
Order backlog - Service	14.3	12.1
Total	**26.2**	**20.9**

All consideration from contracts with customers is included in the amounts presented above.

At the end of 2018, the average remaining duration in service order backlog was approx. seven years, with a spread up to 33 years. For the Power solutions segment, projects are normally expected to be delivered within 1-3 years.

It should be emphasised that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect the timing of the satisfaction of the future performance obligations within the backlog.

Furthermore, it should be emphasised that the backlog is forward-looking in nature and the backlog is a subset of Vestas' potential future revenue.

1.3 Costs

Vestas accounting policies

Production costs

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

Furthermore, provisions for loss-making construction contracts are included in production costs.

Research and development costs

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

Distribution costs

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

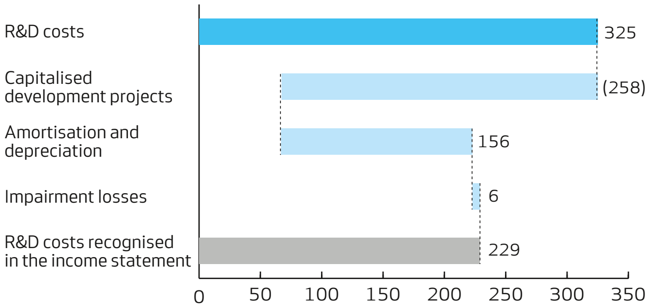
Administration costs

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

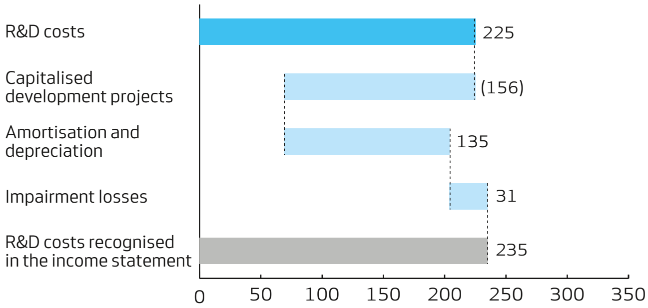
1.3 Costs (continued)

Research and development costs

Research and development costs 2018
mEUR



Research and development costs 2017
mEUR



Staff costs

mEUR	2018	2017
Staff costs are specified as follows:		
Wages and salaries, etc.	1,157	1,224
Share-based payment, ref. note 6.2	18	18
Pension schemes, defined contribution schemes	58	60
Other social security costs	173	156
	1,406	**1,458**
Average number of employees	24,221	22,504
Number of employees 31 December	24,648	23,303

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

mEUR	2018	2017
Attributable to:		
Board of Directors		
Board remuneration	1	1
	1	**1**
Executive Management		
Wages and bonus	5	8
Share-based payment	5	6
Social security costs	0	0
	10	**14**

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

1.4 Amortisation, depreciation and impairment

2018 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	16	133	-	31	-	180
Depreciation, property, plant and equipment, ref. note 3.2	187	23	23	13	-	246
Impairment losses, intangible assets, ref. note 3.1	-	6	-	1	-	7
Impairment losses, property, plant and equipment, ref. note 3.2	2	-	-	-	23	25
Total	**205**	**162**	**23**	**45**	**23**	**458**

2017 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	17	117	-	21	-	155
Depreciation, property, plant and equipment, ref. note 3.2	192	18	22	11	-	243
Impairment losses, intangible assets, ref. note 3.1	-	3	-	-	-	3
Impairment losses, property, plant and equipment, ref. note 3.2	-	28	-	-	-	28
Reversal of impairment losses, property, plant and equipment, ref. note 3.2	(8)	-	-	-	-	(8)
Total	**201**	**166**	**22**	**32**	**-**	**421**

1.5 Government grants

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

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

Vestas has received government grants of which EUR 1m (2017: EUR 3m) has been offset against incurred cost and EUR 3m (2017: EUR 3m) against non-current assets.

1.6 Special items

Vestas accounting policies
Special items comprise significant unusual and/or infrequently occurring items that are not attributable to Vestas' normal operations. Special items comprise income and costs related to significant organisational restructuring and significant adjustments to production capacity and the product programme. The costs include the write-down of intangible and tangible assets as well as provisions for re-organisations and any reversal/ adjustments thereof.

Key accounting judgement
Classification
The use of special items entails management judgement in the separation from other items in the income statement. In connection with the use of special items, it is crucial that they are of a significant unusual and/or infrequently occurring nature that are not attributable to Vestas' normal operations, as such classification highlights to users of financial statements the items to which the least attention should be given when understanding current and future performance.

Closure of León assembly factory
Vestas intends to cease production at the assembly factory in León in the EMEA region. A provision for severance and closure costs of EUR 15m and impairment loss of EUR 23m has therefore been recognised in special items.

Basis for impairment test
A review of the recoverable amount of the León assembly factory has been carried out because of indications of impairments due to cease production in León, Spain in third quarter 2018 leading to the recognition of an impairment loss of EUR 23m with a recoverable amount of EUR 4m. The impairment loss is not allocated to a segment and is the result of the impairment loss of land and building and plant and machinery.

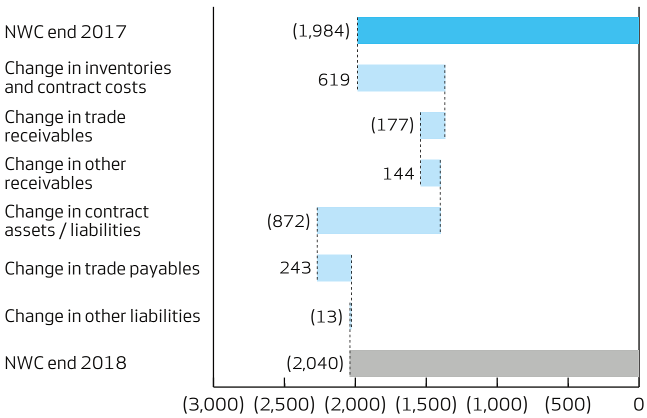
The value in use is assumed to be substantially equal to the fair value less costs of disposal, as the expected cash flows underlying the value in use calculation will largely represent the expected sales proceeds less costs of disposal. The impairment test is therefore based on the fair value less costs of disposal and the fair value measurement of the León factory is categorised within the fair value hierarchy Level 2. Vestas has obtained broker reports, which consider previous sales, including price per square meter, of similar land and buildings.

mEUR	2018	2017
Impairment loss on property, plant and equipment	(23)	-
Staff costs	(15)	-
Special Items	**(38)**	**-**

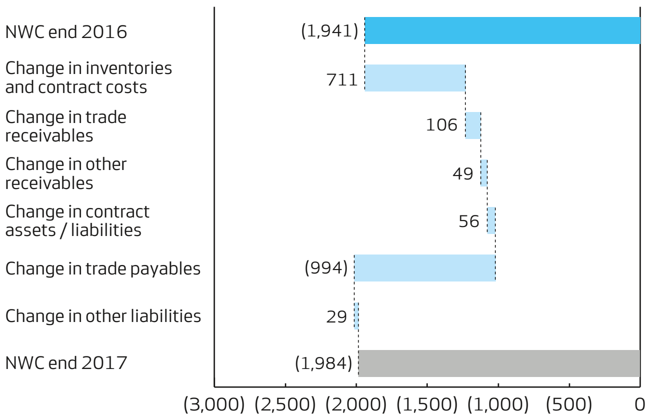
2. Working capital

2.1 Change in net working capital

NWC change 2018
mEUR



NWC change 2017
mEUR



Included in the change in net working capital (NWC) are non-cash adjustments and exchange rates adjustments with a total amount of EUR (225)m (2017: EUR 121m). Consequently, the cash flow impact of change in NWC is EUR (169)m (2017: EUR 164m).

2.2 Inventories

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

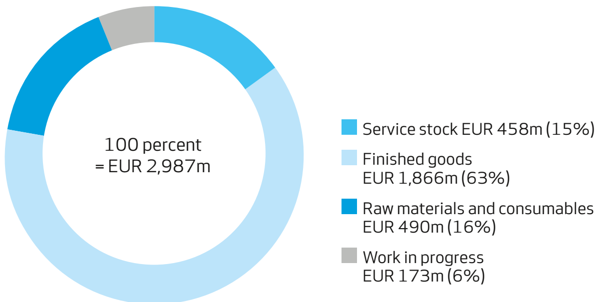
The cost of raw materials and service stock comprise purchase price of materials, consumables, duties, and transportation costs.

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

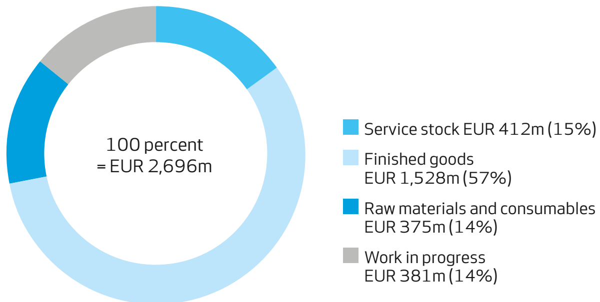
The NRV of inventories is measured at sales price less costs of completion and selling costs. NRV is determined taking into account marketability, obsolescence, and development in the expected selling price.

Key accounting estimate
Estimate of net realisable value
Vestas estimates the net realisable value at the amount at which inventories are expected to be sold. Inventories are written down to net realisable value when the cost of inventories is estimated to be non-recoverable due to obsolescence, damage or declining selling prices. Estimates are used when accounting for or measuring inventory provisions, and these estimates depend upon subjective and complex judgements about certain circumstances, taking into account fluctuations in prices, excess quantities, condition of the inventory, nature of the inventory, and the estimated variable costs necessary to make the sale.

Inventories 2018
mEUR and percent



Inventories 2017 [1)]
mEUR and percent



1) As part of IFRS 15 implementation, costs to fulfill a contract have been reclassified from Inventory to contract costs in 2018. Comparative information is not restated. Included in 2017 were work in progress with EUR 237m. Ref. note. 2.5.

2.2 Inventories (continued)

mEUR	2018	2017
Inventories consumed		
Inventories consumed for the year, which are included in production costs	5,104	5,170
Write down inventories		
Write-downs of inventories in the year	22	24
Utilised write-downs in the year	(20)	(7)
Reversal of write-downs in the year[1]	(1)	(2)

1) The reversal of write-downs in the year are due to goods previously written down being used or sold at or above original cost.

2.3 Contract balances

Vestas accounting policies
Contract assets/liabilities comprise agreements to deliver wind power plants based on non-standard solutions (supply-and-installation projects) and wind power plants with a high degree of customisation (turnkey projects), as well as services and maintenances agreements. Contract liabilities also comprise prepayments from customers for supply-only and supply-and-installation projects ordered but not yet delivered.

Vestas receives payments from customers based on a billing schedule, as established in its contracts. Contract assets relates to Vestas' conditional right to consideration for Vestas' completed performance under the contract. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) Vestas perform under the contract.

Contract assets/liabilities are measured at the selling price of the work performed based on the stage of completion less progress billing and expected losses.

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

The value of self-constructed components is recognised as contract assets/ liabilities upon installation of the components to the specific wind power plant's construction site.

If the selling price of the work performed exceeds progress billings and expected losses it is recognised as an asset. If interim billings and expected losses exceed the selling price it is recognised as a liability.

Costs relating to sales work and the pursuing of contracts are recognised in the income statement as incurred, if the costs are not incremental.

Contract balances
The following table provides information about contract assets and contract liabilities from contracts with customers.

mEUR	Contract assets	Contract liabilities
1 January 2018	**186**	**3,082**
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	(2,330)
Increases as a result of changes in the measure of progress and other adjustments	231	-
Payments received, excluding amounts recognised as revenue during the period (prepayments)	-	3,450
Transfers from contract assets recognised at the beginning of the period to receivables	(87)	-
31 December 2018	**330**	**4,202**
Contract assets and liabilities comprise the following:		
Construction contract in progress (turnkey)	3	239
Service contracts[1]	323	674
Supply-only contracts[1]	-	1,642
Supply-and-installation contracts[1]	4	1,647

1) Vestas has initially applied IFRS 15 using cumulative effect method. Under this method, the comparative information is not restated. In 2017, service contracts were classified as 'Trade receivables' and 'Prepayments from customers'. Prepayments from supply-only and supply-and-installation projects were classified as 'Prepayments from customers'.

2.4 Contract costs

Vestas accounting policies

Costs incurred for supply-only and supply-and-installation projects in fulfilling the contracts with customers that are directly associated with the contract, comprising installation cost and transportation cost, are recognised as an asset (contract costs), if those costs are expected to be recoverable.

Contract costs

mEUR	2018	2017
Asset recognised from costs to fulfill a contract[1)]	328	-
Total Contract costs	**328**	-

1) Vestas has initially applied IFRS 15 using cumulative effect method. Under this method, the comparative information is not restated. In 2017, asset recognised from costs to fulfill a contract was included in inventory as work in progress with EUR 237m. Ref. note 2.2.

Costs incurred in fulfilling contracts with customers are recoverable, as the costs are directly related to the contract.

Capitalised costs as a result of fulfilling sales contracts are recognised as part of production cost in the income statement, when related revenues are recognised. In 2018, EUR 549m was recognised.

2.5 Other receivables

Vestas accounting policies

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

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

Key accounting judgement

Estimate of allowance for doubtful VAT receivables

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

mEUR	2018	2017
Prepayments	74	37
Supplier claims	15	11
VAT[1)]	220	138
Derivative financial instruments	166	116
Other receivables[2)]	119	141
	594	**443**
Specified as follows:		
0–1 years	515	371
> 1 year	79	72
	594	**443**

1) Includes write-downs of VAT receivables of EUR 77m as at 31 December 2018 (2017: EUR 78m).
2) Other receivables mainly comprise interest receivables, indirect taxes, and financial receivables.

2.6 Other liabilities

Vestas accounting policies

Other liabilities are measured at amortised cost.

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

mEUR	2018	2017
Staff costs	153	246
Taxes and duties	239	244
Derivative financial instruments	123	29
Other liabilities	102	35
	617	**554**
Specified as follows:		
0-1 year	548	535
> 1 years	69	19
	617	**554**

3. Other operating assets and liabilities

3.1 Intangible assets

Vestas accounting policies

Goodwill

Goodwill is initially recognised in the balance sheet as described in business combinations, ref. note 6.5. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to Vestas' operating segments; Power solutions and Service. Identification of operating segments is based on management structure and internal financial reporting.

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

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

Impairment losses on goodwill are not reversed.

Development projects

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

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

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

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

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

Software

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

Other intangible assets

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

2018 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost as at 1 January	407	1,535	307	74	144	2,467
Exchange rate adjustments	5	(6)	(1)	1	-	(1)
Additions	-	-	2	-	293	295
Additions from business combination	70	-		13		83
Transfers	-	98	62	-	(160)	-
Cost as at 31 December	**482**	**1,627**	**370**	**88**	**277**	**2,844**
Amortisation and impairment losses as at 1 January	103	1,226	212	25	-	1,566
Exchange rate adjustments	-	(4)	(1)	-	-	(5)
Amortisation for the year	-	129	40	11	-	180
Impairment losses for the year	-	6	1	-	-	7
Amortisation and impairment losses as at 31 December	**103**	**1,357**	**252**	**36**	**-**	**1,748**
Carrying amount as at 31 December	**379**	**270**	**118**	**52**	**277**	**1,096**
Internally generated assets included above	-	270	83	-	277	630
Amortisation period		2–5 years	3–5 years	3–7 years		

3.1 Intangible assets (continued)

2017 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost as at 1 January	412	1,410	263	64	85	2,234
Reclassification	-	(2)	-	10	10	18
Exchange rate adjustments	(5)	(2)	-	-	-	(7)
Additions	-	-	10	-	213	223
Disposals	-	-	(1)	-	-	(1)
Transfers	-	129	35	-	(164)	-
Cost as at 31 December	**407**	**1,535**	**307**	**74**	**144**	**2,467**
Amortisation and impairment losses as at 1 January	103	1,110	183	10	-	1,406
Reclassification	-	-	-	5	-	5
Exchange rate adjustments	-	(2)	-	-	-	(2)
Amortisation for the year	-	115	30	10	-	155
Reversal of amortisation of disposals in the year	-	-	(1)	-	-	(1)
Impairment losses for the year	-	3	-	-	-	3
Amortisation and impairment losses as at 31 December	**103**	**1,226**	**212**	**25**	**-**	**1,566**
Carrying amount as at 31 December	**304**	**309**	**95**	**49**	**144**	**901**
Internally generated assets included above	-	309	72	-	144	525
Amortisation period		2–5 years	3–5 years	3–7 years		

3.2 Property, plant and equipment

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

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

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

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

Buildings (including installations)........15–40 years
Plant and machinery........3–10 years
Other fixtures and fittings, tools and equipment........3–5 years
Land is not depreciated.

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

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

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

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

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

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

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

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

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

3.2 Property, plant and equipment (continued)

2018 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	1,211	802	1,053	73	3,139
Exchange rate adjustments	15	3	10	-	28
Additions	9	60	130	133	332
Disposals	(39)	(2)	(2)	-	(43)
Transfers	9	52	15	(76)	-
Cost as at 31 December	**1,205**	**915**	**1,206**	**130**	**3,456**
Depreciation and impairment losses as at 1 January	507	554	831	-	1,892
Exchange rate adjustments	3	3	9	-	15
Depreciation for the year	47	99	100	-	246
Impairment losses for the year	23	2	-	-	25
Reversal of depreciation of disposals in the year	(37)	(1)	(2)	-	(40)
Depreciation and impairment losses as at 31 December	**543**	**657**	**938**	**-**	**2,138**
Carrying amount as at 31 December	**662**	**258**	**268**	**130**	**1,318**
Depreciation period	15–40 years	3–10 years	3–5 years		

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	1,229	765	1,044	108	3,146
Reclassification	-	-	-	(10)	(10)
Exchange rate adjustments	(72)	(29)	(54)	(5)	(160)
Additions	20	49	85	114	268
Disposals	-	(48)	(53)	(4)	(105)
Transfers	34	65	31	(130)	-
Cost as at 31 December	**1,211**	**802**	**1,053**	**73**	**3,139**
Depreciation and impairment losses as at 1 January	462	532	823	-	1,817
Exchange rate adjustments	(21)	(22)	(44)	-	(87)
Depreciation for the year	46	92	105	-	243
Impairment losses for the year	28	-	-	-	28
Reversal of depreciation of disposals in the year	-	(48)	(53)	-	(101)
Reversal of impairment	(8)	-	-	-	(8)
Depreciation and impairment losses as at 31 December	**507**	**554**	**831**	**-**	**1,892**
Carrying amount as at 31 December	**704**	**248**	**222**	**73**	**1,247**
Depreciation period	15–40 years	3–10 years	3–5 years		

3.3 Impairment

Valuation of goodwill

As at 31 October 2018, Management performed the annual impairment test of the carrying amount of goodwill. No basis for impairment was found for 2018 (2017: EUR 0m). In the impairment tests, the carrying amount of the assets is compared to the discounted value of future expected cash flows.

The annual test of goodwill was performed on the two operating segments: Power solutions and Service, these being the lowest level of cash-generating units as defined by Management.

The main part of the carrying amount of goodwill in Vestas arose in connection with the acquisition of NEG Micon A/S in 2004, and the goodwill is allocated to Vestas' two operating segments Power solutions (EUR 180m) and Service (EUR 35m). In relation to the acquisition of UpWind Solutions, Inc. in 2015, Vestas has recognised goodwill of EUR 40m, which is allocated to the Service segment. In relation to the acquisition of Availon GmbH in 2016, Vestas has recognised goodwill of EUR 56m, which is also allocated to the Service segment.

With the acquisition of Utopus Insights, Inc. in 2018, Vestas has recognised goodwill of EUR 70m, which is also allocated to the Service segment, ref. note 6.5.

Assumptions underpinning impairment test of goodwill

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

Power solutions	Service
Power solutions order backlog of EUR 11.9bn as at 31 December 2018	Service order backlog of EUR 14.3bn as at 31 December 2018
Expectations on changing market environment, including future market prices and future development in cost reductions	Expectations on changing market environment, including future market prices and future development in cost reductions
Expectations on future orders received, among other things based on expected market share of the global market outlook	Expectations on continuing servicing the existing installed base of wind turbines as well as future service contracts received, among other things based on expected market share of the global market for all major wind turbine technologies
Expectations on continuing developments in mature and emerging markets	Capture full potential and accelerate profitable growth strategy from acquisition of UpWind Solution, Inc., Availon GmbH and Utopus Insight, Inc.
Expectations on support schemes in both mature and emerging markets	Growth supported by market developments and organic growth

Recoverable amount

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

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

	2018			2017		
	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)
Power solutions	10.0	2	180	10.0	2	180
Service	10.0	2	199	10.0	2	124

3.4 Investments in joint ventures and associates

Vestas accounting policies

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

Timing in revenue recognition may be different between Vestas and joint ventures and associates where Vestas recognises revenue when control of the wind turbines have been transferred to joint ventures and associates but joint ventures and associates does not recognise revenue until they have transferred the risk of the same wind turbines to the end customer. Such timing difference results in 50 percent of Vestas' profit from wind turbines delivered being eliminated in the net result from joint ventures and associates, until joint ventures and associates have recognised their revenue. This timing difference may vary between quarters and year end, but will even-out over time.

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

3.4 Investments in joint ventures and associates (continued)

The amounts recognised in the balance sheet are as follows:

mEUR	2018	2017
Investments in joint ventures	189	149
Investments in associates	44	1
Carrying amount as at 31 December	**233**	**150**

The amounts recognised in the income statement are as follows:

mEUR	2018	2017
Associates	-	
Joint ventures	40	(40)
	40	**(40)**

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

Investments in joint ventures

mEUR	2018	2017
Cost as at 1 January	282	267
Additions	8	15
Carrying amount at 31 December	**290**	**282**
Value adjustments as at 1 January	(133)	(68)
Proceeds from sale of projects	(10)	-
Share of profit/(loss)	40	(40)
Share of other comprehensive income	(1)	(17)
Effect of exchange rate adjustment	3	(8)
Value adjustments as at 31 December	**(101)**	**(133)**
Carrying amount as at 31 December	**189**	**149**

Investment in associates

mEUR	2018	2017
Cost as at 1 January	2	2
Additions	43	-
Carrying amount at 31 December	**45**	**2**
Value adjustments as at 1 January	(1)	(0)
Share of profit/(loss)	-	(1)
Value adjustments as at 31 December	**(1)**	**(1)**
Carrying amount as at 31 December	**44**	**1**

3.4 Investments in joint ventures and associates (continued)

The joint ventures and associates listed below are material to Vestas and have share capital consisting solely of ordinary shares, which is held directly by Vestas.

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

MHI Vestas Offshore Wind A/S
In Vestas' share of profit from the joint venture, income resulting from the sale of wind turbines to the joint venture is recognised in Vestas' financial statements only to the extent that the joint venture has sold the wind turbines to unrelated parties. The share of profit from the joint venture on a standalone basis amounts to EUR 13m (2017: loss of EUR 50m). MHI Vestas Offshore Wind A/S (MVOW) is a private company and there is no quoted market prices available for its shares.

With reference to page 025, MVOW has continued to build a strong pipeline for the 8 MW platform (V164 turbine), and with the intake of firm and unconditional orders of 3,180 MW in 2018, the expected performance continues to be in line with previous expected performance.

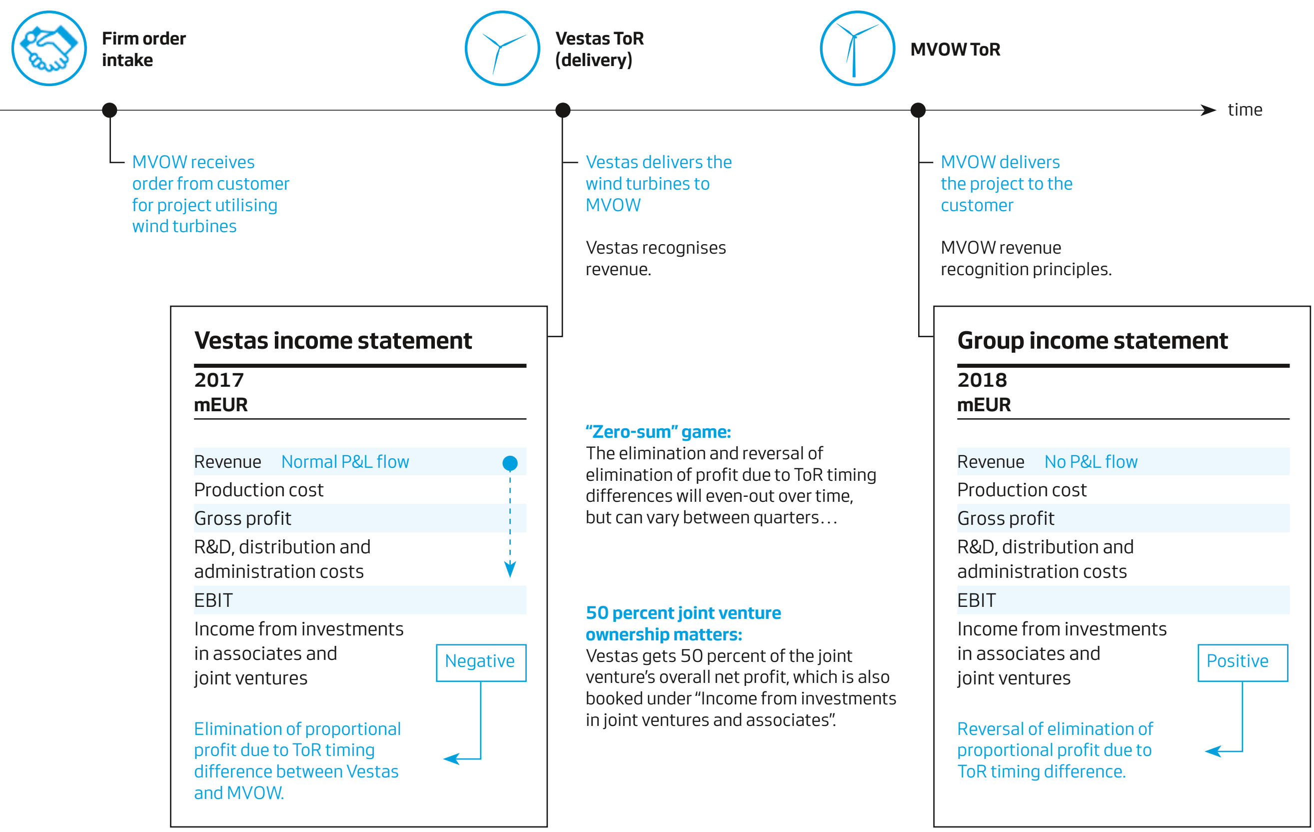
The carrying amount of the investment in MVOW is mainly comprised of the development project of the 8 MW platform. Any change to such future expectation on future performance may in nature result in impairment of the carrying amount of the investment in MVOW.

Roaring Fork Wind, LLC
Vestas has through its wholly owned subsidiary Steelhead Wind 1, LLC a strategic co-development partnership with RES America Developments Inc. ('RES') forming the equally shared ownership in Roaring Fork Wind, LLC. The purpose of the partnership is development of wind power plants. In 2018, Vestas has transferred additional EUR 8m in cash as capital. The share of profit/(loss) from the joint venture on a stand alone basis amounts to EUR 1m (2017: EUR 0m). Roaring Fork Wind, is a private company and there is no quoted market prices available for its shares.

Other joint ventures and associates
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 is a shareholder through a share purchase agreement for 40 percent of the project. PKA and Vattenfall owns 30 percent project equity each. Financial close has been finalised in the fourth quarter of 2018, with a total consideration of EUR 43m of which EUR 6m is contributed in cash.

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

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



3.4 Investments in joint ventures and associates (continued)

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

Summarised financial information for joint ventures and associates
Set out below are the summarised financial information for joint ventures which are accounted for using the equity method. The information below reflects the amounts presented in the financial statements of the joint ventures (and not Vestas' share of those amounts) material to Vestas. Other joint ventures and associates that are individually and aggregated immaterial to Vestas, have not been included in the summarised financial information.

Summarised balance sheet

	Roaring Fork Wind		MHI Vestas Offshore Wind	
mEUR	**2018**	**2017**	**2018**	**2017**
Current				
Cash and cash equivalents	2	1	204	114
Other current assets (excluding cash)	1	2	933	624
Total current assets	3	3	1,137	738
Other current liabilities (including trade and other payables and provisions)	(2)	(1)	(1,355)	(973)
Total current liabilities	(2)	(1)	(1,355)	(973)
Non-current				
Total non-current assets	99	97	492	477
Total non-current liabilities	-	-	(38)	(30)
Net assets	**100**	**99**	**236**	**212**

Summarised statement of comprehensive income

	Roaring Fork Wind		MHI Vestas Offshore Wind	
mEUR	**2018**	**2017**	**2018**	**2017**
Revenue	17	-	1,112	1,151
Depreciation and amortisation	(15)	-	(93)	(85)
Interest income	-	-	-	-
Interest cost	-	-	-	-
Profit before tax	1	(0)	(13)	(98)
Income tax	-		39	(2)
Post-tax profit from continuing operations	1	(0)	26	(100)
Other comprehensive income	-	-	(2)	(35)
Total comprehensive income	**1**	**(0)**	**24**	**(135)**

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

	Roaring Fork Wind		MHI Vestas Offshore Wind	
mEUR	**2018**	**2017**	**2018**	**2017**
Opening net assets 1 January	99	90	212	347
Capital increase	14	20	-	-
Distribution to shareholders	(18)	-	-	-
Profit/(loss) for the year	1	-	25	(100)
Other comprehensive income	-	-	(1)	(35)
Effect of exchange rate adjustment	4	(11)	-	-
Closing net assets	**100**	**99**	**236**	**212**
Interest in joint venture (50 % of net assets)	50	49	118	106
Elimination of internal profit on sale of wind turbines	-	-	-	(26)
Re-assessment of milestone payments, gain consideration and other adjustments	24	23	(3)	(3)
Carrying value	**74**	**72**	**115**	**77**

3.5 Provisions

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

Provisions are measured at management's best estimate of the costs required to settle the obligation. Discounting is applied where relevant.
Vestas accrues for the estimated cost of the warranty upon recognition of the sale of the product. The costs are estimated based on actual historical costs incurred and on estimated future costs related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

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

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

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

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

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

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

It is estimated that 10-15 percent of the warranty provisions made for the year relate to adjustments of previous years' estimates of provisions for serial defects, etc. Included in this, is the cost of upgrades of wind turbines sold in previous year, commercial settlements and proactive upgrading as well as new information about the serial type faults in question.

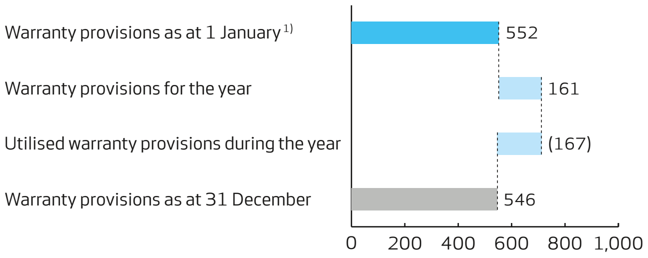
Total warranty provisions of EUR 161m have been made in 2018 (2017: EUR 185m), corresponding to 1.6 percent (2017: 1.9 percent) of Vestas' revenue.

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

The carrying amount of warranty provisions was EUR 546m as at 31 December 2018 (2017: EUR 566m).

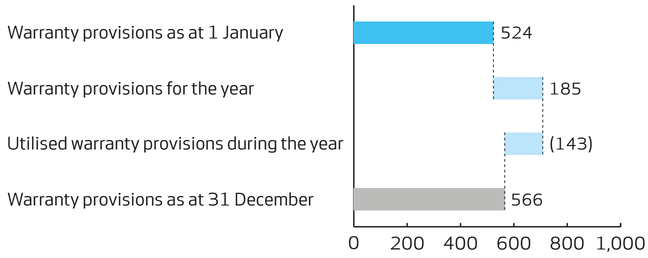
mEUR	2018	2017
Non-current provisions		
Warranty provisions	431	434
Other provisions	60	49
	491	**483**
Current provisions		
Warranty provisions	115	132
Other provisions	11	16
	126	**148**
Total provisions	**617**	**631**

Warranty provisions 2018
mEUR



1) Vestas has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. The opening effect from IFRS 15 on warranty provisions is EUR 14m.

Warranty provisions 2017
mEUR



3.5 Provisions (continued)

mEUR	2018	2017
The warranty provisions are expected to be consumed as follows:		
0–1 year	115	132
>1 year	431	434
	546	**566**

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

Product risks
Lack of reliability in several of Vestas' products has previously led to major warranty provisions. In recent years, Vestas has invested significant resources in improving the products and increasing their reliability to mitigate major warranty provisions. 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.

	2018	2017
OTHER PROVISIONS		
Other provisions as at 1 January	65	64
Exchange rate adjustments	(4)	(3)
Other provisions for the year	50	28
Utilised other provision during the year	(16)	(12)
Reversed of other provisions during the year	(24)	(12)
Other provisions as at 31 December	**71**	**65**

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

	2018	2017
Other provisions are expected to be payable as follows:		
0–1 year	11	16
> 1 year	60	49
	71	**65**

3.6 Contingent assets and liabilities

Guarantees and indemnities
Vestas provides guarantees and indemnities for bank and bonding facilities to third parties on behalf of joint ventures with a notional amount of EUR 436m (2017: EUR 378m). In addition, Vestas provides indemnities to third parties on behalf of joint ventures related to project supplies and warranty obligations to customers, with a notional amount of EUR 4,451m (2017: 2,292). No guarantees have been utilised during 2018 or in previous years and none of the indemnities are expected at the balance sheet date to be utilised.

Contingent 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 U.S. Patents No. 7,629,705 and No. 6,921,985 (the "705 Patent" and the "985 Patent"). Patent 705 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. Additionally, both parties have filed petitions with the United States Patent Office requesting Inter partes reviews of the patents asserted in the lawsuit for the purpose of challenging the validity of those patents. As set forth in its counterclaims, it is Vestas assessment that GE's patents are invalid and unenforceable, and that Vestas does not infringe. Several of these petitions are actively ongoing. 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.

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

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

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

4. Capital structure and financing items

4.1 Share capital

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

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

For the financial year 2018, the Board of Directors of Vestas Wind Systems A/S (the Board) proposes to distribute a dividend of DKK 7.44 (EUR 1.00) per share, corresponding to total EUR 205m. Dividends of EUR 250m, net of treasury shares, have been paid in 2018, relating to the financial year 2017.

Share capital

	2018	2017
The share capital comprises 205,696,003 shares of DKK 1.00	205,696,003	215,496,947
Number of shares as at 1 January	215,496,947	221,544,727
Cancellation	(9,800,944)	(6,047,780)
Number of shares as at 31 December	**205,696,003**	**215,496,947**
Shares outstanding	197,277,143	203,653,018
Treasury shares	8,418,860	11,843,929
Number of shares as at 31 December	**205,696,003**	**215,496,947**

In 2014, the share capital was increased by 20,370,410 shares of DKK 1.00. During 2016, there was reduction of share capital by DKK 2,529,786 nominally by cancelling 2,529,786 shares from Vestas' holding of treasury shares. During 2017 there was a reduction of share capital by DKK 6,047,780 nominally by cancelling 6,047,780 shares from Vestas' holding of treasury shares. During 2018 also, there was a reduction of share capital by DKK 9,800,944 nominally by cancelling 9,800,944 shares from Vestas' holding of treasury shares. Except for these four transactions, the share capital has not changed in the period 2014-2018.

All shares rank equally.

Treasury shares

	2018	2017	2018	2017
	Number of shares / Nominal value (DKK)	Number of shares / Nominal value (DKK)	% of share capital	% of share capital
Treasury shares as at 1 January	11,843,929	7,770,888	5.8	3.6
Purchases	6,962,324	10,503,515	3.4	4.9
Cancellation	(9,800,944)	(6,047,780)	(4.8)	(2.8)
Vested treasury shares	(586,449)	(382,694)	(0.3)	(0.2)
Treasury shares as at 31 December	**8,418,860**	**11,843,929**	**4.1**	**5.5**

Pursuant to authorisation granted to the Board 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 on 12 February 2018. It was completed on 3 May 2018.

Further, pursuant to authorisation granted to the Board by the Annual General Meeting on 3 April 2018, 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 second share buy-back programme during 2018 on 15 August 2018. It was completed on 18 December 2018.

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

At Vestas Wind Systems A/S' Annual General Meeting on 3 April 2019, a resolution will be proposed that shares acquired, which are not used for hedging purposes of share-based incentive programmes, will be cancelled.

4.1 Share capital (continued)

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

	2018	2017
Average share price, purchases (DKK)	431	492
Average share price, sales (DKK)	-	58
Purchase amount (mEUR)	402	694
Sales amount (mEUR)	-	(1)

Treasury shares are acquired to cover issues of shares under Vestas' incentive programmes or as part of its capital structure strategy.

The share capital has been fully paid.

Net proposed cash distribution to shareholders

mEUR	2018	2017
Dividend [1]	197	253

1) Dividend excluding treasury shares.

4.2 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.

4.3 Earnings per share

	2018	2017
Profit for the year (mEUR)	**683**	**894**
Weighted average number of ordinary shares	208,989,763	217,612,018
Weighted average number of treasury shares	(8,374,233)	(6,124,347)
Weighted average number of ordinary shares outstanding	200,615,530	211,487,671
Dilutive effect of outstanding options and restricted performance shares	905,560	1,216,692
Average number of shares outstanding including dilutive effect of options and restricted performance shares	**201,521,090**	**212,704,363**
Earnings per share, EPS (EUR)	3.41	4.23
Earnings per shares, diluted, EPS-D (EUR)	3.39	4.20

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

4.4 Financial items

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

Financial income

mEUR	2018	2017
Interest income	15	14
Foreign exchange gains	-	20
Hedging instruments	1	9
Other financial income	1	2
	17	**45**

Financial costs

mEUR	2018	2017
Interest costs	22	15
Foreign exchange losses	30	-
Hedging instruments	-	14
Other financial costs	16	14
	68	**43**

4.5 Cash and cash equivalents

mEUR	2018	2017
Cash and cash equivalents without disposal restrictions	2,886	3,197
Cash and cash equivalents with disposal restrictions	32	456
Cash and cash equivalents as at 31 December	**2,918**	**3,653**

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

Cash and cash equivalents with disposal restrictions are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents. Cash with disposal restrictions include cash pledged to guarantee providers as security for guarantee obligations in order to obtain lower commission rates and thereby obtain yield pick up on Vestas' cash holdings.

4.6 Financial assets and liabilities

Carrying amounts of Vestas' financial assets and liabilities are presented below according to their nature.

2018 mEUR	Note	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Categories of financial instruments Fair value - hedging instruments	Fair value through profit or loss	Amortised cost
Financial assets, non-current and current							
Other investments [1]		35	-	35	-	23	12
Financial investments [2]		626	-	626	-	204	422
Foreign currency derivatives [3]		166	-	166	166	-	-
Commodity derivatives [3]		-	-	-	-	-	-
Other receivables		428	326	102	-	-	102
Other receivables and derivative financial instruments	2.5	594	326	268	166	-	102
Trade receivables	4.7	967	-	967	-	-	967
Contract assets	2.3, 4.7	330	-	330	-	-	330
Cash and cash equivalents	4.5	2,918	-	2,918	-	-	2,918
Total financial assets, non-current and current		**5,470**	**326**	**5,144**	**166**	**227**	**4,751**
Financial liabilities, non-current and current							
Financial debts [4]		498	-	498	-	-	498
Foreign currency derivatives [3]		121	-	121	119	2	-
Commodity derivatives [3]		2	-	2	2	-	-
Other liabilities		494	251	243	-	-	243
Other liabilities and derivative financial instruments	2.6	617	251	366	121	2	243
Trade payables		2,403	-	2,403	-	-	2,403
Contingent consideration	6.5	14	-	14	-	14	-
Total financial liabilities, non-current and current		**3,532**	**251**	**3,281**	**121**	**16**	**3,144**

1) Other investments include investments in non-listed equity shares. These investments were irrevocably designated at fair value through profit and loss.
2) Financial investments comprise marketable securities managed on a fair value basis with a continuously observation of their performance. and short-term deposits.
3) Foreign currency and commodity derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments. Foreign currency forward contracts also comprise fair value hedges of firm commitments.
4) Financial debts comprise the green corporate eurobond with a fixed interest rate of 2.75 percent and maturity in March 2022.

4.6 Financial assets and liabilities (continued)

Carrying amounts of Vestas' financial assets and liabilities are presented below according to their nature.

2017 mEUR	Note	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Categories of financial instruments Fair value - hedging instruments	Fair value through profit or loss	Loans and receivables
Financial assets, non-current and current							
Other investments [1]		30	-	30	-	30	-
Financial investments [2]		203	-	203	-	203	-
Foreign currency derivatives [3]		114	-	114	114	-	-
Commodity derivatives [3]		2	-	2	2	-	-
Other receivables		327	175	152	-	-	152
Other receivables and derivative financial instruments	2.5	443	175	268	116	-	152
Trade receivables	4.7	1,144	-	1,144	-	-	1,144
Contract assets	2.3, 4.7	82	-	82	-	-	82
Cash and cash equivalents	4.5	3,653	-	3,653	-	-	3,653
Total financial assets, non-current and current		**5,555**	**175**	**5,380**	**116**	**233**	**5,031**
Financial liabilities, non-current and current							
Financial debts [4]		497	-	497	-	-	497
Foreign currency derivatives [3]		29	-	29	29	-	-
Commodity derivatives [3]		-	-	-	-	-	-
Other liabilities		525	244	281	-	-	281
Other liabilities and derivative financial instruments	2.6	554	244	310	29	-	281
Trade payables		2,660	-	2,660	-	-	2,660
Total financial liabilities, non-current and current		**3,711**	**244**	**3,467**	**29**	**-**	**3,438**

1) Other investments include investments in non-listed equity shares. These investments were irrevocably designated at fair value through profit and loss.
2) Financial investments comprise marketable securities managed on a fair value basis with a continuously observation of their performance and short-term deposits.
3) Foreign currency and commodity derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments. Foreign currency forward contracts also comprise fair value hedges of firm commitments.
4) Financial debts comprise the green corporate eurobond with a fixed interest rate of 2.75 percent and maturity in March 2022.

4.7 Financial risk management

Vestas' policy for managing financial risks

Managing financial risks are an inherent part of Vestas' operating activities through its international operations. Vestas is exposed to a number of financial risks, why the monitoring and control of financial risks is important for Vestas. Management has assessed the following as Vestas' key financial risks.

Financial risk	How Vestas manages the risk
Liquidity risk	Availability of committed credit lines and borrowing facilities
Credit risk	Diversification of bank exposure, credit limits, letters of credit and parent company guarantees
Market risk, foreign exchange	Currency forward contracts and currency swaps
Market risk, interest risk	Interest rate swaps
Market risk, commodity price	Commodity futures purchase contracts

The financial risks are managed centrally and the overall objectives and policies for Vestas' financial risk management are outlined in the Treasury Policy. The Treasury Policy is approved by the Board, and revised on a continuous basis to adapt to the changing financial risks and market situation. The Board is supported by a Financial Risk Committee in assuring appropriate policies and procedures are in place.

The Treasury Policy sets the limits for the various financial risks as well as Vestas policy of only hedging commercial exposures and not entering into any speculative transactions.

For information on Vestas' financial and capital structure strategy, please ref. to page 011.

Liquidity risks

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

Vestas' main credit facility was refinanced in June 2017 and extended by one year in June 2018. The facility now has a five-year duration with an option, at the lenders' discretion, to extend the maturity one additional year. The facility is a EUR 1,150m revolving credit facility. The facility has a sublimit of EUR 550m for cash drawings, while the total of EUR 1,150m is available for guarantees. The revolving credit facility is subject to a change of control clause resulting in repayment of the credit facility in the event of change in control. The revolving credit facility is subject to covenants and no breaches have been encountered throughout the year.

Vestas' liquidity position and available credit facilities are shown below.

mEUR	Note	2018	2017
Liquidity position			
Financial investments	4.6	626	203
Cash and cash equivalents	4.5	2,918	3,653
Credit facilities			
Main credit facility		550	550
Other credit facilities		13	27
Total available financial resources		**4,107**	**4,433**

4.7 Financial risk management (continued)

The following table details Vestas's contractual maturities of financial assets and liabilities including interests at the reporting date as Vestas manage liquidity risks on a net basis.

2018 mEUR	Note	Carrying amount financial instruments	Contractual cash flows Total	0-1 year	1-2 years	>2 years
Financial assets, non-current and current						
Other investments		35	35	-	-	35
Financial investments		626	648	425	9	214
Foreign currency derivatives		166	166	134	30	2
Commodity derivatives		-	-	-	-	-
Other receivables		102	102	55	47	-
Other receivables and derivative financial instruments		268	268	189	77	2
Trade receivables		967	967	967	-	-
Contract assets		330	330	330	-	-
Cash and cash equivalents		2,918	2,918	2,918	-	-
Total financial assets, non-current and current		**5,144**	**5,166**	**4,829**	**86**	**251**
Financial liabilities, non-current and current						
Financial debts		498	556	14	14	528
Foreign currency derivatives		121	121	100	19	2
Commodity derivatives		2	2	2	0	-
Other liabilities		243	243	195	1	47
Other liabilities and derivative financial instruments		366	366	297	20	49
Trade payables		2,403	2,403	2,403	-	-
Contingent consideration		14	14	-	-	14
Financial guarantee contracts [1)]	3.6	-	4,887	4,887	-	-
Total financial liabilities, non-current and current		**3,281**	**8,226**	**7,601**	**34**	**591**

1) Financial guarantee contracts comprise the maximum amounts Vestas would have to settle if the guaranteed amount is claimed by the counterparty. Based on management expectations, it is assessed highly likely that the amount will not be payable as of the end of the reporting period.

4.7 Financial risk management (continued)

2017 mEUR	Note	Carrying amount financial instruments	Contractual cash flows Total	0-1 year	1-2 years	>2 years
Financial assets, non-current and current						
Other investments		30	30	-	-	30
Financial investments		203	264	9	40	215
Foreign currency derivatives		114	114	82	19	13
Commodity derivatives		2	2	2	-	-
Other receivables		152	152	47	40	65
Other receivables and derivative financial instruments		268	268	131	59	78
Trade receivables		1,144	1,144	1,144	-	-
Contract assets		82	82	82	-	-
Cash and cash equivalents		3,653	3,653	3,653	-	-
Total financial assets, non-current and current		**5,380**	**5,441**	**5,019**	**99**	**323**
Financial liabilities, non-current and current						
Financial debts		497	569	14	14	541
Foreign currency derivatives		29	29	18	6	5
Commodity derivatives		-	-	-	-	-
Other liabilities		281	281	274	4	3
Other liabilities and derivative financial instruments		310	310	292	10	8
Trade payables		2,660	2,660	2,660	-	-
Financial guarantee contracts [1)]	3.6	-	2,670	2,670	-	-
Total financial liabilities, non-current and current		**3,467**	**6,209**	**5,636**	**24**	**549**

1) Financial guarantee contracts comprise the maximum amounts Vestas would have to settle if the guaranteed amount is claimed by the beneficiary. Based on management expectations, it is assessed highly likely that the amount will not be payable as of the end of the reporting period.

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

As at 31 December 2018, Vestas considers the maximum credit risk to financial institution counterparties to be EUR 3,556m (2017: EUR 3,972m). The total credit risk is considered to be EUR 4,955m (2017: 5,495m).

Trade receivables and contract assets
Trade receivables are mainly with counterparties within the energy sector. The credit risk is among other things dependent on the development within this sector and the country in which the individual customer operates.

Upon signing a contract for individual wind turbines and wind power plants with a customer, a prepayment is received. The remaining contract amounts are usually based on instalments during different stages of the project. Payment terms for service contracts with customers are usually based on equal instalments over the duration of the contract. Payments are typically due between one to two months after issuance of the invoice. Vestas does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Therefore, Vestas does not adjust any of the transaction prices for the time value of money.

Trade receivables from customers are grouped based on loss patterns in assessing expected credit losses. An allowance matrix is used in measuring expected lifetime credit losses where current and forward-looking information has been applied to historical loss rates. Contract assets are grouped with trade receivables as these relate to unbilled work in progress with same credit risk as trade receivables.

The past due analysis and determined write-downs of Vestas' trade receivables and contracts assets are set out in the tables below.

mEUR	2018	2017
Not overdue	1,135	1,047
0-60 days overdue	101	120
61-120 days overdue	22	23
121-180 days overdue	14	14
More than 180 days overdue	50	62
Gross trade receivables and contract assets	1,322	1,266
Write-downs as at 31 December	(25)	(40)
Net trade receivables and contract assets as of 31 December	**1,297**	**1,226**

mEUR	2018	2017
Write-downs as at 1 January	(40)	(15)
Reversal of write-downs	33	4
Write-downs realised	0	0
Write-downs in the year	(18)	(29)
Write-downs as at 31 December	**(25)**	**(40)**

As at 31 December 2018, 70 percent of Vestas's trade receivables and contract assets were concentrated to customers in Europe and North America.

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December was mitigated by EUR 225m (2017: EUR 396m) received as security. Historically, Vestas has not incurred significant losses on trade receivables.

Financial instruments and cash deposits
Group Treasury manage balances with financial institutions and the associated credit risk in accordance with Vestas' Treasury policy assessing the individual counterparty's credit rating.

70 percent of Vestas' exposure towards financial institutions are with counterparties with a credit rating in the range of A to AAA.

Vestas has entered into ISDA agreements with all financial institution counterparties used for trading derivative financial instruments under which Vestas has a right to set-off in case of certain credit events occur, which mean that Vestas' actual credit risk is limited to the net assets per counterparty.

The following table details financial assets and liabilities which are subject to netting in case of certain credit events.

mEUR 2018	Note	Carrying amount balance sheet	Netting agreements not offset in the balance sheet	Net amount
Foreign currency derivatives	4.6	166	(99)	67
Financial assets		**166**	**(99)**	**67**
Foreign currency derivatives	4.6	121	(99)	22
Financial liabilities		**121**	**(99)**	**22**

mEUR 2017	Note	Carrying amount balance sheet	Netting agreements not offset in the balance sheet	Net amount
Foreign currency derivatives	4.6	114	(12)	102
Financial assets		**114**	**(12)**	**102**
Foreign currency derivatives	4.6	29	(12)	17
Financial liabilities		**29**	**(12)**	**17**

4.7 Financial risk management (continued)

Market risks
Vestas is exposed to various market risks with the main risks comprising foreign currency risks, interest rate risks and commodity price risks. All market risks are managed in accordance with the Treasury Policy.

Foreign currency risks

The international business activities of Vestas involve foreign currency risks, meaning that Vestas's income statement, balance sheet and cash flows are exposed to foreign currency risks. The foreign currency exposures arise primarily from purchases of materials and sale of wind turbines and services agreements where these transactions are not made in the functional currency. of the entity making the transaction.

Vestas objective when managing foreign currency risks is to reduce the short-term fluctuations in the income statement and to increase the predictability of the financial results.

The foreign currency risks are reduced by purchasing and producing in local markets and by hedging the exposure in each individual currency according to the Treasury Policy.

Vestas hedge the forecasted exposures related to the firm wind turbine order backlog as well as committed foreign currency transactions. Foreign currency risks related to long-term investments are not hedged based on an overall risk, liquidity and cost perspective. Foreign currency risks are primarily hedged through foreign currency forward contracts and foreign currency swaps.

Vestas is to a large extent exposed to USD, as part of the significant business activities in this currency. The project nature of the business changes the foreign currency risk picture towards specific currencies from one year to another, depending on in which geographical areas Vestas has activity.

The sensitivity analysis below shows the gain/(loss) on net profit for the year and other comprehensive income of a 10 percent increase in the specified currencies towards EUR. The analysis includes the impact from hedging instruments but does not comprise the impact from the hedged exposures such as future purchases or sales since these are not recognised in the balance sheet. If the hedged exposures were included the impact from hedge instruments would be offset in their entirety. The below analysis is based on the assumption that all other variables, interest rates in particular, remain constant.

mEUR 2018	Change	Effect on profit/ (loss) before tax	Effect on equity before tax
USD	10%	(9)	(98)
SEK	10%	(12)	(132)
NOK	10%	0	(106)
CAD	10%	19	(23)
CNY	10%	(6)	126

mEUR 2017	Change	Effect on profit/ (loss) before tax	Effect on equity before tax
USD	10%	(35)	(116)
SEK	10%	(2)	(107)
NOK	10%	0	(99)
GBP	10%	(2)	(38)
CNY	10%	2	54

Interest rate risks

Vestas ensures that the interest rate risk is managed according to the Treasury Policy. Interest rate risk relates to cash flows from interest-bearing short-term investments in cash and cash equivalents as well as from marketable securities with floating interest as well as outstanding interest-bearing debt with floating interest.

Vestas has no outstanding interest-bearing debt with floating interest, why fluctuations in the market interest rates won't have a significant impact on Vestas.

Commodity price risks

Commodity price risks in Vestas mainly relate to global market fluctuations in prices of raw materials such as copper and steel, which are used directly or indirectly in the production of wind turbines. The commodity price risk can be divided into a direct exposure and an indirect exposure, where the direct exposure is related to purchase of the raw material while the indirect exposure arises from the purchase of a component where the price is linked to raw material prices. The risk is managed in accordance with the Treasury Policy and mainly managed through the procurement process. The exposure is mitigated financially by entering into forward transactions.

4.8 Fair value hierarchy

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

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

The table below set out the carrying amounts and fair values of Vestas' financial instruments in the different levels of the fair value hierarchy. Financial instruments as trade receivables, trade payables and deposits where the carrying amount is a reasonable approximation of the fair value are not disclosed.

2018 mEUR	Valuation technique	Carrying amount	Fair value Total	 Level 1	 Level 2	 Level 3
Other investments [2]	Discounted cash flow	35	23	-	-	23
Financial investments	Market prices	204	204	204	-	-
Renewable energy certificates (RECs) [3]		-	-	-	-	0
Foreign currency derivatives [1]	Forward pricing and swap models	166	166	-	166	-
Commodity derivatives [1]	Forward pricing	-	-	-	-	-
Other receivables and derivative financial instruments		166	166	-	166	-
Financial assets		**405**	**393**	**204**	**166**	**23**
Financial debts	Market prices	498	525	525	-	-
Foreign currency derivatives [1]	Forward pricing and swap models	121	121	-	121	-
Commodity derivatives [1]	Forward pricing	2	2	-	2	-
Other liabilities and derivative financial instruments		123	123	-	123	-
Contingent consideration [4]	Discounted cash flow	14	14	-	-	14
Financial liabilities		**635**	**662**	**525**	**123**	**14**

2017 mEUR	Valuation technique	Carrying amount	Fair value Total	 Level 1	 Level 2	 Level 3
Other investments [2]	Discounted cash flow	30	20	-	-	20
Financial investments	Market prices	203	203	203	-	-
Renewable energy certificates (RECs) [3]		-	-	-	-	0
Foreign currency derivatives [1]	Forward pricing and swap models	114	114	-	114	-
Commodity derivatives [1]	Forward pricing	2	2	-	2	-
Other receivables and derivative financial instruments		116	116	-	116	
Financial assets		**349**	**339**	**203**	**116**	**20**
Financial debts	Market prices	497	533	533	-	-
Foreign currency derivatives [1]	Forward pricing and swap models	29	29	-	29	-
Commodity derivatives [1]	Forward pricing	-	-	-	-	-
Other liabilities and derivative financial instruments		29	29	-	29	
Financial liabilities		**526**	**562**	**533**	**29**	**-**

1) Foreign currency contracts and embedded derivatives is measured as Level 2, as the fair value can be established directly based on exchange rates published and interest rates curve and prices specified at the balance sheet date.
2) Other investments in non-listed equity shares are measured at fair value based on Level 3 input by using a DCF model. In the valuation of the investments a discount rate in the range of 18-23 percent have been applied with a weighted average rate of 21 percent. An increase (decrease) in the discount rate would result in a decrease (increase) of the fair value. Deposits with the carrying amount of EUR 12m in 2018 is a reasonable approximation of the fair value, and therefore not disclosed.

4.8 Fair value hierarchy (continued)

3) Vestas has a commitment in the USA to purchase Renewable Energy Certificates (RECs) in 2022 and 10 years beyond based on production of MW in this period at a fixed price. It has been assessed that the contract qualifies as a financial instrument. The fair value measurement is based on Level 3 input. The maximum nominal commitment under the contract is estimated at EUR 44m (2017: EUR 42m). Currently RECs are trading at a lower price than Vestas' agreed purchase price. Given the uncertainties underpinning the future market for selling RECs, Management has determined that the best evidence of fair value of the RECs is the transaction price. Consequently, the net fair value of the contract has been measured at EUR 0. Had the estimated market price of the RECs been EUR 23.25/MWh (2017: EUR 22.81/MWh) in average, the contract would have had a positive value of EUR 46m (2017: EUR 42m) at 31 December 2018. Had the estimated market price of the RECs been EUR 0 (2017: EUR 0), the contract would have had a negative value of EUR 35m (2017: EUR 33m) as at 31 December 2018.
4) The contingent consideration from the purchase of Utopus Insights, Inc. is based on revenue for a 3-year discounting period with a discount rate of 13.1 percent. The fair value is based on scenarios with a high probability of full earn-out payment. An increase in the discount rate would result in a lower fair value.

There have been no changes in fair values of recurring assets and there have been no transfers between levels in 2018.

4.9 Hedge accounting

Risks which was managed by derivative financial instruments in 2018 comprise foreign currency risk and commodity price risk.

Hedging of risks with derivative financial instruments are made with a ratio of 1:1. Any ineffectiveness arising from hedging of foreign currency risks and commodity risks are recognised in financial items. Recognised sources of ineffectiveness are mainly derived from differences in the timing of the cash flows of the hedged items and hedging instruments and changes to the forecasted amount of cash flows of hedged items.

Foreign currency risk
Derivative financial instruments considered as cash flow hedges are designated hedges of forecasted sales and purchases. Cash flow hedges are measured at fair value with changes in the effective part of any gain or loss recognised in other comprehensive income. Any ineffective portions of the cash flow hedges are recognised in the income statement as financial items. Gains or losses on cash flow hedges are upon realisation of the hedged item transferred from the equity hedging reserve into the initial carrying amount of the hedged item.

Firm commitments in foreign currency are designated as fair value hedges and measured with changes in fair value in the income statement as financial items.

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

Commodity price risk
As a part of the turbine production Vestas directly or indirectly purchases raw materials such as copper and steel on an ongoing basis. Due to volatility in the commodity prices, Vestas enters into commodity forward contracts for forecasted purchases.

Vestas held at 31 December 2018 the following derivative financial instruments with the net contract notional amounts for each instrument comprising future purchases and (sales) of foreign currencies:

2018 mEUR	Contract notional amount	Expected recognition 2019	2020	After 2020
Foreign currency risk				
Cash flow hedges	**(2,885)**	**(1,968)**	**(634)**	**(283)**
USD	(1,056)	(927)	(150)	21
NOK	(1,046)	(412)	(525)	(109)
GBP	(42)	(40)	(2)	0
CNY	1,293	822	368	103
Other	(2,034)	(1,411)	(325)	(298)
Fair value hedges	**(213)**	**(213)**	**-**	**-**
USD	193	193	-	-
NOK	88	88	-	-
GBP	(62)	(62)	-	-
CNY	(58)	(58)	-	-
Other	(374)	(374)	-	-
Commodity price risk				
Cash flow hedges	**51**	**21**	**16**	**14**
Copper	33	21	12	-
Steel	18	-	4	14
Total	**(3,047)**	**(2,160)**	**(618)**	**(269)**

2017 mEUR	Contract amount	Net fair value	Expected recognition 2018	2019	After 2019
Cash flow hedges	(3,515)	79	58	13	8
Fair value hedges	(63)	8	8	-	-
Total derivative financial instruments	(3,578)	87	66	13	8

4.9 Hedge accounting (continued)

In the table below the effect from hedging instruments on the balance sheet is shown:

2018 mEUR	Carrying amount of hedging instruments Assets	 Liabilities	Contract notional amount	Line item in the statement of financial position	Change in fair value
Foreign currency risk					
Cash flow hedges	165	107	(2,885)	Other receivables, Other payables	31
Fair value hedges	1	12	(213)	Other receivables, Other payables	(23)
Commodity price risk					
Cash flow hedges	-	2	51	Other receivables, Other payables	(5)
Total	**166**	**121**	**(3,047)**		**3**

In the table below the effect from hedged items on the balance sheet is shown:

2018 mEUR	Carrying amount of hedging instruments Assets	 Liabilities	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve
Foreign currency risk				
Highly probable forecasted sales and purchases			26	49
Firm commitments [1]	2,823	2,618	(23)	
Commodity price risk				
Commodity purchases			(5)	(2)
Total	**2,823**	**2,618**	**(2)**	**47**

1) Firm commitments comprise financial instruments related to intra-group positions in a currency different from the functional currency. The intra-group positions are included in the hedged firm comitments above , but are eliminated in the consolidated statements and therefore cannot be disclosed as a line item in the statement of financial position.

The impact from hedge accounting in profit or loss and other comprehensive income is shown below for the year.

2018 mEUR	Total hedging gain/(loss) recognised in OCI	Ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss	Line in the statement of profit or loss
Foreign currency risk					
Cash flow hedges, forward contracts	26	5	Financial items	(28)	Revenue
				(21)	Production costs
Commodity price risk					
Cash flow hedges, forward contracts	(5)	-		-	
Total	**21**	**5**		**(49)**	

The effect from hedging recognised in 2017 under IAS 39 is shown below.

2017 mEUR	
Income statement, gains/(losses)	9
Other comprehensive income, gains/(losses)	78
Other receivables, current	84
Other receivables, non-current	32
Other liabilities, current	18
Other liabilities, non-current	11

4.9 Hedge accounting (continued)

Ineffectiveness in 2017 amounted to a loss of EUR 5m recognised in the income statement.

The risk categories recognised in the cash flow hedge reserve is reconciled in the table below with items impacting OCI for the period.

2018 **mEUR**	**Cash flow hedge reserve**
Carrying amount as at 1 January 2018	60
Changes in fair value:	
Foreign currency risk, cash flow hedges	26
Commodity price risk, cash flow hedges	(5)
Amount reclassified to profit or loss:	
Foreign currency risk, cash flow hedges	(49)
Commodity price risk, cash flow hedges	-
Amount transferred to the initial carrying amount of non-financial items:	
Foreign currency risk, cash flow hedges of inventory purchases	12
Foreign currency risk, cash flow hedges of received prepayments from customers	1
Commodity price risk, cash flow hedges of inventory	-
Tax effect	2
Carrying amount as at 31 December 2018	**47**

5. Tax

5.1 Income tax

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

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

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

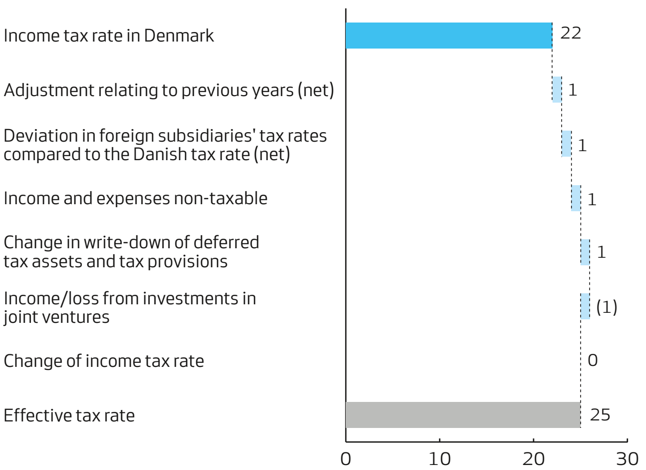
Key accounting estimates
Income taxes and uncertain tax position
Vestas continuously wants to be a compliant corporate tax citizen in collaboration with Vestas' operations and stakeholders and to support shareholder interest and its reputation. To ensure compliance, national and international tax laws as well as the OECD Guidelines are acknowledged and followed throughout the world.

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

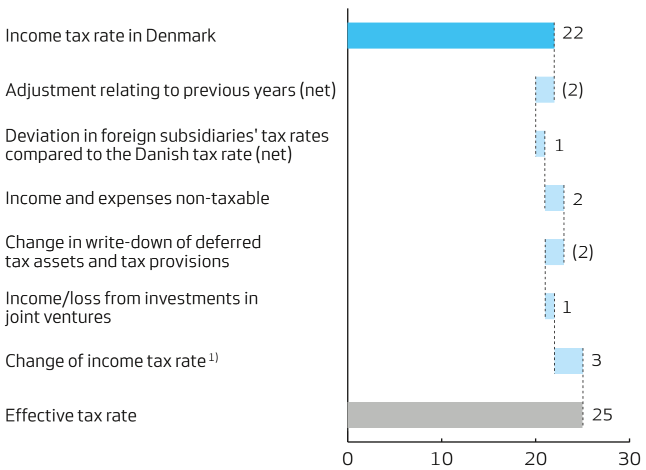
The global business implies that Vestas may be subject to disputes on allocation of profits between different jurisdictions. Management judgement is applied to assess the expected outcome of such tax disputes which is provided for in provision for uncertain tax positions. Management believes that provisions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

mEUR	**2018**	**2017**
Current tax on profit for the year	225	248
Deferred tax on profit for the year	(4)	19
Tax on profit for the year	221	267
Change in income tax rate	-	33
Adjustments relating to previous years (net)	7	(2)
Income tax for the year recognised in the income statement, expense	**228**	**298**
Deferred tax on other comprehensive income for the year	(5)	37
Tax recognised in other comprehensive income, expense/(income)	**(5)**	**37**
Deferred tax on equity transactions	4	(5)
Tax recognised in equity	**4**	**(5)**
Total income taxes for the year, expense	**227**	**330**

Computation of effective tax rate 2018
percent



Computation of effective tax rate 2017
percent



1) Change of income tax rate mainly relates to the reduction of tax rate in USA.

CONTENTS
IN BRIEF
WHO WE ARE
STRATEGY AND AMBITIONS
GROUP PERFORMANCE
SUSTAINABILITY
GOVERNANCE
CONSOLIDATED FINANCIAL STATEMENTS
STATEMENTS
VESTAS WIND SYSTEMS A/S

5.1 Income tax (continued)

mEUR	2018	2017
Income tax as at 1 January, net assets/(liabilities)	(170)	(154)
Exchange rate adjustments	2	(2)
Income tax for the year	(225)	(248)
Adjustments relating to previous years	(12)	-
Non-current income tax	-	(65)
IFRS 15 impact	19	-
Settlements against VAT receivables	53	37
Income tax paid in the year	195	262
Income tax as at 31 December, net assets/(liabilities)	**(138)**	**(170)**
Receivables specified as follows:		
0-1 year	88	53
> 1 year	98	51
Income tax receivables	**186**	**104**
Liabilities specified as follows:		
0-1 year	(112)	(108)
> 1 year	(212)	(166)
Income tax liabilities	**(324)**	**(274)**

5.2 Deferred tax

Vestas accounting policies

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

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

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

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

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

Key accounting estimates

Valuation of deferred tax assets

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

Of the total tax loss carry-forwards, EUR 17m (2017: EUR 18m) is expected to be realised within 12 months, and EUR 22m (2017: EUR 18m) is expected to be realised later than 12 months after the balance sheet date.

The assessment in 2018 resulted in the reversal of write-down of deferred tax assets by EUR 41m (2017: EUR 33m write-down) primarily due to the fact that the tax losses are expected to be utilised in the foreseeable future.

As at 31 December 2018, the value of recognised deferred tax assets amounted to EUR 281m (2017: EUR 218m), of which EUR 39m (2017: EUR 36m) relates to tax loss carry-forwards. The value of non-recognised tax assets totals EUR 61m (2017: EUR 102m), of which EUR 61m (2017: EUR 102m) relating to write-downs that are not expected to be utilised in the foreseeable future.

5.2 Deferred tax (continued)

mEUR	2018	2017
Deferred tax as at 1 January, net assets	157	174
Exchange rate adjustments	(3)	-
Deferred tax on profit for the year	4	(19)
Adjustment relating to previous years	5	2
Changes in income tax rate	-	(33)
Transferred to non-current tax receivables/payables	-	65
Deferred tax on equity transactions	(4)	5
Acquisitions as part of business combinations	(3)	-
Tax on other comprehensive income	5	(37)
Deferred tax as at 31 December, net assets	**161**	**157**
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	39	36
Intangible assets	(1)	(1)
Property, plant and equipment	19	19
Current assets	172	175
Provisions	112	39
Uncertain tax position	-	-
Write-down of tax assets	(61)	(102)
Other [1)]	39	52
Deferred tax assets	**281**	**218**
Deferred tax provisions specified as follows:		
Intangible assets	146	104
Property, plant and equipment	(7)	(15)
Current assets	18	40
Provisions	(33)	(93)
Other	4	25
Deferred tax provisions	**120**	**61**

1) Other mainly relates to deferred revenue and share-based payment.

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

Deferred tax recognised on tax losses is mainly in jurisdictions where there are expiry limits. Out of total tax losses recognised EUR 25m (2017: EUR 11m) are subject to expiry limits. Following Vestas transfer pricing policy these losses are expected to be utilised within the foreseeable future.

Of the total deferred tax relating to tax loss carry-forwards written down, EUR 0m (2017: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 0m (2017: EUR 0m).

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

6. Other disclosures

6.1 Audit fees

mEUR	2018	2017
Audit:		
PricewaterhouseCoopers	3	3
Total audit	**3**	**3**
Non-audit services: 1)		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	1	2
Other services	0	1
Total non-audit services	**1**	**3**
Total	**4**	**6**

1) The following ratios have been calculated in accordance with guidelines provided by certain advisors to illustrate the level of non-audit services compared to audit related services provided by Vestas' auditor. Non-audit services / (Audit fees + Assurance engagements + Tax compliance and preparation fees) is 16 percent (2017: 44 percent). Excluding significant one-time capital structure events is 10 percent (2017: 39 percent).

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

Fee for other services than statutory audit services rendered by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PwC Denmark) to Vestas amounts to EUR 1m and consists mainly of tax compliance, tax advisory services and transfer pricing.

6.2 Management's incentive programmes

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

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

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

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

The fair value of restricted shares is determined based on Vestas quoted share price at grant adjusted for expected dividend payout (based on historic dividend payout ratio).

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

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

In April 2018, the Board of Directors of Vestas Wind Systems A/S (the Board) launched a new restricted performance share programme. The share-based incentive programme follows the structure of the previous programme from 2017 and will still be based on restricted performance shares. The programme has a performance period of three years and a performance measurement based on financial key performance indicators as well as Vestas' market share as defined by the Board of Directors. 50 percent of the programme has a vesting period of 3 years and remaining 50 percent a vesting period of five years.

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

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

6.2 Management's incentive programmes (continued)

	2018	2017	2016	2015	2014
Year awarded:	April 2018	May 2017	April 2016	April 2015	March 2014
Performance year [1]:	2018-2020	2017-2019	2016-2018	2015-2017	2014
Vesting conditions (KPIs):	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EBIT margin, Free cash flow, Business area specific KPIs
Vesting years:	2021/2023	2020/2022	2019/2021	2018/2020	2017/2019

1) Performance years defined as Vestas' financial year.

In 2018, the total number of shares issued amounts to 248,089 shares with a fair value of EUR 14m (out of which 70,233 shares with a fair value of EUR 4m were issued to the Executive Management). The fair value calculated is based on share price at measurement, close of Nasdaq Copenhagen on 17 April 2018, EUR 56.

Number of restricted performance shares	Executive Management pcs	Other executives pcs	Total pcs
Outstanding as at 1 January 2018	**520,957**	**1,173,502**	**1,694,459**
Adjusted [1]	(26,094)	(56,296)	(82,390)
Awards issued	70,233	177,856	248,089
Vested	(166,812)	(419,032)	(585,844)
Cancelled	-	(13,998)	(13,998)
Outstanding as at 31 December 2018	**398,284**	**862,032**	**1,260,316**
Outstanding as at 1 January 2017	**488,474**	**1,047,837**	**1,536,311**
Adjusted [1]	22,600	45,694	68,294
Awards issued	87,806	216,204	304,010
Vested	(77,923)	(128,398)	(206,321)
Cancelled	-	(7,835)	(7,835)
Outstanding as at 31 December 2017	**520,957**	**1,173,502**	**1,694,459**

1) Adjustments due to final calculation of entitlement based on performance in prior year. Allocation of performance shares for the 2016-2018, 2017-2019, and 2018-2020 performance programmes will be adjusted based on the level of target achievement in the measurement period.

An employee elected member of the Board, had 1,320 restricted shares outstanding as at 31 December 2018 (2017: 754).

Ref. note 1.3 for the total expense recognised in the Income statement for share options and restricted performance shares (share-based payment) granted to Executive Management and other executives.

6.3 Contractual obligations

mEUR	**2018**	**2017**
The minimum lease obligations relating to operating leases fall due:		
0–1 year	66	57
1–5 years	127	115
> 5 years	34	42
Total	**227**	**214**

Operating leases primarily comprise irrevocable operating leases regarding land, buildings and vehicles. The main obligations relate to buildings and run for up to 15 years after the balance sheet date.

Costs recognised in the income statement relating to operating leases amount to EUR 69m in 2018 (2017: EUR 52m).

Vestas has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2019 and future periods at a value of EUR 68m (2017: EUR 15m).

6.4 Related party transactions

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

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

Transactions with the Board and Executive Management
Transactions with the Executive Management only consist of normal management remuneration, ref. note 1.3 and the transactions mentioned below.

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

Mr Anders Vedel has full and partly ownerships of wind turbines for which he has a service contract with Vestas. These transactions take place at arm's length and in total amounted to EUR 0.2m in 2018 (2017: EUR 0.3m). The outstanding amount of purchases as at 31 December 2018 amounted to EUR 0.0m (2017 EUR 0.0m).

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

With the exception of the board members elected by the employees, no members of the Board of Directors have been employed by Vestas in 2018.

Transactions with joint ventures and associates
Vestas has had the following material transaction with joint ventures and associates:

mEUR	2018	2017
MHI Vestas Offshore Wind A/S		
Revenue	157	294
Receivable as at 31 December	59	33
Roaring Fork Wind, LLC		
Proceeds from sale of projects	10	-
Capital increase	8	15
Prepayments balance as at 31 December	85	86
Blakildem Fäbodberget Holding AB		
Payable capital contribution as at 31 December, ref. note 3.4	37	-

6.5 Business combinations

Vestas accounting policies
Newly acquired or newly founded subsidiaries are recognised from the date of obtaining control. Upon acquisition of subsidiaries, the acquisition method is applied.

Cost is stated as the fair value of the assets transferred, obligations undertaken and shares issued. Cost includes the fair value of any earn-outs.

Expenses related to the acquisition are recognised in the income statement in the period in which they are incurred. Identifiable assets, liabilities and contingent liabilities (net assets) relating to the entity acquired are recognised at the fair value at the date of acquisition calculated in accordance with Vestas accounting policies.

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

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

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

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

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

Acquisition of 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.

6.5 Business combinations (continued)

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 following table summarises the recognised amounts of identifiable assets acquired and liabilities assumed.

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

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 2m. Utopus also contributed a loss after tax of EUR 4m over the same period.

Had Utopus' financial statements been consolidated with Vestas' financial statements from 1 January 2018, Vestas' consolidated income statement would have been impacted with revenue of approx. EUR 5m and loss after tax of approx. EUR 2m.

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

Valuation technique
Income-based method: Estimate of future economic benefits derived from ownership of the technology by identifying, separating and qualifying cash flows attributable to the technology and capitalising these cash flows.

6.6 Non-cash transactions

mEUR	2018	2017
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	458	421
Share of (profit)/loss from investments in joint ventures and associates	(40)	40
Warranty provisions in the year (net)	(6)	42
Other provisions in the year	9	1
Exchange rate adjustment	24	4
Financial income	(17)	(45)
Financial expenses	68	43
Income tax for the year	227	298
Cost of share-based payments	18	18
Gains from property, plant and equipment	(6)	(9)
Change in marketable securities	-	(2)
Non-cash settlements	-	37
Other adjustments for non-cash transactions	(19)	(3)
	716	**845**

6.7 Legal entities[1]

Name and country	Ownership (%)
Parent company	
Vestas Wind Systems A/S, Denmark	-
Production units	
Vestas Nacelles America, Inc., USA	100
Vestas Towers America, Inc., USA	100
Vestas Blades America, Inc., USA	100
Vestas Manufacturing A/S, Denmark	100
Vestas Blades Deutschland GmbH, Germany	100
WPT Nord GmbH, Germany	100
Vestas Blades Italia S.r.l., Italy	100
Vestas Wind Technology (China) Co. Ltd., China	100
Vestas Manufacturing Spain S.L.U., Spain	100
Vestas Control Systems Spain S.L.U., Spain	100
Vestas Nacelles Deutschland GmbH, Germany	100
Vestas Manufacturing RUS OOO, Russia	51
Sales and service units	
Vestas Americas A/S, Denmark	100
Vestas America Holding Inc., USA	100
Vestas - American Wind Technology Inc., USA	100
Vestas - Canadian Wind Technology Inc., USA	100
Vestas - Portland HQ LLC, USA	100
Vestas Upwind Solutions Inc., USA	100
Availon Inc., USA	100
Steelhead Americas, LLC, USA	100
Steelhead Wind 1 LLC, USA	100
Steelhead Wind 2 LLC, USA	100
Steelhead Wind 2a LLC, USA	100
Vestas Asia Pacific A/S , Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd., Singapore	100
Vestas - Australian Wind Technology Pty. Ltd., Australia	100
Vestas Korea Wind Technology Ltd., South Korea	100
Vestas New Zealand Wind Technology Ltd., New Zealand	100
Vestas Taiwan Ltd., Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd., China	100
Vestas Wind Technology India Pvt Limited, India	100
Vestas Japan Co. Ltd., Japan	100
Vestas Wind Technology Pakistan (Private) Limited, Pakistan	100
Vestas Wind Technology (Thailand) Ltd., Thailand	100
Vestas Wind Technology Vietnam LLC, Vietnam	100
Vestas Mongolia LLC, Mongolia	100
Vestas Central Europe A/S, Denmark	100
Vestas Deutschland GmbH, Germany	100
Vestas Services GmbH, Germany	100
Vestas Benelux B.V., The Netherlands	100
Vestas Österreich GmbH, Austria	100
Vestas Czech Republic s.r.o., Czech Republic	100
Vestas Hungary Kft., Hungary	100
Vestas Bulgaria EOOD, Bulgaria	100
Vestas CEU Romania S.R.L, Romania	100
Vestas Central Europe-Zagreb d.o.o, Croatia	100
Vestas Slovakia spol S.r.o., Slovakia	100
Vestas RUS LLC, Russia	100

Name and country	Ownership (%)
Sales and service units, continued	
Vestas Eastern Africa Ltd., Kenya	100
Vestas Southern Africa Pty. Ltd., South Africa	80
Vestas Ukraine LLC, Ukraine	100
Vestas Central Europe d.o.o. Beograd, Serbia	100
Vestas Belgium SA, Belgium	100
Vestas Georgia LLC, Georgia	100
Availon Holding GmbH, Germany	100
Availon GmbH, Germany	100
Vestas Mediterranean A/S, Denmark	100
Vestas Italia S.r.l., Italy	100
Vestas Hellas Wind Technology S.A., Greece	100
Vestas Eólica S.A., Spain	100
Vestas France SAS, France	100
Vestas (Portugal) - Serviços de Tecnología Eólica Lda., Portugal	100
Vestas WTG Mexico S.A. de C.V., Mexico	100
Vestas Mexicana del Viento S.A. de C.V., Mexico	100
Vestas do Brasil Energia Eolica Ltda., Brazil	100
Vestas Argentina S.A., Argentina	100
Vestas Chile Turbinas Eólica Limitada Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A., Uruguay	100
Vestas MED (Cyprus) Ltd., Cyprus	100
Vestas Nicaragua SA, Nicaragua	100
Vestas CV Limitada, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L., Dominican Republic	100
Vestas Peru S.A.C., Peru	100
Vestas Middle East S.L.U., Spain	100
Vestas Costa Rica S.A., Costa Rica	100
Vestas Moroc SARLAV, Casablanca, Morocco	100
Vestas Jamaica Wind Technology Ltd., Jamaica	100
Vestas Guatemala, Guatemala	100
Availon LDA Portugal, Portugal	100
Availon Iberia S.L., Spain	100
Vestas Northern Europe A/S, Denmark	100
Vestas - Celtic Wind Technology Ltd., United Kingdom [2]	100
Vestas Northern Europe AB, Sweden	100
Vestas Poland Sp.z.o.o., Poland	100
Vestas Ireland Ltd., Ireland	100
Vestas Norway AS, Norway	100
Vestas Finland Oy, Finland	100
Vestas Mediterranean A/S Sucursal, Bolivia	100
UpWind Solutions Canada, Ltd., Canada	100
Vestas Kazakhstan LLP, Kazakhstan	100
Vestas Overseas Panamá S.A., Panama	100
Vestas Portugal, LDA, Portugal	100
Vestas Senegal S.A.R.L.U, Senegal	100
Vestas Wind Lanka (PVT) Ltd., Sri Lanka	100
Vestas Kompozit Kanat Sanayi Ve Ticaret Anonim Şirketi Şirketi, Turkey	100
UpWind Holdings, LLC, United States	100
Utopus Insights, Inc., United States	100

1) Companies of immaterial significance have been left out of the overview.
2) Vestas Celtic Wind Technology Ltd (CN: SC 216807) and Vestas Technology UK Ltd (CN: 2883652), a wholly owned subsidiary of Vestas Wind Systems A/S, is claiming exemption from audit pursuant to sections 479A to 479C of the Companies Act 2006.

6.7 Legal entities[1] (continued)

Name and country	Ownership (%)
Other subsidiaries	
Vestas Wind Systems (China) Co. Ltd., China	100
Vestas Switzerland AG, Switzerland	100
Vestas Services Philippines Inc., Philippines	100
Vestas India Holding A/S, Denmark	100
Wind Power Invest A/S, Denmark	100
Vestas Technology (UK) Limited, United Kingdom[2]	100
Vestas Technology R&D Singapore Pte. Ltd., Singapore	100
Vestas Technology R&D Chennai Pte. Ltd., India	100
Vestas Technology R&D (Beijing) Co. Ltd., China	100
Vestas Shared Service (Spain), S.L.U., Spain	100
Vestas Middle East A/S, Denmark	100
GREP Svenska AB, Sweden	100
Vestas BCP Philippines Inc., Philippines	100
Vestas Shared Service A/S, Denmark	100
Vestas Service Delivery Center - Szczecin sp Z.o.o., Poland	100
Vestas Spare Parts & Repair UK Limited, United Kingdom	100
Wind 30 ApS, Denmark	100
Wind 31 ApS, Denmark	100
Admede AB, Sweden	100
Joint ventures	
MHI Vestas Offshore Wind A/S, Denmark	50
Roaring Fork Wind, LLC, USA	50
Emerging Markets Power (Holdings) Limited, Ireland	50
Associates	
Blakliden Fäbodberget Holding AB, Sweden	40

1) Companies of immaterial significance have been left out of the overview.
2) Vestas Celtic Wind Technology Ltd (CN: SC 216807) and Vestas Technology UK Ltd (CN: 2883652), a wholly owned subsidiary of Vestas Wind Systems A/S, is claiming exemption from audit pursuant to sections 479A to 479C of the Companies Act 2006.

7. Basis for preparation

7.1 General accounting policies

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

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

Basis of preparation
The Consolidated financial statements have been prepared under the historical cost method, except for the derivative financial instruments and marketable securities, which are measured at fair value and non-current assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

The accounting policies remain unchanged for the Consolidated financial statements compared to 2017, except from the impact of IFRS 9 and IFRS 15, ref. note 7.3.

The Consolidated financial statements are presented in million Euro.

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

Materiality in the financial reporting
For the preparation of the Consolidated financial statements, Vestas discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

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

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

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

An overview of Vestas legal entities is provided on pages 094-095.

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

The Consolidated financial statements are based on financial statements prepared under the accounting policies of Vestas.

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

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

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

Translation of Vestas entities
On recognition in the Consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency of Vestas, income statements are translated at transaction date rates, and balance sheet items are translated at the exchange rates at the balance sheet date. The transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transaction. Exchange adjustments arising on the translation of the opening equity of foreign entities at exchange rates at the balance sheet date and on the translation of income statements from transaction date rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

Exchange adjustments of balances with foreign entities that are treated as part of the total net investment in the entity in question are recognised in other comprehensive income in the consolidated financial statements.

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

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

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

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

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

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. Subsequently assets held within the business model hold to collect is re-measured at amortised cost and assets hold to sell is remeasured at fair value through profit or loss. Any changes in the fair values of financial investments remeasured at fair value Is recognised in the income statement as financial items.

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

7.1 General accounting policies (continued)

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

Cash flow hedging reserve

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

Cash flow statement

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

7.2 Key accounting estimates and judgements

When preparing the Consolidated financial statements of Vestas, Management makes a number of accounting estimates and assumptions, which form the basis of recognition and measurement of Vestas' assets and liabilities. Vestas' accounting policies are described in detail in the notes to the Consolidated financial statements.

Critical judgements and estimates

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

The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances, but that are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate and unexpected events or circumstances may arise. Furthermore, the company is subject to risks and uncertainties which may result in actual amounts deviating from these estimates. Main risks of Vestas have been described on pages 046-047 of the Management report, and in the individual notes to the consolidated financial statements.

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

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

Vestas accounting policies	Critical accounting judgements and estimates	Note	Page
Revenue	Estimate regarding recognition of contract elements	1.2	056
	Judgement regarding method for recognition of revenue from Supply-and-installation contracts	1.2	056
	Estimate of stage of completion	1.2	056
Special items	Judgement regarding classification in the income statement	1.6	060
Provisions	Estimates for warranty provisions	3.5	071
Income tax	Assumptions included in income tax assessment and uncertain tax position	5.1	087
Deferred tax	Estimate of deferred tax assets valuation	5.2	088
Inventories	Estimates of net realisable value	2.2	061
Other receivables	Estimates of allowance for doubtful VAT receivables	2.5	063

7.3 Changes in accounting policies and disclosures

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

- Annual Improvements to IFRSs 2014-2016 (effective date 1 January 2018)
- IFRS 9, Financial Instruments (effective date 1 January 2018)
- 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)
- IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018)

None of the amended accounting standards and interpretations in the Annual Improvements to IFRSs 2014-2016 resulted in any significant changes to the accounting policies for Vestas or had significant impact on recognition, measurement or disclosures in the consolidated financial statements in 2018. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

IFRS 9, Financial Instruments
As at 1 January 2018, the new accounting standard IFRS 9 Financial Instruments, which replace IAS 39 Financial Instruments: Recognition and Measurement, have been adopted and applied to the consolidated statements for 2018. In comparison to IAS 39, the main changes in IFRS 9 comprise changes within classification and measurement, impairment and hedge accounting. Vestas has applied IFRS 9 prospectively without restating comparative information, which is reported under IAS 39. The effects from adopting IFRS 9 is insignificant for Vestas and has been recognised in 2018.

The categories defining classification and measurement of financial assets have been changed to comprise amortised cost, fair value through profit or loss and fair value through other comprehensive income. Financial assets subject for reclassification as at 1 January 2018 regarded assets within the category loans and receivables under IAS 39, which is categorised as amortised cost under IFRS 9.

Impairment losses for financial assets have been changed from an incurred loss approach to an expected credit loss approach. The effect from this change is deemed immaterial for Vestas due to a general low credit risk and have been recognised in 2018.

The adoption of IFRS 9 is aligning the way that Vestas undertakes risk management activities with the hedge accounting model and qualification criteria. As Vestas continues designating the change in fair value of the entire forward contract in cash flow hedges, no impact has been reflected in the balance sheet as at 1 January 2018.

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, ref. note 1.2. 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 turnkey projects and service agreements are classified as contract assets/liabilities. Contract liabilities also comprise prepayments from customers for supply-only and supply-and-installation projects ordered but not yet delivered. Previously service agreements were classified as 'Trade receivables' and 'Prepayments from customers'. Prepayments from supply-only and supply-and-installation projects were classified as 'Prepayments from customers'.

For supply-only and supply-and-installation projects cost to fulfil a contract are capitalised as contract costs in a separate line in the balance sheet. Previously these costs were capitalised as part of inventory.

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 initiated at a later stage, which is deferring revenue.

Impact on financial statements
The following table summarise the initial impacts of adapting IFRS 15 in the consolidated financial statements. There is no impact on statement of comprehensive income and the impact on Vestas' basic or diluted earnings per share for 2018 is not material.

IFRS 15 impact on income statement 1 January 2018 - 31 December 2018

mEUR	As reported	Adjustments Total	Balances without adoption of IFRS 15
Revenue	**10,134**	**(396)**	**9,738**
Production costs	(8,503)	342	(8,161)
Gross profit	**1,631**	**(54)**	**1,577**
Research and development costs	(229)	-	(229)
Distribution costs	(189)	-	(189)
Administration costs	(254)	-	(254)
Operating profit (EBIT) before special items	**959**	**(54)**	**905**
Special items	(38)	-	(38)
Operating profit (EBIT)	**921**	**(54)**	**867**
Income from investments in joint ventures and associates	40	-	40
Financial income	17	-	17
Financial costs	(68)	-	(68)
Profit before tax	**910**	**(54)**	**856**
Income tax	(227)	13	(214)
Profit for the period	**683**	**(41)**	**642**

7.3 Changes in accounting policies and disclosures (continued)

The following table summarises the impact on balance sheet of adapting IFRS 15 in Vestas' Consolidated financial statements.

IFRS 15 impact on balance sheet – Assets (31 December 2018)

mEUR	As reported	Adjustments	Balances without adoption of IFRS 15
Total non-current assets	**3,344**	**-**	**3,344**
Inventories	2,987	541	3,528
Trade receivables	967	323	1,290
Construction contracts in progress	-	3	3
Contract assets	330	(330)	-
Contract costs	328	(328)	-
Tax receivables	88	-	88
Other receivables	515	-	515
Financial investments	422	-	422
Cash and cash equivalents	2,918	-	2,918
Total current assets	**8,555**	**209**	**8,764**
Total assets	**11,899**	**209**	**12,108**

IFRS 15 impact on balance sheet – Equity and liabilities (31 December 2018)

mEUR	As reported	Adjustments	Balances without adoption of IFRS 15
Share capital	28	-	28
Other reserves	22	-	22
Retained earnings	3,042	13	3,055
Equity attributable to Vestas	3,092	13	3,105
Non-controlling interests	12	-	12
Total equity	**3,104**	**13**	**3,117**
Total non-current liabilities	**1,390**	**-**	**1,390**
Prepayments from customers	-	3,963	3,963
Construction contracts in progress	-	239	239
Contract liabilities	4,202	(4,014)	188
Trade payables	2,417	-	2,417
Provisions	126	5	131
Tax payables	112	3	115
Other liabilities	548	-	548
Total current liabilities	**7,405**	**196**	**7,601**
Total liabilities	**8,795**	**196**	**8,991**
Total equity and liabilities	**11,899**	**209**	**12,108**

7.3 Changes in accounting policies and disclosures (continued)

The following table summarises the impact on statement of cash flows of adapting IFRS 15 in Vestas' Consolidated financial statements. There is no impact on cash flow from investing activities or financing activities.

IFRS 15 impact on statement of cash flows 1 January 2018 - 31 December 2018

mEUR	As reported	Adjustments	Balances without adoption of IFRS 15
Profit for the year	683	(41)	642
Adjustment for non-cash transactions	716	61	777
Financial income received	13	-	13
Financial costs paid	(27)	-	(27)
Income tax paid	(195)	-	(195)
Cash flow from operating activities before change in net working capital	**1,190**	**20**	**1,210**
Change in net working capital	(169)	(20)	(189)
Cash flow from operating activities	**1,021**	**0**	**1,021**

IFRIC 22, Foreign Currency Transactions and Advance Consideration
IFRIC 22 clarifies which date an exchange rate should be applied in the recognition of a related asset, expense or income, when Vestas derecognise a non-monetary item that arose from a payment or receipt of advance consideration as prepayments.t

As at 1 January 2018, Vestas implemented IFRIC 22 with no transition impact. The interpretation aligns the way Vestas account for foreign currency transactions, and therefore does not have any impact on the financial figures in 2018.

New accounting standards not yet adopted
The IASB has issued a number of new or amended accounting standards and interpretations with effective date after 31 December 2018. Vestas expects to implement the following new or amended accounting standards and interpretations when they become mandatory:

- Annual Improvements to IFRSs 2015-2017 (effective date 1 January 2019)
- IFRS 16, Leases (effective date 1 January 2019)
- IFRIC 23, Uncertainty over Income Tax Treatment (effective date 1 January 2019)

IFRS 16, Leases
IFRS 16 will be implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2019.

IFRS 16 replaces IAS 17, and changes the accounting treatment of lease contracts that are currently treated as operating lease contracts. The change in lease accounting requires capitalisation of operating lease contracts as an asset under property, plant and equipment with a related lease liability in liabilities. The Income statement will be affected as the lease expenses will according to the new accounting regulation be split into two elements; depreciation on lease assets included in Operating profit and interest expenses on lease liability included in Financial expenses, as opposed to all being recognised as operating expenses in 2018.

Vestas has entered into lease contracts, which primarily comprise leases regarding buildings, equipment and vehicles. Vestas has elected not to capitalise lease contracts with a lease term of 12 month or less.

IFRS 16 will be implemented using the simplified transition method where Vestas will not restate comparative information, but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

The transition impact and the impact to lease assets in property, plant and equipment represents approx. 2 percent of the total assets with the equivalent impact on related lease liability within liabilities. Financial ratios related to the balance sheet will be impacted as well. The impact on Operating profit will be insignificant.

IFRIC 23, Uncertainty over Income Tax Treatment
IFRIC 23 is an interpretation which clarifies the accounting for uncertainties in income taxes as part of the application of IAS 12.

The interpretation specifically addresses whether an entity considers each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty will be followed, and uncertain tax positions are measured at the most likely outcome method.

Vestas will apply the interpretation from its effective date 1 January 2019. The interpretation does not have a significant impact to the balance sheet nor financial ratios.

7.4 Financial definitions

FINANCIAL HIGHLIGHTS

Investments: Investments equal 'Cash flow from investing activities'.

Capital employed: Capital Employed is the sum of (carrying value) total equity and interest-bearing debt.

Net invested capital: Assets (excluding investments accounted for using the equity method, marketable securities and assets held for sale) less non-interest bearing debt including provisions.

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

Free cash flow: Cash flow from operating activities less cash flow from investing activities.

Free cash flow before acquisitions of subsidiaries and financial investments securities: Cash flow from operating activities less cash flow from investing activities before acquisition of subsidiaries, any investments in marketable securities and short-term financial investments.

FINANCIAL RATIOS

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

EBITDA margin: Operating profit before amortisation, depreciation and impairment as a percentage of revenue.

EBIT margin: Operating profit as a percentage of revenue.

Net interest-bearing debt/EBITDA: Net interest-bearing debt divided by operating profit before amortization, depreciation, impairment and special items.

Return of Capital Employed (ROCE) (%): Operating profit/loss (EBIT) before special items adjusted for tax (effective tax rate) as a percentage of average capital employed calculated as a 12-month average.

Return on invested capital (ROIC) (%): Operating profit/loss (EBIT) before special items adjusted for tax (effective tax rate) as a percentage of average net invested capital.

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

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

SHARE RATIOS

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

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

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

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

OPERATIONAL HIGHLIGHTS

Order intake: Orders are included as order intake when an order becomes effective, meaning when the contract becomes firm and unconditional.

Deliveries (MW): Deliveries for the Power solution segment are included as deliveries, and deducted from the wind turbines backlog, when the related revenue is recognised.

Sales from turnkey projects are deducted from the wind turbines backlog simultaneously as the customer has taken delivery of the wind turbines under the term of the contract.

Order backlog: The value of future contracts end of period.

OTHER DEFINITIONS

Full-time equivalent (FTE): Employees on the Vestas' payroll are counted and reported as Vestas employees.

TERMINOLOGY USED IN ACCOUNTING POLICIES

IFRS: International Financial Reporting Standards

IAS: International Accounting Standards

IASB: International Accounting Standards Board

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