Financial statements for Vestas Wind Systems A/S

Income statement 1 January – 31 December

mEUR	Note	2018	2017
Revenue	1.1	1,376	1,693
Production costs	1.2	(533)	(561)
Gross profit		**843**	**1,132**
Administration costs	1.2	(162)	(222)
Operating profit (EBIT)		**681**	**910**
Income/loss from investments in subsidiaries	3.3	145	150
Income/loss from investments in associates including joint venture	3.3	39	(40)
Financial income	4.1	73	143
Financial costs	4.1	(110)	(71)
Profit before tax		**828**	**1,092**
Income tax	5.1	(160)	(216)
Profit for the year		**668**	**876**

mEUR	Note	2018	2017
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		184	110
Retained earnings		279	499
Proposed dividends		205	267
Profit for the year		**668**	**876**

Balance sheet 31 December - Assets

mEUR	Note	2018	2017
Intangible assets	3.1	731	619
Property, plant, and equipment	3.2	131	143
Investments in subsidiaries	3.3	2,447	2,322
Investments in associates including joint venture	3.3	116	78
Marketable securities		204	196
Other investments		4	4
Other receivables		104	47
Tax receivables		93	51
Total financial fixed assets		**2,968**	**2,698**
Total non-current assets		**3,830**	**3,460**
Inventories	2.1	93	75
Receivables from subsidiaries		2,709	3,379
Receivable from joint venture		7	14
Other receivables		286	91
Prepayments	3.4	13	8
Total receivables		**3,015**	**3,492**
Marketable securities		-	7
Cash and cash equivalents		2,475	2,864
Total current assets		**5,583**	**6,438**
Total assets		**9,413**	**9,898**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2018	2017
Share capital		28	29
Reserve for net revaluation under the equity method		297	157
Reserve for capitalised development cost		430	267
Dividend		205	267
Retained earnings		1,954	2,219
Total equity		**2,914**	**2,939**
Warranty provisions	3.5	545	565
Deferred tax	5.2	91	33
Total non-current provisions		**636**	**598**
Other liabilities		67	2
Financial debt	4.3	498	497
Total non-current debt		**565**	**499**
Total non-current liabilities		**1,201**	**1,097**
Trade payables		156	156
Payables to subsidiaries		4,758	5,553
Other liabilities		326	99
Tax payables		58	54
Total current liabilities		**5,298**	**5,862**
Total liabilities		**6,499**	**6,959**
Total equity and liabilities		**9,413**	**9,898**

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Statement of changes in equity 1 January – 31 December

2018 mEUR	Share capital	Reserve under the equity method	Reserve for capitalised development cost	Dividend	Retained earnings	Total
Equity as at 1 January	**29**	**157**	**267**	**267**	**2,219**	**2,939**
Exchange rate adjustments relating to foreign entities	-	12	-	-	-	12
Transition to IFRS 15 at 1 January	-	(65)	-	-	11	(54)
Fair value adjustments of derivative financial instruments	-	26	-	-	(44)	(18)
Tax on fair value adjustments of derivative financial instruments	-	(6)	-	-	8	2
Fair value adjustments of derivative financial instruments, joint venture	-	(1)	-	-	-	(1)
Paid dividend	-	-	-	(250)	-	(250)
Paid dividend related to treasury stock	-	-	-	(17)	17	-
Proposed dividend	-	-	-	197	(197)	-
Proposed dividend related to treasury stock	-	-	-	8	(8)	-
Capitalised development cost	-	-	209	-	(209)	-
Tax on capitalised development cost	-	-	(46)	-	46	-
Acquisition of treasury shares	-	-	-	-	(402)	(402)
Sale of treasury shares	-	-	-	-	1	1
Share-based payments	-	(10)	-	-	28	18
Tax on share-based payments	-	-	-	-	(1)	(1)
Capital decrease	(1)	-	-	-	1	-
Profit for the year	-	184	-	-	484	668
Equity as at 31 December	**28**	**297**	**430**	**205**	**1,954**	**2,914**

Note 1 · Result for the year

1.1 · Revenue

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

1.2 · Costs

mEUR	2018	2017
Staff costs are specified as follows:		
Wages and salaries, etc.	228	254
Pension schemes	15	15
Other social security costs	2	1
	245	**270**

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

Average number of employees in Vestas Wind Systems A/S	2,162	2,166

Note 2 · Working capital

2.1 · Inventories

mEUR	2018	2017
Raw materials and consumables	91	73
Work in progress	2	2
	93	**75**

Inventories relate to the spare parts activity.

Note 3 · Other operating assets and liabilities

3.1 · Intangible assets

2018 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	75	1,535	295	14	144	2,063
Exchange rate adjustments	0	(10)	(1)	0	0	(11)
Additions	-	-	1	-	293	294
Transfers	-	98	62	-	(160)	-
Cost as at 31 December	**75**	**1,623**	**357**	**14**	**277**	**2,346**
Amortisation as at 1 January	13	1,226	203	2	-	1,444
Exchange rate adjustments	0	(8)	0	0	-	(8)
Amortisation for the year	1	129	39	3	-	172
Impairment loss	-	6	1	-	-	7
Amortisation as at 31 December	**14**	**1,353**	**243**	**5**	**-**	**1,615**
Carrying amount as at 31 December	**61**	**270**	**114**	**9**	**277**	**731**
Amortisation period	5-20 years	2–5 years	3–5 years	3-7 years		

Included in software are internally completed IT projects amounting to EUR 83m as at 31 December 2018 (2017: EUR 72m).
For development projects in progress, ref. note 3.1 to the Consolidated financial statements.

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

3.2 · Property, plant, and equipment

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	251	93	127	1	472
Additions	1	10	18	3	32
Disposals	(39)	(1)	(1)	-	(41)
Transfers	-	1	-	(1)	-
Cost as at 31 December	**213**	**103**	**144**	**3**	**463**
Depreciation as at 1 January	165	64	100	-	329
Depreciation for the year	12	12	16	-	40
Depreciations on disposals for the year	(36)	-	(1)	-	(37)
Depreciation as at 31 December	**141**	**76**	**115**	**-**	**332**
Carrying amount as at 31 December	**72**	**27**	**29**	**3**	**131**
Depreciation period	15–40 years	3–10 years	3–5 years		

3.3 · Investments in subsidiaries and associates including joint venture

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

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

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

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

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

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

Investments in subsidiaries, joint venture, and associates

mEUR	2018	2017
Subsidiaries	2,447	2,322
Joint venture	115	77
Associates	1	1
Carrying amount as at 31 December	**2,563**	**2,400**

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

mEUR	2018	2017
Subsidiaries	145	150
Joint venture	39	(40)
Associates	0	0
	184	**110**

Income from subsidiaries

mEUR	2018	2017
Share of profit in subsidiaries after tax	157	162
Amortisation of goodwill	(12)	(12)
	145	**150**

Income/(loss) from joint venture

mEUR	2018	2017
Share of profit(loss) in joint venture after tax	39	(40)
	39	**(40)**

Investments in subsidiaries

mEUR	2018	2017
Cost as at 1 January	2,040	1,980
Exchange rate adjustments	(5)	(4)
Additions	28	64
Cost as at 31 December	**2,063**	**2,040**
Value adjustments as at 1 January	282	193
Exchange rate adjustments	12	(126)
Transition to IFRS 15 at 1 January	(65)	-
Share of profit/loss for the year after tax	157	162
Changes in equity, share-based payment	(10)	(6)
Changes in equity, derivative financial instruments	20	71
Amortisation of goodwill	(12)	(12)
Value adjustments as at 31 December	**384**	**282**
Carrying amount as at 31 December	**2,447**	**2,322**
Remaining positive difference included in the above carrying amount as at 31 December	67	79

Investments in joint venture

mEUR	2018	2017
Cost as at 1 January	202	202
Cost as at 31 December	**202**	**202**
Value adjustments as at 1 January	(125)	(68)
Share of profit(loss) for the year after tax	39	(40)
Changes in equity	(1)	(17)
Value adjustments as at 31 December	**(87)**	**(125)**
Carrying amount as at 31 December	**115**	**77**

Ref. note 6.7 to the Consolidated financial statements for an overview of the legal entities within the Group.

With reference to page 025, MHI Vestas Offshore Wind A/S (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.

3.4 · Prepayments

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

3.5 · Provisions

Warranty provisions

mEUR	2018	2017
Warranty provisions as at 1 January	565	521
Warranty provisions for the year	161	185
Used warranty provisions for the year	(181)	(141)
Warranty provisions as at 31 December	**545**	**565**
The warranty provisions are expected to be consumed as follows:		
0–1 year	115	132
> 1 year	430	433
	545	**565**

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

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

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

3.6 · Contingent assets and liabilities

Vestas provides guarantees and indemnities for bank and bonding facilities to third parties on behalf of the joint venture MVOW with a notional amount of EUR 436m (2017: EUR 378m). In addition, Vestas provides indemnities to third parties on behalf of the joint venture related to project supplies and warranty obligations to customers, with a notional amount of EUR 4,405m (2017: EUR 2,292m). 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.

In addition, the company provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries, and their warranty obligations to customers. To secure guarantees issued by banks, the company has given securities in cash and cash equivalents with disposal restrictions, ref. note 4.5 to the Consolidated financial statements.

On 31 July 2017 General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. GE claims infringement of its U.S. Patents No. 7,629,705 and No. 6,921,985 (the "705 Patent" and the "985 Patent"). The 705 Patent addresses Zero Voltage Ride Through technology. The 985 Patent addresses techniques to maintain functioning of the blade pitch system during low voltage events. Vestas answered and counterclaimed on December 15, 2017. Additionally, both parties have filed petitions with the United States Patent Office requesting Inter partes review 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 defense in this case, and GE prevails, this case could potentially have significant financial impact on Vestas. As GE has not claimed any specific amount from Vestas, it is not possible for Vestas to estimate such financial impact any further at this point in time.

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

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

Note 4 · Capital structure and financing items

4.1 · Financial items

mEUR	2018	2017
Financial income		
Interest income	6	24
Interest income from subsidiaries	66	79
Exchange rate adjustments	-	36
Other financial income	1	4
	73	**143**
Financial costs		
Interest costs	15	14
Interest costs to subsidiaries	63	27
Exchange rate adjustments	12	-
Financial instruments	11	22
Other financial costs	9	8
	110	**71**

4.2 · Financial risks

For the use of derivative financial instruments and risks and capital management ref. note 4.7 to the Consolidated financial statements.

4.3 · Financial liabilities

Financial debts

mEUR	2018	2017
Green corporate eurobond	498	497
	498	**497**
Financial debts break down as follows:		
< 1 year	-	-
1–2 years	-	-
> 2 years	498	497
	498	**497**

Note 5 · Tax

5.1 · Income tax

mEUR	2018	2017
Current tax on profit for the year	91	181
Deferred tax on profit for the year	49	36
Foreign taxes	3	2
Adjustment related to previous years	17	(3)
Income tax for the year recognised in the income statement, (income)	**160**	**216**
Deferred tax on equity	(7)	10
Tax recognised in equity, expense/(income)	**(7)**	**10**
Total income taxes for the year, (income)	**153**	**226**

5.2 · Deferred tax

mEUR	2018	2017
Deferred tax as at 1 January, net liabilities	(33)	20
Deferred tax on profit for the year	(49)	(36)
Tax on entries in equity	7	(10)
Adjustment relating to previous years	(16)	(7)
Deferred tax as at 31 December, net liabilities	**(91)**	**(33)**

Note 6 · Other disclosures

6.1 · Audit fees

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

6.2 · Contractual obligations

mEUR	2018	2017
The lease obligations relating to operating leases fall due:		
0–1 year	13	14
1–5 years	41	50
> 5 years	11	14

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

6.3 · Related party transactions

All transactions with related parties have been carried out at arm's length principle. Definition of related parties and concerning other transactions with related parties, ref. note 6.4 to the Consolidated financial statement.

6.4 · Ownership

The Company has no shareholders with more than 5 percentage of voting share capital.

Note 7 · Basis of preparation

7.1 · General accounting policies

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

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

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

Implementation of new standard
On 1 January 2018, Vestas early adopted a new accounting standard IFRS 15 – Revenue from contracts with customers to align with accounting practice in the Group. Description of the accounting policy for revenue, ref. note 7.3 to the Consolidated financial statements.

The adoption of IFRS 15 has had an impact on recognition and measurement of the opening balance at 1 January 2018 to the investment in subsidiaries of EUR (65)m, warranty EUR (11)m and equity of EUR (54)m in the financial statement for Vestas Wind Systems A/S for 2018. Comparative figures are not restated.

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

Cash flow statement
Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement. See the Consolidated Cash Flow Statement on page 052.

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Disclaimer and cautionary statement

This document contains forward-looking statements concerning Vestas' financial condition, results of operations and business. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. A number of factors that affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, include (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Additional factors that may affect future results are contained in Vestas' annual report for the year ended 31 December (available at www.vestas.com/investor) and these factors also should be considered. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events other than as required by Danish law. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this document.