Consolidated financial statements 1 January - 30 June

Condensed income statement 1 January - 30 June

mEUR	Note	Q2 2019	Q2 2018	H1 2019	H1 2018
Revenue	1.1, 1.2	**2,121**	**2,260**	**3,851**	**3,954**
Production costs		(1,820)	(1,844)	(3,315)	(3,257)
Gross profit		**301**	**416**	**536**	**697**
Research and development costs		(63)	(57)	(129)	(105)
Distribution costs		(45)	(37)	(102)	(86)
Administration costs		(65)	(63)	(134)	(121)
Operating profit (EBIT)	1.1	**128**	**259**	**171**	**385**
Income from investments in joint ventures and associates		9	(13)	15	5
Net financial items		(18)	(1)	(33)	(8)
Profit before tax		**119**	**245**	**153**	**382**
Income tax		(29)	(61)	(38)	(96)
Profit for the period		**90**	**184**	**115**	**286**
Profit is attributable to:					
Owners of Vestas		90	184	115	286
Non-controlling interests		0	(0)	0	(0)
Earnings per share (EPS)					
Earnings per share for the period (EUR), basic		0.45	0.92	0.58	1.42
Earnings per share for the period (EUR), diluted		0.45	0.92	0.58	1.41

Condensed statement of comprehensive income 1 January - 30 June

mEUR	Q2 2019	Q2 2018	H1 2019	H1 2018
Profit for the period	**90**	**184**	**115**	**286**
Items that may be reclassified to the income statement subsequently:				
Exchange rate adjustments relating to foreign entities	(29)	30	20	7
Fair value adjustments of derivative financial instruments for the period	8	(17)	(4)	43
Gain/(loss) on derivative financial instruments transferred to the income statement	(16)	(3)	(20)	(5)
Exchange rate adjustments relating to joint ventures	(1)	0	(0)	0
Share of fair value adjustments of derivatives financial instruments of joint ventures and associates	23	(0)	(28)	(0)
Share of fair value adjustments of derivatives financial instruments transferred to the income statement of joint ventures and associates	1	(0)	1	(0)
Tax on items that may be reclassified to the income statement subsequently	0	1	5	(10)
Other comprehensive income after tax for the period	(14)	11	(26)	35
Total comprehensive income for the period	**76**	**195**	**89**	**321**

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

Condensed balance sheet – Assets

mEUR	Note	30 June 2019	30 June 2018	31 December 2018
Goodwill		380	378	379
Completed development projects		241	276	270
Software		116	107	118
Other intangible assets		43	57	52
Development projects in progress		362	202	277
Total intangible assets		**1,142**	**1,020**	**1,096**
Land and buildings		650	690	662
Plant and machinery		246	226	258
Other fixtures, fittings, tools and equipment		281	218	268
Right-of-use assets	5.3	193	-	-
Property, plant and equipment in progress		201	126	130
Total property, plant and equipment	2.1	**1,571**	**1,260**	**1,318**
Investments in joint ventures and associates	2.2	273	152	233
Other investments		37	35	35
Tax receivables		160	68	98
Deferred tax		299	230	281
Other receivables	3.4	86	102	79
Financial investments	3.4, 3.5	100	202	204
Total other non-current assets		**955**	**789**	**930**
Total non-current assets		**3,668**	**3,069**	**3,344**
Inventories		4,588	3,688*)	2,987
Trade receivables		886	908*)	967
Contract assets		484	176*)	330
Contract costs		615	494*)	328
Tax receivables		96	66	88
Other receivables	3.4	670	496	515
Financial investments	3.4, 3.5	350	265	422
Cash and cash equivalents	3.2	1,995	2,108	2,918
Total current assets		**9,684**	**8,201**	**8,555**
Total assets		**13,352**	**11,270**	**11,899**

*) Comparative numbers updated to reflect classifications and presentations made under IFRS 15 in the Annual report 2018.

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

Condensed balance sheet – Equity and liabilities

mEUR	Note	30 June 2019	30 June 2018	31 December 2018
Share capital	3.1	27	28	28
Other reserves		(12)	52	22
Retained earnings		2,929	2,835	3,042
Attributable to owners of Vestas		2,944	2,915	3,092
Non-controlling interests		13	4	12
Total equity		**2,957**	**2,919**	**3,104**
Provisions	2.3	412	414	491
Deferred tax		134	64	120
Financial debts	3.4,5.3	642	497	498
Tax payables		317	166	212
Other liabilities	3.4	67	32	69
Total non-current liabilities		**1,572**	**1,173**	**1,390**
Contract liabilities		5,027	3,999*)	4,202
Trade payables		2,884	2,497	2,417
Provisions	2.3	202	195	126
Financial debts	3.2,3.4,5.3	124	8	-
Tax payables		57	70	112
Other liabilities	3.4	529	409	548
Total current liabilities		**8,823**	**7,178**	**7,405**
Total liabilities		**10,395**	**8,351**	**8,795**
Total equity and liabilities		**13,352**	**11,270**	**11,899**

*) Comparative numbers updated to reflect classifications and presentations made under IFRS 15 in the Annual report 2018.

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

Condensed statement of changes in equity – 6 months 2019

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total other reserves	Retained earnings	Non-controlling interests	Total
Equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**3,042**	**12**	**3,104**
Impact from change in accounting estimates (IFRIC 23)	-	-	-	-	-	(43)	-	(43)
Adjusted equity as at 1 January 2019	**28**	**(22)**	**47**	**(3)**	**22**	**2,999**	**12**	**3,061**
Profit for the period	-	-	-	-	-	115	0	115
Other comprehensive income for the period	-	19	(19)	(27)	(27)	-	1	(26)
Total comprehensive income for the period	-	19	(19)	(27)	(27)	115	1	89
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	(7)	-	(7)	-	-	(7)
Transaction with owners:								
Reduction of share capital	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(205)	-	(205)
Dividends distributed related to treasury shares	-	-	-	-	-	8	-	8
Share-based payments	-	-	-	-	-	11	-	11
Tax on equity transactions	-	-	-	-	-	(0)	-	(0)
Total transactions with owners	(1)	-	-	-	-	(185)	-	(186)
Equity as at 30 June 2019	**27**	**(3)**	**21**	**(30)**	**(12)**	**2,929**	**13**	**2,957**

Condensed statement of changes in equity – 6 months 2018

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total other reserves	Retained earnings	Non-controlling interests	Total
Equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**3,046**	-	3,112
Impact on change in accounting policy IFRS 15	-	-	-	-	-	(54)	-	(54)
Adjusted equity as at 1 January 2018	**29**	**(21)**	**60**	**(2)**	**37**	**2,992**	**-**	**3,058**
Profit for the period	-	-	-	-	-	286	(0)	286
Other comprehensive income for the period	-	7	28	0	35	-	-	35
Total comprehensive income for the period	-	7	28	0	35	286	-	321
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items	-	-	(20)	-	(20)	-	-	(20)
Transaction with owners:								
Transactions with non-controlling interests	-	-	-	-	-	-	4	4
Reduction of share capital	(1)	-	-	-	-	1	-	-
Dividends distributed	-	-	-	-	-	(267)	-	(267)
Dividends distributed related to treasury shares	-	-	-	-	-	17	-	17
(Acquisition) /disposal of treasury shares	-	-	-	-	-	(201)	-	(201)
Share-based payments	-	-	-	-	-	7	-	7
Tax on equity transactions	-	-	-	-	-	0	-	0
Total transactions with owners	(1)	-	-	-	-	(443)	4	(440)
Equity as at 30 June 2018	**28**	**(14)**	**68**	**(2)**	**52**	**2,835**	**4**	**2,919**

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

Condensed cash flow statement 1 January - 30 June

mEUR	Note	Q2 2019	Q2 2018	H1 2019	H1 2018
Profit for the period		90	184	115	286
Adjustment for non-cash transactions		129	223	329	266
Income tax paid		(43)	(24)	(103)	(139)
Financial items paid, net		2	(6)	(7)	(19)
Cash flow from operating activities before change in net working capital		178	377	334	394
Change in net working capital		(78)	(429)	(934)	(914)
Cash flow from operating activities		**100**	**(52)**	**(600)**	**(520)**
Purchase of intangible assets		(74)	(63)	(143)	(123)
Purchase of property, plant and equipment		(107)	(65)	(212)	(123)
Disposal of property, plant and equipment		-	-	4	-
Purchase of other non-current financial assets		(2)	-	(3)	-
Disposal of other non-current financial assets		5	-	5	-
Proceeds from investment in joint venture		6	9	6	9
Acquisition of joint ventures and associates		(3)	(2)	(8)	(3)
Cash flow from investing activities before acquisitions of subsidiaries and financial investments		**(175)**	**(121)**	**(351)**	**(240)**
Free cash flow before acquisitions of subsidiaries and financial investments		**(75)**	**(173)**	**(951)**	**(760)**
Acquisition of subsidiaries, net of cash		-	-	-	(65)
Purchase of financial investments	3.5	(100)	(265)	(119)	(265)
Disposal of financial investments	3.5	295	-	295	-
Free cash flow		**120**	**(438)**	**(775)**	**(1,090)**
Dividend paid		(197)	(250)	(197)	(250)
Payment of lease liabilities		(16)	-	(30)	-
Proceeds from borrowings		38	-	71	-
Purchase of treasury shares		-	(106)	-	(201)
Transactions with non-controlling interests		-	4	-	4
Cash flow from financing activities		**(175)**	**(352)**	**(156)**	**(447)**
Net decrease in cash and cash equivalents		**(55)**	**(790)**	**(931)**	**(1,537)**
Cash and cash equivalents at the beginning of period		2,054	2,901	2,918	3,653
Exchange rate adjustments of cash and cash equivalents		(4)	(11)	8	(16)
Cash and cash equivalents at the end of the period	3.2	**1,995**	**2,100**	**1,995**	**2,100**

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

Notes

1 Result for the period

1.1 Segment information

mEUR	Power solutions	Service	Not allocated	Total Group
Q2 2019				
Revenue	1,645	476	-	2,121
Total revenue	**1,645**	**476**	**-**	**2,121**
Total costs	**(1,598)**	**(341)**	**(54)**	**(1,993)**
Operating profit (EBIT)	**47**	**135**	**(54)**	**128**
Income from investments in joint ventures and associates				9
Net financial items				(18)
Profit before tax				**119**
Amortisation and depreciation included in total costs	(104)	(14)	(9)	(127)

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

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

1.1 Segment information (continued)

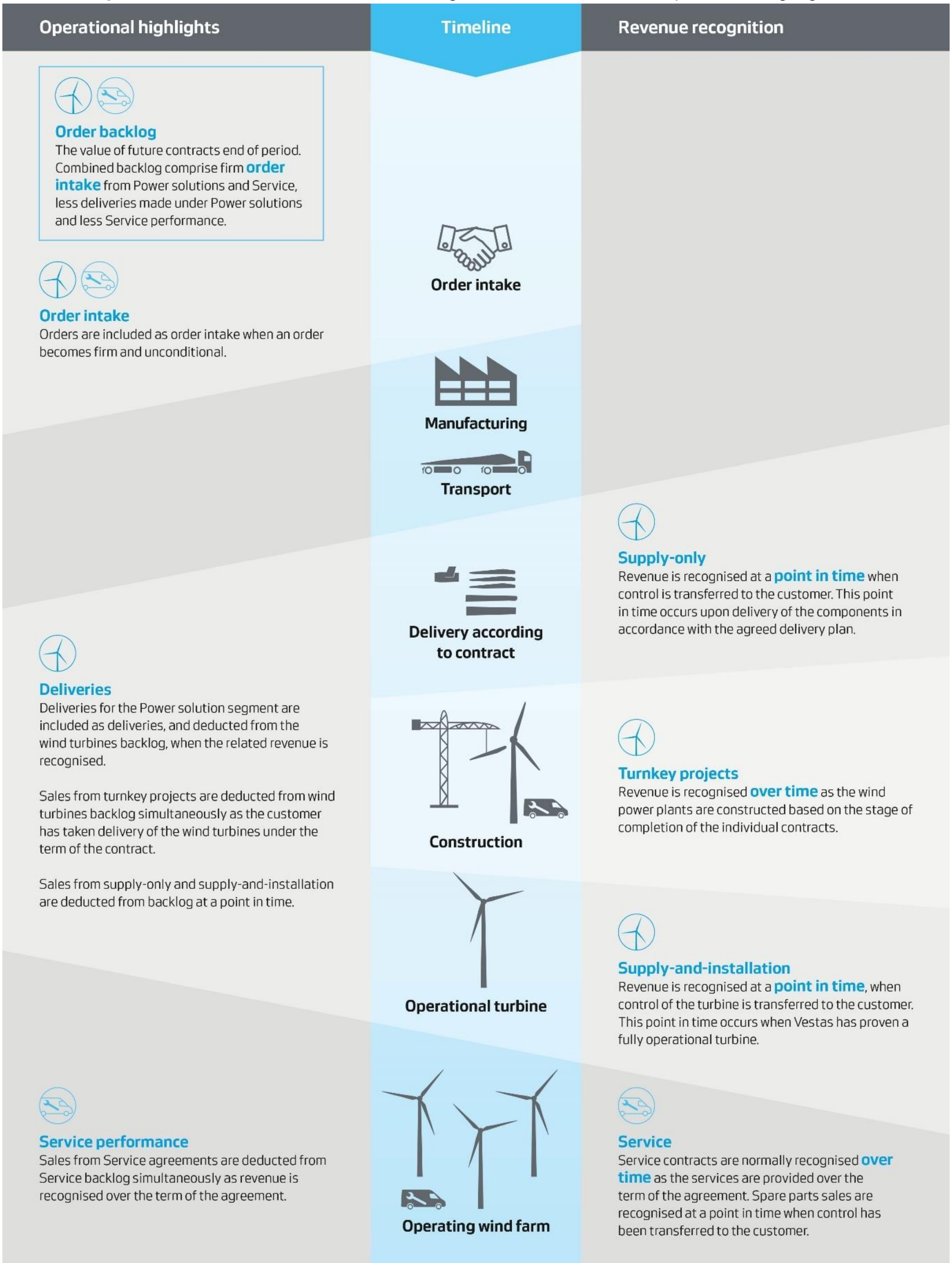
mEUR	Power solutions	Service	Not allocated	Total Group
H1 2019				
Revenue	2,951	900	-	3,851
Total revenue	**2,951**	**900**	**-**	**3,851**
Total costs	**(2,916)**	**(653)**	**(111)**	**(3,680)**
Operating profit (EBIT)	**35**	**247**	**(111)**	**171**
Income from investments in joint ventures and associates				15
Net financial items				(33)
Profit before tax				**153**
Amortisation and depreciation included in total costs	(198)	(29)	(26)	(253)

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

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

1.2 Revenue

The following illustration shows Vestas' revenue recognition and the link to the operational highlights.



Disaggregation of revenue

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

mEUR	Power solutions		Service		Total	
	Q2 2019	Q2 2018	Q2 2019	Q2 2018	Q2 2019	Q2 2018
Timing of revenue recognition						
Products and services transferred at a point in time	1,275	1,553	63	68	1,338	1,621
Products and services transferred over time	370	294	413	345	783	639
	1,645	1,847	476	413	2,121	2,260
Revenue from contract types						
Supply-only	497	500	-	-	497	500
Supply-and-installation	933	1,140	-	-	933	1,140
Turnkey (EPC)	215	207	-	-	215	207
Service	-	-	476	413	476	413
	1,645	1,847	476	413	2,121	2,260
Primary geographical markets						
EMEA	947	484	272	247	1,219	731
Americas	485	766	155	120	640	886
Asia Pacific	213	597	49	46	262	643
	1,645	1,847	476	413	2,121	2,260

mEUR	Power solutions		Service		Total	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
Timing of revenue recognition						
Products and services transferred at a point in time	2,242	2,538	120	114	2,362	2,652
Products and services transferred over time	709	637	780	665	1,489	1,302
	2,951	3,175	900	779	3,851	3,954
Revenue from contract types						
Supply-only	1,179	827	-	-	1,179	827
Supply-and-installation	1,379	1,883	-	-	1,379	1,883
Turnkey (EPC)	393	465	-	-	393	465
Service	-	-	900	779	900	779
	2,951	3,175	900	779	3,851	3,954
Primary geographical markets						
EMEA	1,292	1,217	510	471	1,802	1,688
Americas	1,243	1,135	298	228	1,541	1,363
Asia Pacific	416	823	92	80	508	903
	2,951	3,175	900	779	3,851	3,954

2 Other operating assets and liabilities

2.1 Property, plant and equipment

In the first half of 2019, Vestas acquired assets with a cost of EUR 212m mainly related to investments within the manufacturing area in blade moulds, transport equipment and tools, compared to EUR 123m in the first half of 2018.

Right-of-use assets recognised during the first half of 2019 due to the implementation of IFRS 16 Leases amounts to EUR 221m gross of depreciations. The transition impact from applying IFRS 16 Leases is further described in note 5.3.

2.2 Investments in joint ventures and associates

During the first half of 2019, Vestas has entered into a couple of joint ventures for wind energy projects to which Vestas is expected to deliver wind turbines, wind power plants and service agreements. The total investment in joint ventures amounts to EUR 57m.

2.3 Warranty provisions (included in provisions)

mEUR	30 June 2019	30 June 2018	31 December 2018
Warranty provisions, 1 January	546	552	552
Provisions for the period	80	65	161
Warranty provisions consumed during the period	(80)	(77)	(167)
Warranty provisions	**546**	**540**	**546**
The provisions are expected to be payable as follows:			
< 1 year	190	162	115
> 1 year	356	378	431

In the first half of 2019, warranty provisions charged to the income statement amounted to EUR 80m, equivalent to 2.1 percent of revenue. Warranty consumption amounted to EUR 80m – compared to EUR 77m in the first half of 2018. Over the last 12 months, warranty consumption as a percentage of revenue amounted to 1.7 percent.

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

2.4 Contingent assets and liabilities

On 31 July 2017, General Electric (GE) filed a complaint against Vestas Wind System A/S and Vestas-American Wind Technology, Inc. (Vestas) in the US federal court in Los Angeles, California. With reference to the press release of 25 June 2019, Vestas and GE have reached an amicable settlement of all disputes related to multiple patent infringement claims in the U.S., resulting in the discontinuation of the case pending in the U.S. District Court for the Central District of California as well as all other pending proceedings related to the patents-in-suit. With this settlement, any past infringements of the patents-in-suit are fully released. In addition, the settlement includes a cross-license to the patents-in-suit and their family members, as well as a confidential payment from Vestas to GE. The cross-license applies globally to the parties' and their affiliates' respective onshore and offshore wind businesses and ensures that they can use the technology covered by such patents. The financial impact of the settlement is reflected in this Q2 2019 interim financial report.

3 Capital structure and financing items

3.1 Share capital

Pursuant to authorisation granted to the Board of Directors at the Annual General Meeting 3 April 2019, the Board of Directors was authorised to acquire treasury shares on behalf of Vestas at a nominal value not exceeding 10 per cent of the share capital at the time of authorisation. Vestas has not yet initiated a share buy-back programme.

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

Treasury shares

Number of shares / Nominal value (DKK)	30 June 2019	30 June 2018	31 December 2018
Treasury shares as at 1 January	8,418,860	11,843,929	11,843,929
Purchases for the period	-	3,498,469	6,962,324
Cancellation for the period	(6,794,040)	(9,800,944)	(9,800,944)
Sale of treasury shares for the period	(368,230)	(586,449)	(586,449)
Treasury shares	**1,256,590**	**4,955,005**	**8,418,860**

3.2 Cash and cash equivalents

mEUR	30 June 2019	30 June 2018	31 December 2018
Cash and cash equivalents without disposal restrictions	1,963	1,908	2,886
Cash and cash equivalents with disposal restrictions	32	192	32
Cash and cash equivalents	**1,995**	**2,100**	**2,918**
The balance is specified as follows:			
Cash and cash equivalents	1,995	2,108	2,918
Financial debt	-	(8)	-
Cash and cash equivalents	**1,995**	**2,100**	**2,918**

3.3 Financial risks

Financial risks, including liquidity, credit, and market risks were addressed in the notes to the Consolidated financial statements in the Annual report 2018, note 4.7, pages 078-082. The risks remain similar in nature compared to 2018.

3.4 Financial instruments

As at 30 June 2019, the fair value of financial investments was EUR 450m, equal to book value. Derivative financial instruments were positive with a market value of net EUR 31m, equal to book value, and included in other receivables and other liabilities with EUR 150m and EUR 119m, respectively.

Financial instruments measured at fair value has been categorised into level 1, 2, and 3 as addressed in the Annual report 2018, note 4.8, page 083. There have been no significant new items compared to 2018, and there have been no significant transfers between levels.

Financial instrument assets categorised within level 3 comprise other equity investments and renewable energy certificates, where financial instrument liabilities comprise contingent consideration to the acquisition of Utopus Insights, Inc. in 2018. Valuation methods remain unchanged to the description in the Annual Report 2018 and with no significant changes in fair values.

The book value of the Green Corporate Eurobond was EUR 498m with a corresponding fair value of EUR 531m as at 30 June 2019.

3.5 Financial investments

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

mEUR	30 June 2019	30 June 2018	31 December 2018
Marketable securities	100	202	204
Deposits	350	265	422
Financial investments	**450**	**467**	**626**
Financial investments specified as follows:			
0-1 year	350	265	422
> 1 year	100	202	204
Financial investments	**450**	**467**	**626**

4 Other disclosures

4.1 Related party transactions

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

mEUR	Q2 2019	Q2 2018	H1 2019	H1 2018
Joint ventures				
Revenue for the period	65	34	102	71
Proceeds from sale of projects	6	9	6	9
Capital increase	2	2	3	3
Receivable as at 30 June	63	40	63	40
Prepayments balance as at 30 June	145	82	145	82
Associates				
Payable capital contribution as at 30 June	37	-	37	-

No other significant changes have occurred with related parties or types and scale of transactions with these parties other than what is disclosed in the consolidated financial statements in the Annual report 2018, note 6.4, page 092.

4.2 Business combinations

Acquisition of SOWITEC

On 11 April 2019, Vestas announced the acquisition of 25.1 percent of the share capital of SOWITEC Group GmbH ("Sowitec"), with the option of acquiring 100 percent of the share capital. The acquisition supports Vestas' position as global leader in wind power plant solutions and increases its ability to offer full-scope wind power plant solutions including development services.

The acquisition price for the 25.1 percent interest in Sowitec is EUR 20m. The consideration has been paid in cash from readily available sources.

The excess fair value of the acquired identifiable net asset is expected to be attributable to sustainable energy development projects and to a lesser extent goodwill.

As of 1 July 2019, the transaction passed regulatory approval, and Vestas has thereby obtained the ability to exercise control of Sowitec as of this date. Vestas has however not full insight into the assets acquired and liabilities assumed, and as a result, it is not possible to include the full disclosures required under IFRS 3. Assessment of assets acquired and liabilities assumed, is expected to take place during the third quarter of 2019.

The revenue, costs, and EBIT from Sowitec will be allocated to the Power solutions segment.

5 Basis for preparation

5.1 General accounting policies

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

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made during the interim reporting period.

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

5.2 Key accounting estimates and judgements

When preparing the interim financial reporting of Vestas, management makes a number of accounting estimates and assumptions which form the basis of the recognition and measurement of Vestas' assets and liabilities. The estimates and assumptions made are based on experience and other factors that management considers reasonable in the circumstances. Reference is made to note 5.3 related to IFRIC 23, and the consolidated financial statements in the Annual report for the year ended 31 December 2018, note 7.2, page 097.

5.3 Changes in accounting policies and disclosures

Except for the changes below, the accounting policies remain unchanged compared to the annual report for the year ended 31 December 2018, to which reference is made.

Impact of new accounting standards for the financial year beginning 1 January 2019
Vestas has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2019 financial year, including:

- 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)

None of these new or amended accounting standards and clarifications resulted in any significant changes to the accounting policies for Vestas or had significant impact on recognition or measurement in the consolidated financial statements in the first half of 2019. Management does not anticipate any significant impact on future periods from the adoption of these new or amended accounting standards and interpretations.

IFRS 16, Leases
IFRS 16 has been implemented in Vestas' consolidated financial statements for the financial year beginning on 1 January 2019. Vestas has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Consequently, 2018 comparative figures are reported according to IAS 17 (Leases) and IFRIC 4 (Determining whether an arrangement contains a lease) and are not restated to reflect the numbers according to IFRS 16. There has not been any cumulative effect of initial application.

IFRS 16 replaces IAS 17 and changes the accounting treatment of lease contracts that were previously treated as operating lease contracts. The change in lease accounting requires capitalisation of operating lease contracts as right-of-use assets under property, plant and equipment with a related lease liability in liabilities.

Vestas accounting policies - Vestas as Lessee
Vestas assesses whether a contract is or contains a lease at inception of the contract. Vestas recognises a right-of-use assets and corresponding lease liabilities at the lease commencement date, except for short term leases and leases of low value. For these leases Vestas normally recognises the lease payments as an operating expense on a straight-line basis over the term of term of the lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are from the commencement date depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities, e.g. revised discount rate, change in the lease term or change in future lease payments resulting from a change in an index.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vestas' incremental borrowing rate. Generally, Vestas uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liabilities comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if Vestas is reasonably certain to exercise the options; and
- amounts expected to be payable lease under residual value guarantees.

The lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if Vestas changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

IFRS 16 impact to financial statements
On transition to IFRS 16, Vestas recognised EUR 208m of right-of-use assets and lease liabilities. Vestas used the practical expedients not to recognise right-of-use assets and liabilities for leases less than 12 months of lease term, when applying IFRS 16 to leases previously classified as operating leases under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using Vestas's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to these lease liabilities was 3.10 percent on 1 January 2019. Right-of-use assets are calculated at transition date and equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Vestas has elected not to capitalise low-value assets and short-term lease contracts with a lease term of 12 month or less.

Vestas leases properties, vehicles and equipment. Lease contracts are typically made for fixed periods but may have extension options included in the lease term. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, maintenance, deposits and guarantees etc. Some property leases contain variable payments terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas entire lease payments.

mEUR	1 January 2019
Operating lease commitment as disclosed in annual report as at 31 December 2018	227
Discounted using the incremental borrowing rate at 1 January 2019	209
Recognition exemption for short-term leases and leases of low-value assets	(20)
Extension and termination options reasonably certain to be exercised	12
Variable lease payments based on an index	7
Lease liabilities recognised at 1 January 2019	**208**

Right-of-use assets amounts to EUR 193m as at 30 June 2019. Lease liabilities are included in Financial debts. The lease liabilities included in financial debts as at 30 June 2019 can be specified as following:

mEUR	30 June 2019
Lease liabilities - non-current	144
Lease liabilities - current	54

Interest related to the lease liabilities and depreciation related to the right-of-use assets are recognised in income statement and amounts to:

mEUR	Q2 2019	H1 2019
Depreciation for right-of-use assets recognised in income statement	15	29
Interest on lease liabilities recognised in income statement	2	3

IFRIC 23, Uncertainty over Income Tax Treatment
As of 1 January 2019, Vestas adopted the interpretation IFRIC 23 which clarifies the accounting treatment for uncertainties in income taxes as a 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 is followed, and uncertain tax positions are measured at the most likely outcome.

With the application of IFRIC 23 a change in estimates for uncertain tax positions have been recognised related to prior years, with a net impact in the opening equity of EUR 43m. Non-current tax receivables and tax payables have been impacted with an increase of EUR 47m and EUR 90m accordingly.

Management's statement

The Executive Management and the Board of Directors have today discussed and approved the interim financial report of Vestas Wind Systems A/S for the period 1 January to 30 June 2019.

The interim financial report has been prepared in accordance with IAS 34 on interim financial reporting as adopted by the EU, accounting policies set out in the Annual Report 2018 of Vestas and additional Danish disclosure requirements for interim financial reports of listed companies. The interim financial report has neither been audited nor reviewed.

In our opinion the accounting policies used are appropriate and the interim financial report gives a true and fair view of Vestas' assets, liabilities, and financial position as at 30 June 2019 and of the results of Vestas' operations and cash flow for the period 1 January to 30 June 2019.

Further, in our opinion the management report gives a true and fair review of the development in Vestas' operations and financial matters, the results of Vestas' operations for the period and Vestas' financial position as a whole and describes the significant risks and uncertainties pertaining to Vestas.

Besides what has been disclosed in the interim financial report, no changes in Vestas' most significant risks and uncertainties have occurred relative to what was disclosed in the Annual report 2018.

Aarhus, Denmark, 15 August 2019

Executive Management

Henrik Andersen
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy Chairman

Carsten Bjerg

Eva Merete Søfelde Berneke

Bruce Grant

Helle Thorning-Schmidt

Jens Hesselberg Lund

Kim Hvid Thomsen*

Michael Abildgaard Lisbjerg*

Sussie Dvinge Agerbo*

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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 new potential accounting standards and policies, and Vestas' potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections, and assumptions. There are a number of factors that could affect Vestas' future operations and could cause Vestas' results to differ materially from those expressed in the forward-looking statements included in this document, including (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; (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 from suppliers and vendors; and (m) customer readiness and ability to accept delivery and installation of products and transfer of risk.

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 2018 (available at vestas.com/investor) and these factors should also 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 others than 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.