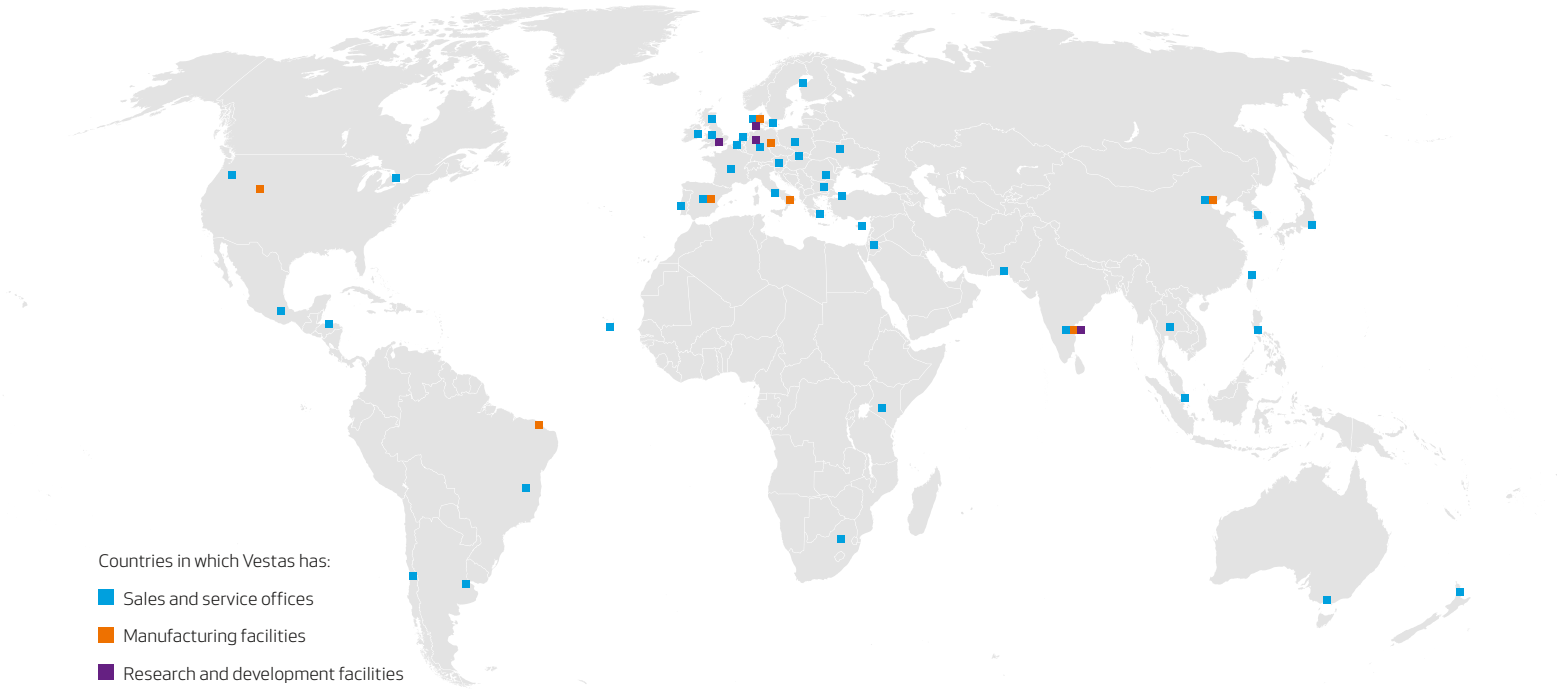
Annual report 2016

1 January 2016 – 31 December 2016

Vestas Wind Systems A/S,
Hedeager 42, 8200 Aarhus N, Denmark,
Company Reg. No.: 10 40 37 82

Wind. It means the world to us.™

The Vestas Group



Dedicated to wind energy

Vestas is a global energy company dedicated to wind energy – improving business case certainty and reducing the cost of energy for its customers.

Vestas works in close partnership with customers to offer the most effective solutions. The core business is development, manufacturing, sale, and service of wind turbines – with competencies that cover every aspect of the value chain from site studies to service.

The strategic direction for Vestas remains the same – as does the ambition to maintain and expand Vestas' global leadership and create an even more flexible and robust company.

The Vestas track record speaks for itself

With installed wind turbines in 76 countries around the world, Vestas has considerable experience in all key disciplines – engineering, logistics, construction, operations, and service. Vestas' projects have covered every kind of site, from high altitude to extreme weather conditions.

Every day, Vestas leverages its global experience to continuously improve the performance of its customers' wind power plants. This is done through the monitoring and performance diagnostics of the world's largest fleet of wind turbines. The continuous stream of data from more than 32,000 wind turbines enables Vestas to meticulously plan and carry out service inspections, thereby reducing wind turbine downtime to an absolute minimum.

Vestas has installed 59,909 wind turbines on six continents, which generate more than 205 million MWh of electricity per year – enough electricity to e.g. supply almost 120 million Europeans households electricity consumption and globally reduce carbon emissions by more than 110 million tonnes of CO_2.

82 GW

Vestas has installed almost 82 GW (59,909 wind turbines) in 76 countries around the world and has manufacturing facilities in North and Latin America, Europe, and Asia.

EUR 10.2bn

In 2016, Vestas' revenue amounted to EUR 10.2bn and EBIT before special items amounted to EUR 1.4bn – an increase of EUR 1.8bn and EUR 0.6bn, respectively, compared to 2015.

Preparing for the future

" The Board and I are pleased to see that the operational results Vestas has achieved in 2016 have also manifested themselves into strong financial performance. We are convinced that the future of energy belongs to wind and other clean energy sources."

Bert Nordberg
Chairman of the Board of Directors

The future belongs to clean energy

We are convinced that the long-term future of energy belongs to wind and other clean energy sources. Renewables are becoming increasingly competitive on purely economic grounds, with wind energy for utility scale applications leading the way – now and in the future.

In addition to being confident that wind will come out on top in the clean energy future, we are also convinced that Vestas will come out on top in the competition against other original equipment manufacturers (OEM). Our global reach, technology and service leadership, and scale give us a unique position to compete and win in the marketplace.

At the same time, there is a relentless demand for lowering the cost of energy. With market-based policies like auctions being "the new norm", it is more important than ever that we sharpen our focus and continually evolve to meet the competitive environment – both from other OEMs that are increasingly consolidating as well as from other power generation sources. We see this as a healthy development as our industry matures, though strategically and organisationally, we need to act on multiple fronts to maintain our market-leading position.

Our corporate strategy is working – but more is needed to stay ahead

Vestas delivered extremely solid performance across all parameters in 2016. Industry-wide, Vestas is at the top of the market share tables; we are active in substantially more countries than any of our competitors; and has more GW under service than anyone else. Vestas is the market leader by revenue and volume, and 2016 was our best year ever.

Nevertheless, the Board of Directors and Executive Management know that our current success is no guarantee for future prosperity. Vestas needs to continually improve if it is to stay on top against other OEMs and other power generation sources.

When the company launched the "Profitable Growth for Vestas" strategy in 2014, we gave ourselves three to five years to accomplish the objectives we spelled out, while simultaneously committing to annual strategy reviews to update where needed. Our "Profitable Growth" strategic ambitions remain just as valid today as when we launched them. However, if we are to remain the global wind leader, we need to continue stepping up our game. In our 2017-2020 strategy update, three key themes will shape our approach: raising the bar, refining initiatives, and accelerating execution.

While the strategic direction for Vestas remains the same, we are updating our vision and mission statements as well as refining our core strategic objectives and accelerating various initiatives to effectively respond to evolving market conditions that include the onshore sector shifting from high growth rates to high but steady volumes and an intensifying competition for market share.

Increasing cash distribution to shareholders

The Board and I are pleased to see that the operational results Vestas has achieved during the year have also manifested themselves into strong financial performance. The Board recommends that a dividend will be paid again in 2017 on the back of the results for 2016. Strong growth in earnings allows us to increase our dividend payments compared to last year. On top of that, we also initiated and completed the company's second share buy-back programme and hence, cash returns continue to increase, displaying our strong intent to continue to provide shareholder value.

The Board wishes to thank all Vestas employees for contributing to our performance in 2016. We have many more projects lined up for 2017, and I am sure that we will succeed if we continue working together for the good of Vestas, our customers, shareholders, and employees.

Bert Nordberg
Chairman of the Board of Directors

Executing on our targets

High activity levels across the board in 2016

The market environment continues to be very supportive for the wind power industry with regulatory policies generally providing a favourable backdrop for industry stability. Combined with the continuously improving economics of wind energy, the future looks bright for increasing wind energy's share of the energy mix.

Vestas is a financially strong and operationally effective organisation, delivering solid 2016 performance with strong revenue and earnings growth. Once again, we realised strong cash flows, which are increasingly created by the earnings we generate.

With total net investments of EUR 617m, we are also preparing for the future. We need to continuously introduce new and effectively integrate proven technologies into our products and services. In 2016, we invested more in R&D than any of our peers and continued launching product upgrades and other innovations that can lower the cost of energy.

We also achieved important safety milestones in 2016, with three factories reporting no lost time injuries and an overall reduction in total recordable injuries across Vestas' factories of 30 percent. Any injury is unacceptable as it not only affects our daily business but more importantly our families. Safety must always come first and it is an essential prerequisite for world-class operations.

Vestas achieved record-breaking order intake for the year, and amongst others, announced 31 orders in 31 days, across 12 countries, and five continents in the month of December, demonstrating once again the power of Vestas' global reach.

When listing some of the highlights, one always risks omitting others. The 1 GW Fosen/Hitra order in Norway and the Wind XI project in the US, which has a potential of up to 2 GW, stand out as high points on the order front in 2016. In the coming years, our ambition is to further develop and expand our market position.

During the year, we grew our multi-brand service capabilities by acquiring the Germany-based independent service provider Availon Holding GmbH. Multi-brand built strong momentum in 2016, reaching approx 8 GW of non-Vestas turbines in the service backlog.

The joint venture MHI Vestas Offshore Wind showed major progress during 2016 by announcing four firm and unconditional orders. Based on these levels of order activity, the joint venture finds itself well positioned as one of the strongest players in the offshore market.

In 2016, Vestas continued to optimise its overall manufacturing and supply chain competitiveness in response to evolving market conditions. Unfortunately, we had to reduce the staffing levels at the blade factory in Lem, Denmark. However, the factory remains a very important part of Vestas' global manufacturing footprint.

Raising the bar

Vestas is now stronger than ever across the business. Our current success, however, is no guarantee for future prosperity. To beat the competition on all parameters, we will build further on our capabilities to integrate new technologies and ensure the lowest possible cost of energy.

To continue leading the industry, Vestas needs to do more in all parts of the business. Towards 2020, three key themes shape Vestas' approach:

- **Raising the bar** – Vestas will set even higher, more ambitious targets to push ourselves to stay ahead of competition.
- **Refining initiatives** – Re-scoping or expanding Vestas strategic initiatives to reflect new market realities.
- **Accelerating execution** – Accelerating execution of new and existing initiatives to deliver on higher targets.

Global reach, technology and service leadership, and scale remain the foundation for Vestas' unique position in the market place and will be our key differentiators to secure a leadership position.

On that note, let me conclude by thanking all employees in Vestas for their hard work and dedicated efforts throughout the year. We reached many milestones and set new records, and I thank all of you for your tremendous dedication and efforts during 2016.

Anders Runevad
Group President & CEO

Contents

Highlights for the Group

mEUR	2016	2015	2014	2013	2012
HIGHLIGHTS					
INCOME STATEMENT					
Revenue	10,237	8,423	6,910	6,084	7,216
Gross profit	2,126	1,505	1,178	896	796
Profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	1,826	1,212	929	610	473
Operating profit/(loss) (EBIT) before special items	1,421	860	559	211	4
Profit before financial income and costs, depreciation and amortisation (EBITDA) after special items	1,826	1,258	977	530	299
Operating profit/(loss) (EBIT) after special items	1,421	906	607	102	(697)
Net financial items	(33)	(15)	(53)	(138)	(14)
Profit/(loss) before tax	1,287	925	523	(36)	(713)
Profit/(loss) for the year	965	685	392	(82)	(963)
BALANCE SHEET					
Balance sheet total	9,931	8,587	6,997	5,640	6,972
Equity	3,190	2,899	2,379	1,524	1,622
Provisions	622	458	390	388	353
Average interest-bearing position (net)	2,111	1,721	494	(862)	(1,189)
Net working capital	(1,941)	(1,383)	(957)	(596)	233
Investments in property, plant and equipment	304	220	163	73	167
CASH FLOW STATEMENT					
Cash flow from operating activities	2,181	1,472	1,126	1,248	(73)
Cash flow from investing activities	(817)	(425)	(285)	(239)	(286)
Free cash flow	1,364	1,047	841	1,009	(359)
Cash flow from financing activities	(611)	(360)	389	(1,150)	832
Change in cash and cash equivalents less current portion of bank debt	753	687	1,230	(141)	473
RATIOS					
FINANCIAL RATIOS					
Gross margin (%)	20.8	17.9	17.0	14.7	11.0
EBITDA margin (%) before special items	17.8	14.4	13.4	10.0	6.6
EBIT margin (%) before special items	13.9	10.2	8.1	3.5	0.1
EBITDA margin (%) after special items	17.8	14.9	14.1	8.7	4.1
EBIT margin (%) after special items	13.9	10.8	8.8	1.7	(9.7)
Return on invested capital (ROIC) (%) before special items[2]	265.2	117.2	35.3	7.7	0.2
Solvency ratio (%)	32.1	33.8	34.0	27.0	23.3
Net interest-bearing debt/EBITDA before special items	(1.8)	(1.9)	(1.5)	(0.1)	1.9
Return on equity (%)	32.6	26.2	20.1	(5.2)	(45.9)
Gearing (%)	15.5	17.1	25.5	39.9	108.0
SHARE RATIOS					
Earnings per share (EUR)	4.4	3.1	1.8	(0.4)	(4.8)
Book value per share (EUR)	14.4	12.9	10.6	7.5	8.0
Price / book value (EUR)	4.3	5.0	2.9	2.9	0.5
P / E ratio	14.0	21.2	17.2	neg.	neg.
Cash flow from operating activities per share (EUR)	9.8	6.6	5.0	6.1	(0.4)
Dividend per share (EUR)	1.31[3]	0.91	0.52	0.0	0.0
Payout ratio (%)	30.0[3]	29.9	29.9	0.0	0.0
Share price 31 December (EUR)	61.7	64.8	30.4	21.5	4.3
Average number of shares	222,360,341	224,074,513	221,674,711	203,704,103	203,704,103
Number of shares at the end of the year	221,544,727	224,074,513	224,074,513	203,704,103	203,704,103

1) The ratios have been calculated in accordance with the guidelines from "Den Danske Finansanalytikerforening" (The Danish Society of Financial Analysts) (Recommendations and Financial ratios 2015), ref. note 7.4 to the consolidated financial statements. Vestas annual report 2016.
2) Adjustment for tax based on effective tax rate for the year.
3) Based on proposed dividend.

	2016	2015	2014	2013	2012
OPERATIONAL KEY FIGURES					
Order intake (bnEUR)	9.5	8.2	5.8	5.8	3.8
Order intake (MW)	10,494	8,943	6,544	5,964	3,738
Order backlog – wind turbines (bnEUR)	8.5	7.9	6.7	6.8	7.1
Order backlog – service (bnEUR)	10.7	8.9	7.0	6.7	5.3
Produced and shipped wind turbines (MW)	9,957	7,948	6,125	4,513	6,171
Produced and shipped wind turbines (number)	4,264	3,330	2,527	2,025	2,765
Deliveries (MW)	9,654	7,486	6,252	4,862	6,039
SOCIAL AND ENVIRONMENTAL KEY FIGURES					
OCCUPATIONAL HEALTH & SAFETY					
Total recordable injuries (number)	303	335	384	307	417
– of which lost time injuries (number)	82	56	53	66	110
– of which fatal injuries (number)	0	1	0	1	0
CONSUMPTION OF RESOURCES					
Consumption of energy (GWh)	567	516	501	586	630
– of which renewable energy (GWh)	296	283	278	325	327
– of which renewable electricity (GWh)	268	257	255	309	310
Consumption of fresh water (1,000 m^2)	428	427	366	512	581
WASTE DISPOSAL					
Volume of waste (1,000 tonnes)	75	67	51	71	87
– of which collected for recycling (1,000 tonnes)	37	33	27	42	44
EMISSIONS					
Emission of direct CO_2 (1,000 tonnes)	58	49	50	56	59
Emission of indirect CO_2 (1,000 tonnes)	26	25	29	44	59
LOCAL COMMUNITY					
Environmental accidents (number)	0	0	0	0	0
Breaches of internal inspection conditions (number)	1	0	3	1	1
EMPLOYEES[1]					
Average number of employees	21,625	18,986	16,325	16,598	20,284
Number of employees at the end of the period	21,824	20,507	17,598	15,192	17,238
– of which outside Europe, Middle East, and Africa	9,975	9,121	7,441	5,790	6,596
SOCIAL AND ENVIRONMENTAL INDICATORS[1]					
OCCUPATIONAL HEALTH & SAFETY					
Incidence of total recordable injuries per one million working hours	6.9	8.7	11.8	9.8	10.7
Incidence of lost time injuries per one million working hours	1.9	1.5	1.6	2.1	2.8
Absence due to illness among hourly-paid employees (%)	2.2	1.9	2.3	2.5	2.4
Absence due to illness among salaried employees (%)	1.2	1.1	1.3	1.2	1.1
PRODUCTS					
CO_2 savings over the life time on the MW produced and shipped (million tonnes of CO_2)	281	224	173	125	163
UTILISATION OF RESOURCES					
Renewable energy (%)	52	55	56	56	52
Renewable electricity for own activities (%)	100	100	100	100	89
EMPLOYEES					
Women in Board of Directors [1] and Executive Management (%)	23	23	23	15	8
Women at management level (%) [2]	19	18	18	17	17
Non-Danes at management level (%) [2]	60	57	54	53	56

1) Only Board members elected by the general meeting are included.
2) Employees at management level comprise employees at level IPE54+ according to Mercer's International Position Evaluation System.

The market situation

Industry dynamics

There is broad support for reducing CO_2 emissions and driving the development of sustainable energy supply, as underpinned by the 2015 COP21 Paris climate agreement and COP22 follow-up actions in Marrakech, Morocco, in 2016. Wind power is well-positioned to capture the greater demand for renewable energy. Wind as well as other renewable power sources are increasingly important elements in today's energy mix. Renewables are among the solutions that can satisfy a growing demand for energy, whilst simultaneously lowering CO_2 emissions.

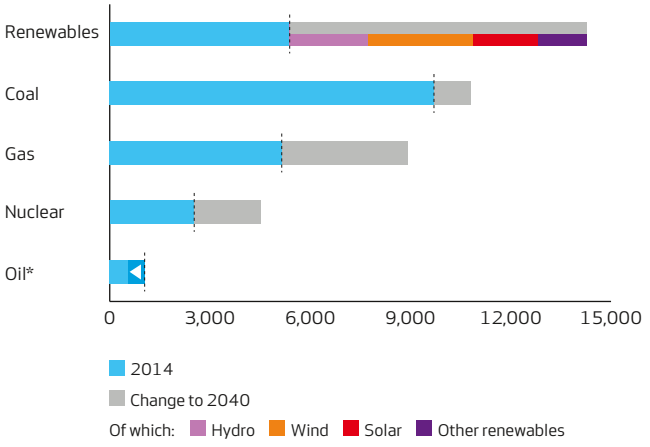
As wind energy costs continue to decline, the primary drivers for clean energy are expected to include replacement of existing generating capacity – fossil fuels and nuclear; further growth in global electricity demand; long-term policy stability; and country-specific targets amongst others driven by the Paris Climate Agreement.

Power market moving towards sustainable future

According to the International Energy Agency (IEA), electricity demand is expected to grow by almost 70 percent by 2040. In 2015, emerging markets outspent the Organisation for Economic Co-operation and Development (OECD) countries in clean energy investments.[1)] With around 1.2 billion people living without access to electricity, emerging markets are becoming increasingly important for the energy industry.[1)]

Vestas has a clear ambition to grow profitably in both mature and new markets. With more than 35 years of experience and a unique global reach with wind turbines in 76 countries across the globe Vestas has more experience than anyone else in the wind power industry when it comes to new and emerging markets.

Global electricity generation by source in 2014 and 2040
TWh



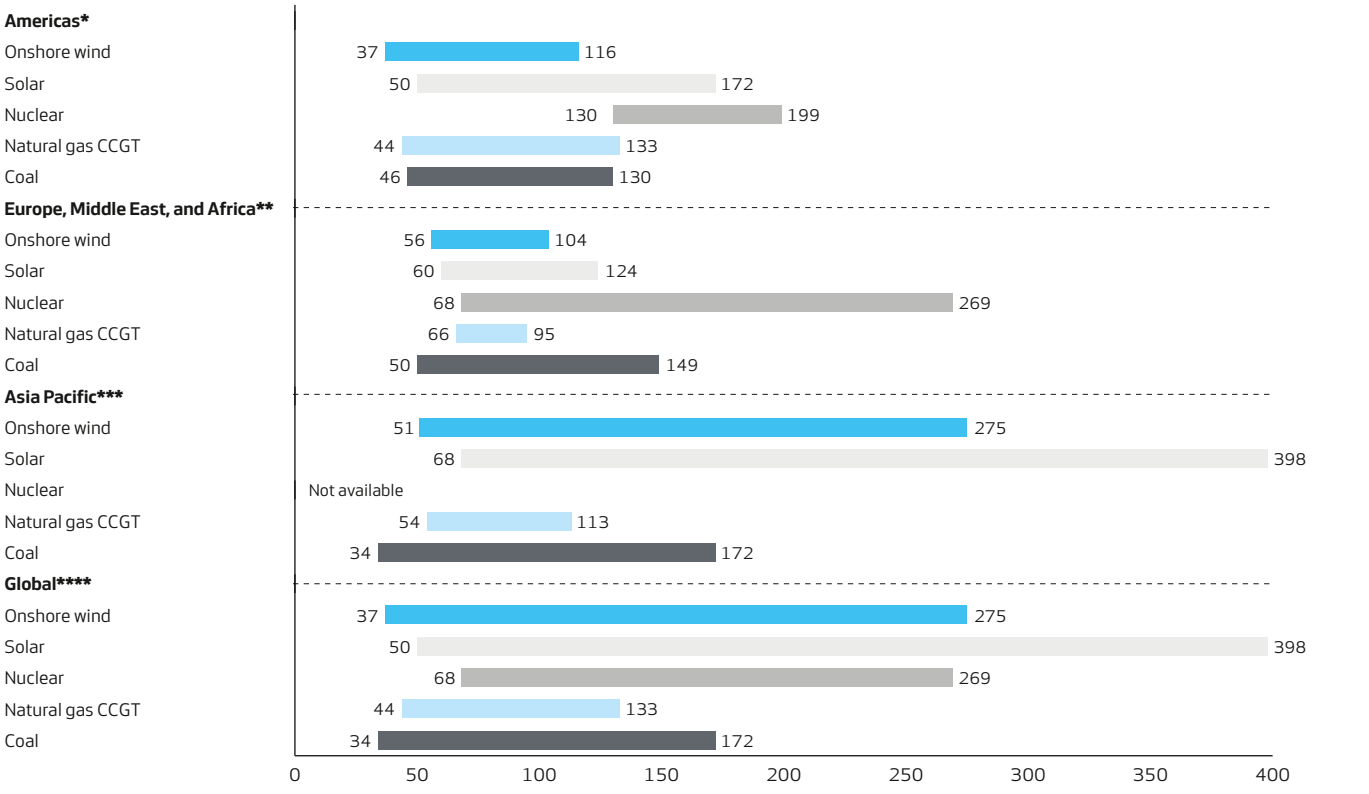
Source: International Energy Agency: World Energy Outlook 2016. November 2016.
* 1,035 TWh in 2014 and only 547 TWh in 2040.

Onshore wind power industry is shifting from a growth to a stable market

The wind power industry is maturing and will face new opportunities and challenges towards 2020. The outlook for the industry remains positive, but now finds itself on a stable trajectory. The wind power industry has matured in recent years and is now seen as one of the main contributors to a more sustainable global energy mix.

1) Source: International Energy Agency: World Energy Outlook 2016. November 2016.

Levelised cost of energy (LCOE)
USD/MWh



* Source: Bloomberg New Energy Finance: H2 2016 LCOE AMER Outlook. October 2016.
** Source: Bloomberg New Energy Finance: H2 2016 LCOE EMEA Outlook. October 2016.
*** Source: Bloomberg New Energy Finance: H2 2016 LCOE APAC Outlook. October 2016.
**** Source: Bloomberg New Energy Finance: H2 2016 Levelised cost of electricity update. October 2016.

Having witnessed a strong growth with new annual onshore wind power installations growing from 32 GW in 2013 to an expected level of 55 GW in 2016[2], the wind power industry is now expected to remain stable between 53 and 60 GW per year from 2017 to 2020 according to external market observers.[2] As the markets transition from high growth to high and steady volumes, the competitive environment remains. So to continue to grow, winning market shares will be critical towards 2020.

Wind energy continues to increase its competitiveness

The cost of wind energy has reduced dramatically in recent years and has made wind an economically competitive power source with levelised cost of energy (LCOE) analysis for 2016 showing onshore wind energy to be fully competitive against gas and coal in many parts of the world.[3] In simple terms, the reduction in cost of energy is driven by technological progress and scale – enabling everyone to benefit from the fact that wind is abundant and free and thus has low marginal cost – unlike fossil fuels.

On a global average, the price of wind energy has declined by 15 percent over the last five years[3], or 80 percent over the last 20 years[4], greatly supporting a strong underlying demand for wind energy. In fact, wind energy is expected to have accounted for approx 18 percent of new installed capacity globally in 2016.[5]

On a regional basis, wind energy's competitiveness only manifests itself further. For instance, Bloomberg New Energy Finance analyses show that in most major European markets, including the UK and Germany, new wind power projects are the cheapest new energy source when accounting for the carbon price – also cheaper than coal and gas.[3]

In the USA, the real cost of wind energy has declined 66 percent since 2009[6] which among other things is expected to make wind power the largest new installed energy source in the USA in 2016.[5]

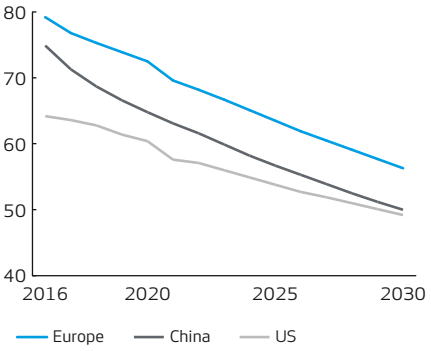
In Brazil's technology-neutral auction systems, wind power has a lower cost than any fossil fuel, and wind power was also the cheapest source of energy in Argentina's first power auction after their recent policy changes.[7] Additionally, in South Africa's Renewable Energy Procurement Programme, wind power also proved cost competitive by offering a cost below all new coal and gas options.[8]

While the general drive to reduce cost of energy does increase competition in the wind power industry, the sector also reaps the benefits from e.g. more developed supply chains and the improved overall perception of wind power from various decision makers. Hence, Vestas generally finds it positive overall that the wind power industry continues to improve its LCOE.

2) Source: Bloomberg New Energy Finance: Q4 2016 Global Wind Market Outlook. December 2016.
3) Source: Bloomberg New Energy Finance: H2 2016 Global Levelised Cost of Electricity Update. October 2016.
4) Source: Danish Wind Association (online article): Market and Prices.
5) Source: Bloomberg New Energy Finance: New Energy Outlook. June 2016.
6) Source: Lazard: Lazard's Levelized Cost of Energy Analysis - version 10.0. December 2016.
7) Source: Bloomberg New Energy Finance: Global auction results and company dashboard (3.0). December 2016.
8) Source: Irena: The South African Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) - Lessons Learned. 17 March 2016.

Whereas LCOE shows the cost of the energy source installed in a given market, including financing costs, the market price is often influenced by different support mechanisms of both direct and indirect nature. Although the objective of these varies across markets, a common driver is to incentivise investments in renewable electricity production, promoting energy sources with minimal environmental impact and external costs, i.e. costs borne by the society, as opposed to electricity production from fossil fuels or nuclear.

Expected average LCOE developments for onshore wind
USD/MWh



Significant decrease
From 2016-2030 the average LCOE is expected to decrease across all main markets. This means that onshore wind power continues to increase its competitiveness.

Source: Bloomberg New Energy Finance: Bloomberg New Energy Finance NEO. June 2016.

In 2015, the International Monetary Fund issued a study concluding that fossil fuel companies are benefitting from global subsidies of USD 5.3tn a year, once again highlighting that direct subsidies offered to various types of renewable energy sources are dwarfed by the consequential external effects from more traditional types of energy.[9)]

New policies generally very supportive of renewables and wind in particular

Public policies that have supported renewable energy's growth continue to evolve. Currently, investments in wind power are typically supported through financial incentive schemes remunerating the renewable power production. In some regions, support systems are becoming more market-based and moving towards systems providing support in addition to the market price – not in place of it.

The EU has asked all member states to decide by 2017 which form of market-based support they will introduce. Several EU countries are moving in the direction of using such systems, the most well-known being the transition in Germany to an auction-based system. As long as such market-based systems are structured in a way to create a level playing field for the different energy sources, Vestas does not expect this transition to be a disadvantage to the wind power industry.

In the USA, an extension of the American Production Tax Credit (PTC) was approved in December 2015, the main element of which was a two-year extension of the 100 percent value followed by a three-year phase-down period. The PTC extension provides the policy certainty necessary for effective business planning and investments. The longer-term certainty, alongside wind energy's natural competitiveness against other power generation sources will ensure an expected solid future for wind energy in the USA

In addition to the PTC, U.S. state policy efforts have been a priority focus in 2016 for Vestas. Following the successful passage of the Oregon Renewable Portfolio Standard (RPS) expansion, states including Maryland, Massachusetts, and New York have also approved favourable renewable energy expansions.

Asia's two largest markets, China and India, reaffirmed their commitment to a greener future through various measures in 2016. Wind power development in China has become more mature in 2016, as policy makers strive to ease curtailment instead of continuously pursuing installation targets. The Indian government is very supportive of wind energy and has established ambitious goals – aiming to install 60 GW by 2022.[10)] Vestas is optimistic about the Indian market, yet also realistic about the time it will take to re-establish its footprint in the market.

Vestas continues to counterbalance local political uncertainties through a strong global footprint and presence in a large number of markets. Furthermore, Vestas continues to focus on LCOE reductions to decrease dependence on financial support to wind energy.

Shift to auctions and tenders

Over the past few years, renewable energy auctions have gained in popularity as a policy tool to allocate capacity at an optimal market price. The number of countries adopting auction schemes has significantly increased, whilst bidding prices continue to hit record low levels.

Rather than a temporary phenomenon, auctions repeatedly prove to be a strong market trend that is here to stay: while in 2009, only nine countries had called for renewable energy auctions, by 2015 the number increased to 64.[11)]

Auctions are already taking place in markets like Argentina, Brazil, Chile, Mexico, Peru, Russia, and South Africa, while Germany is preparing to enter into auction systems starting early 2017. Taking into account only these markets, Vestas has helped customers secure projects of more than 3 GW in auction systems over the past five years.

There is no doubt that auctions have become "the new normal" for the wind power industry and Vestas finds itself well-positioned to reap the benefits from these developments due to its experience built on 82 GW of wind turbines installed in 76 countries, more than anyone else in the wind power industry.

In response to more auctions and tenders, Vestas customers are increasingly sophisticated and seeking greater collaboration. Earlier engagement with customers to build capabilities to jointly win auctions and tenders will be critical in the future for every wind turbine manufacturer. The importance of scale and full understanding of every element in the value chain will define the winners of the industry.

9) Source: International Monetary Fund: How Large Are Global Energy Subsidies? May 2015.
10) Source: Recharge News: India is on track to installing 175 GW of renewable energy by 2022. 28 September 2016.
11) Source: REN21: Renewables 2016 Global Status Report. 2016.

This is Vestas – from wind to customer

Vestas' business model

Vestas' commitment to continuous improvement in technology, service, and operational excellence will ensure that Vestas is the global leader in sustainable energy solutions. Something Vestas can achieve if it continues to put all its efforts into being the global leader in sustainable energy solutions. That is Vestas' vision.

Developing and building wind turbines and service solutions are only part of Vestas' business. Today, Vestas is involved in projects where scope of work ranges from "simple" supply and commissioning projects to turnkey projects involving the supply, installation, and commissioning of wind turbines as well as establishment of access roads, foundations, cabling, electrical substations, communication systems, and more.

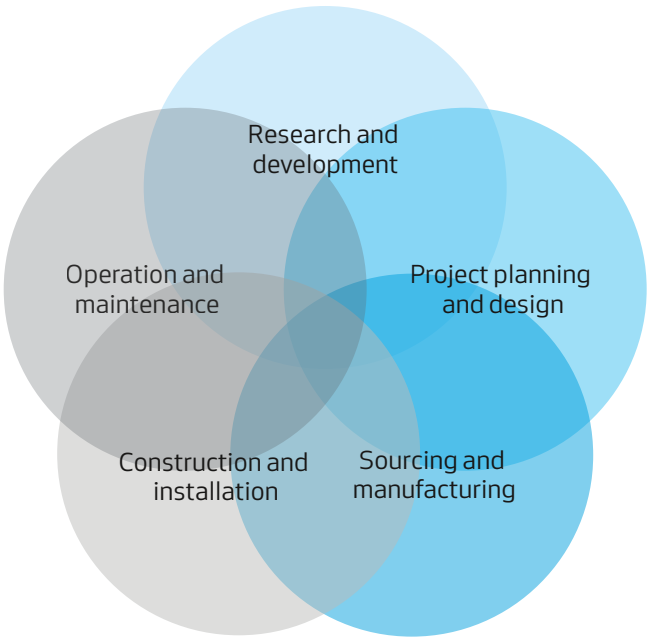
Vestas' value chain stretches from project planning over sourcing and manufacturing, construction and installation to operation and maintenance. It is a complex process that depends on a highly skilled and dedicated workforce.

Corporate strategy

The business model enables Vestas to execute its corporate strategy.

At Vestas, the mission is to deliver best-in-class energy solutions and set the pace in the industry to the benefit of our customers and our planet. To achieve that mission, Vestas is inspired by its values of Accountability, Collaboration, and Simplicity. These reflect guiding principles in terms of how Vestas' employees work and engage with each other internally and with the full range of stakeholders externally.

Vestas' business model



Research and development

Vestas' product portfolio covers a wide range of offerings from wind turbines across all wind classes to differentiated service packages and offerings to optimise the customers' wind power plants.

Vestas has a strong focus on continuously developing and optimising the performance of its wind turbines, thereby meeting customer needs and remaining the technology leader in the wind power industry. Vestas' product development strategy is to continue to optimise its technology to lower the cost of energy and hence, deliver increased value to its customers.

- **Product offering.** With multiple variants based on the 2 MW and 3 MW platforms being available, the customer can choose the wind turbines best suited for the specific site.
- **Options.** In addition, Vestas' technology leadership continuously ensures that options like the Large Diameter Steel Tower and Vestas De-Icing are available for site specific conditions.
- **Test facilities** in Denmark and the UK enable Vestas to continuously launching new and integrate proven technologies to create high-performing products and services in pursuit of the over-riding objective: lowering the cost of energy.
- **Minimising the environmental footprint** is a constant prerequisite for Vestas' continued development and for reducing the use of the earth's limited resources.

Project planning and design

Starting several years before wind power plant construction, Vestas engages with its customer to find the optimal wind sites, design the optimal layout, and secure grid compliance.

Efforts like these make it easier to get the wind power project financed and meet regulations, while providing the conditions for maximising return on investment over the wind power project's lifetime.

- **SiteHunt®** is an advanced analytical tool that examines a broad spectrum of wind and weather data to evaluate potential sites and establish which of them can provide the optimum conditions for the wind power project.
- **SiteDesign®** optimises the layout of the wind power plant by finding the most effective balance between the estimated ratio of annual revenue and operating costs through a sophisticated analysis of lifetime energy costs for each wind turbine.
- **Electrical PreDesign.** By identifying the varying, complex, and specific grid code requirements across the globe and simulating extreme operating conditions, Electrical PreDesign provides an ideal way to optimise the design of electrical components for the wind turbines, creating a grid compliant, predictable, and reliable wind power plant.

Sourcing and manufacturing

Working closely with its customer in the project planning phase gives Vestas a competitive advantage in the sourcing phase. With a broad range of product offerings, Vestas offers industry leading, high quality wind turbines covering all wind speeds and wind classes, thereby securing an optimal fit to the wind power project's needs and requirements. In general, Vestas follows a make-to-order principle.

- **Manufacturing footprint.** Vestas has manufacturing facilities in eight countries – in North and Latin America, Europe, and Asia – and has more than 35 years of experience in wind turbine manufacturing.
- **Outsourcing.** Depending on the type of component and in consideration of market specific local content requirements, Vestas outsources various parts of the wind turbines.
- **Close partnerships with large suppliers** involving these in the development of products and processes, as the suppliers often possess many years of knowledge and experience that can be utilised to the benefit of both parties.
- **Environmental performance.** Vestas strives to improve the environmental performance of its production and operations to match the performance of its products.

Construction and installation

During the construction phase, the wind power plant is built and connected to the grid. Depending on the customer risk profile, Vestas can provide everything from simply supplying the individual wind turbines to an all-inclusive package, including supply, installation, and calibration of the wind power plant as well as civil and electrical works.

- **Supply-only** simply includes supplying the wind turbines and may include supervising, commissioning, and transporting tasks.
- **Supply-and-install.** In addition to supply-only, supply-and-install further includes installation tasks such as cranes and manpower.
- **EPC/turnkey.** In addition to supply-and-install, EPC/turnkey projects also include balance of plant tasks such as roads, foundations, cabling, and substation.

Operation and maintenance

Once constructed and installed, the operation and maintenance phase begins, which is the longest phase, lasting up to 20 years or more. Wind turbines need to be serviced regularly to perform consistently at their best.

With its substantial knowledge of optimising wind power plants, Vestas offers a wide range of innovative service solutions ranging from pay-as-you-go to full-scope energy-based availability guarantees as well as completely customised solutions, which can help increase the production and profitability of the wind power plant – thereby reducing risks, increasing business case certainty, and ultimately lowering cost of energy.

- **Active Output Management** (AOM) 1000-5000 refers to Vestas' standard service packages that ensure the highest possible output at all times.
- **Customised solutions.** Tied specifically to the customers' needs, Vestas also tailor service solutions to optimise the business case.
- **Spare parts.** Often included in various service packages, Vestas also provides spare parts and repairs via its global supply chain and local presence.
- **Big data.** By monitoring more than 32,000 wind turbines 24/7 across the world and having the wind power industry's largest wind data library, Vestas has an unparalleled insight into global wind and weather conditions.

Vestas' corporate strategy

Raising the bar towards 2020

After completing a successful turnaround, Vestas launched the Profitable Growth Strategy in 2014, with the objective to deliver profitable growth. Vestas is executing on the strategic objectives and meeting the targets with the result that Vestas is now stronger than ever across the business.

In the coming years, the strategic ambition is to further develop and expand Vestas' market position. Profitable growth will continue to set the direction. Vestas will continue to work diligently on strengthening its position further by also taking advantage of the opportunities ahead. Vestas wants to grow in a profitable way, as generating profit will allow Vestas to further expand its business and achieve its ambitions.

And at the same time, Vestas needs to prepare for the future to beat the increasing competition on all parameters. To do so, Vestas will build further on its capabilities to integrate new technologies in its product portfolio and at the same time ensure the lowest possible levelised cost of energy. Improving its competitiveness also requires Vestas to adapt its organisation to succeed in rapidly evolving market conditions.

Vision and mission

Vestas' vision and mission serve as important beacons for uniting all Vestas' key stakeholders, most importantly its employees, setting a clear purpose and direction for where the company is heading and how the employees can support that journey.

Vision – To be the global leader in sustainable energy solutions, meaning:

- Lowest cost of energy solutions
- Preferred partner
- Leader in revenue
- Best-in-class margins.

Mission – Deliver best-in-class energy solutions to the benefit of Vestas' customers and the planet.

Vestas corporate strategy update

The wind power industry is maturing and will face new opportunities and challenges towards 2020. The outlook for the industry remains positive while continuously evolving, as is Vestas and its overall strategy.

Strategy update in response to industry outlook

The 2017-2020 strategy update captures an evolving reality for wind power where the onshore sector is shifting from high growth rates to high but steady volumes. To be the global leader in sustainable energy solutions, Vestas need to do more in all parts of the business. Looking ahead to 2020, three key themes shape Vestas' approach across the Group:

- **Raising the bar** – Vestas will set even higher, more ambitious targets to push ourselves to stay ahead of competition.
- **Refining initiatives** – Re-scoping or expanding Vestas strategic initiatives to reflect new market realities.
- **Accelerating execution** – Accelerating execution of new and existing initiatives to deliver on higher targets.

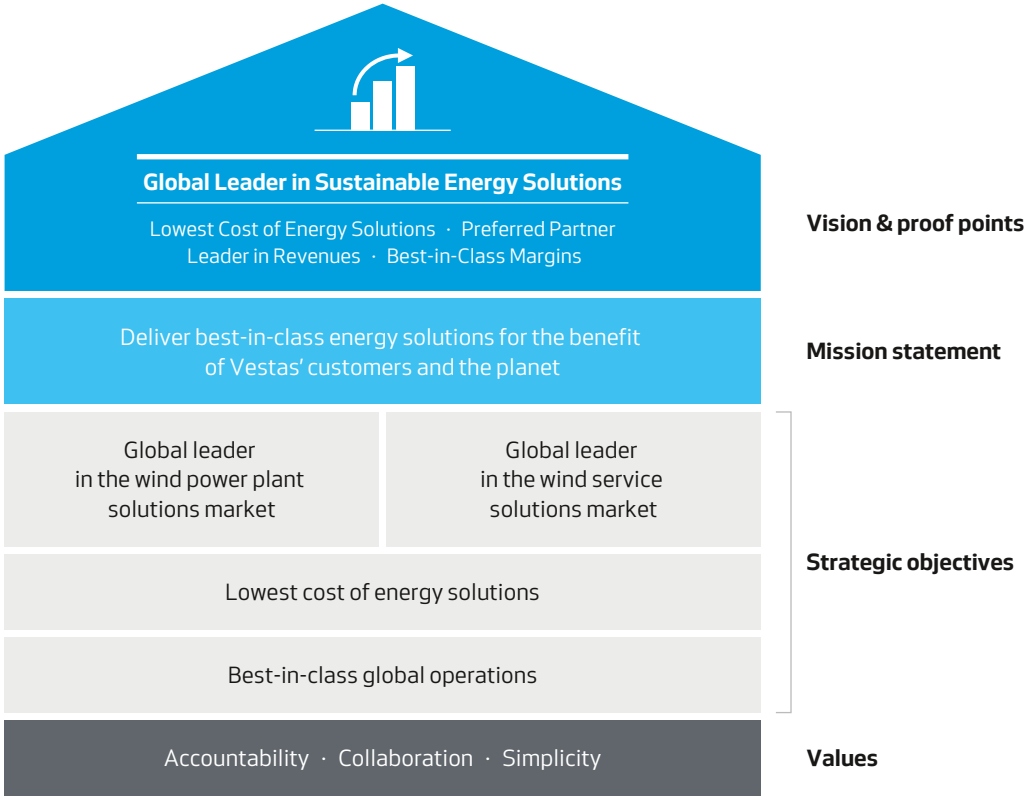
The 2017-2020 strategy provides Vestas with an attractive financial outlook towards 2020. In addition, Vestas continues to explore opportunities to accelerate growth and develop the company further.

The strategic direction for Vestas remains the same, but Vestas has refined and accelerated its strategic initiatives to effectively respond to a new reality as well as updated its vision and mission statements. The Vestas vision – to be the global leader in sustainable energy solutions – reflects the evolving nature of power markets and our customers who operate in those markets. Vestas plays in the sustainable energy solutions market and wind continues to be at the core DNA of Vestas offerings.

Vestas' strategy revolves around four core objectives:

- Global leader in the wind power plant solutions market
- Global leader in the service solutions market
- Lowest cost of energy solutions
- Best-in-class global operations.

The building blocks of the corporate strategy



Global leader in the wind power plant solutions market
Vestas will continue to focus on profitable growth in mature and emerging markets, partnering more closely with its customers, expanding its key account programme, involving customers in product development, and working closely with them to deliver tailored solutions.

With its strong global footprint, Vestas has a competitive edge, allowing it to grow profitably in both developed and developing markets. Vestas will continue to scale production up and down in accordance with demand in different regions. Building on its long-standing global presence, Vestas will continue to pursue opportunities in markets where wind energy is set to expand.

As part of Vestas' ambitions to grow profitably, Vestas is participating in project development to a limited extent as some markets require this. By entering into co-development activities under a more structured approach, Vestas expects to be able to engage earlier with certain customers and thereby potentially lock deals earlier than it would otherwise be possible in some cases, whilst simultaneously offering significant value to the customer. The short to medium-term financial effects from such initiatives are expected to be limited in the context of Vestas' overall financials.

The repowering potential is increasing rapidly and Vestas is well-positioned to capture value in this market segment. The main repowering opportunity towards 2020 is in Germany with additional potential in Denmark, the USA, and India. Beyond 2020, the repowering potential will become global.

Vestas' mid-term ambition to grow faster than the market remains unchanged for 2017-2020. Vestas' ambition is to uphold its No. 1 global position in installed wind power capacity.

Global leader in the service solutions market
Vestas has installed 82 GW on six continents and services more than 71 GW across the globe. Together with Vestas' industry-leading quality and a Lost Production Factor under 2 percent, Vestas has an unparalleled track record within operation and service of wind turbines.

As the majority of Vestas' wind turbine contracts are sold with service agreements, typically running for five to 10 years, the stable revenue stream from the service business is set to continue its growth as the installed base of wind turbines increases.

As part of Vestas' goal to become the leader in the service solutions market, Vestas will grow its multi-brand service solutions. Multi-brand service solutions offer a large opportunity as Vestas turbines cover approx 16 percent of the total installed fleet worldwide. With the acquisitions of UpWind Solutions Inc. and Availon Holding GmbH, Vestas accelerated its competences within multi-brand service solutions.

Vestas large installed base and unmatched data processing and analytics capabilities within the wind power industry serve as an important enabler for developing and expanding the service business further. Vestas already use data to optimise operation and maintenance, but Vestas data expertise should enable the company to bring new value creating solutions to the market.

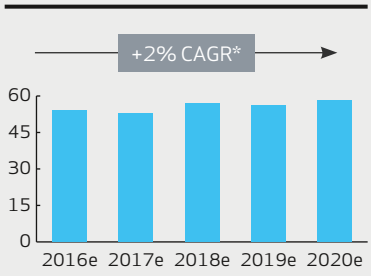
As a result of higher than anticipated growth in the service business, Vestas has decided to increase its strategic ambition for the area. The new target is to grow its service business by more than 50 percent organically towards 2020 versus 2016 revenue, while at the same time deliver best-in-class margins.

Vestas' three main business areas

Global leader in the wind power plant solutions market

"Stable growth"

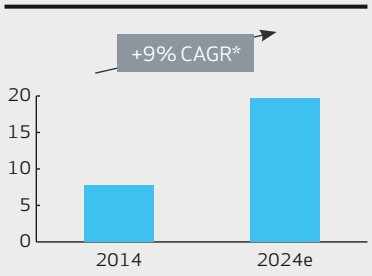
Onshore installations per year
GW



Global leader in the wind service solutions market

"High growth"

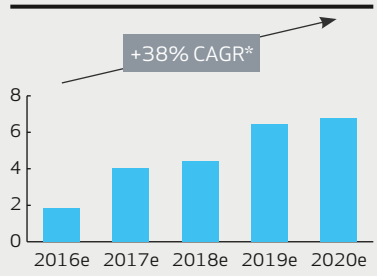
Revenue
USDbn



Top player in the offshore market

"High growth"

Offshore installations per year
GW



Sources: MAKE Consulting: Q4 Global Wind Power Market Update. November 2016; Bloomberg New Energy Finance: Q4 2016 Global Wind Market Outlook. December 2016; MAKE Consulting: Global Wind Turbine O&M. June 2015.
* Compound average growth rate.

Lowest cost of energy solutions
For more than 35 years, Vestas has been driving down the cost of energy in the wind power industry and been at the heart of the technological progress. Vestas has a clear ambition to sustain this downward trend and lower the cost of energy faster than anyone in the wind power industry by bringing commercially valuable products and services to the market. Vestas' technology strategy derives its strength from market-driven product development and extensive testing at the wind power industry's largest test facility, located in Denmark.

Coupled with utilising Vestas' smart data capabilities across the entire value chain, Vestas' approach to technology enables it to continuously integrate new and effectively innovate proven technologies to create high-performing products and services in pursuit of its over-riding objective: lowering the levelised cost of energy (LCOE).

During 2016, Vestas introduced new variants and solutions to support its ambition to reduce LCOE faster than market average. By reducing LCOE faster than market average, Vestas aims to provide its customers with the highest returns in the industry. Vestas' investments in new technology are the highest in the wind power industry.

Best-in-class global operations
Vestas will continue to build its strength within its core business in 2017 and beyond. The overall strategic ambition is to ensure profitable growth for Vestas and expand its global leadership. Vestas has come a long way and will continue its journey to create an even more flexible and robust company.

Vestas' size provides a competitive foundation for lowering costs at every stage of the value chain. Vestas will optimise its production footprint to further improve its flexibility, labour cost efficiency, and CAPEX efficiency. Vestas will also continue to increase efficiency by leveraging on the scale of its operations.

Finally, working capital management remains an area of high priority for Vestas. Consequently, the focus remains on improving the cash conversion cycle and lowering the working capital tied up while transporting and installing the wind turbine projects.

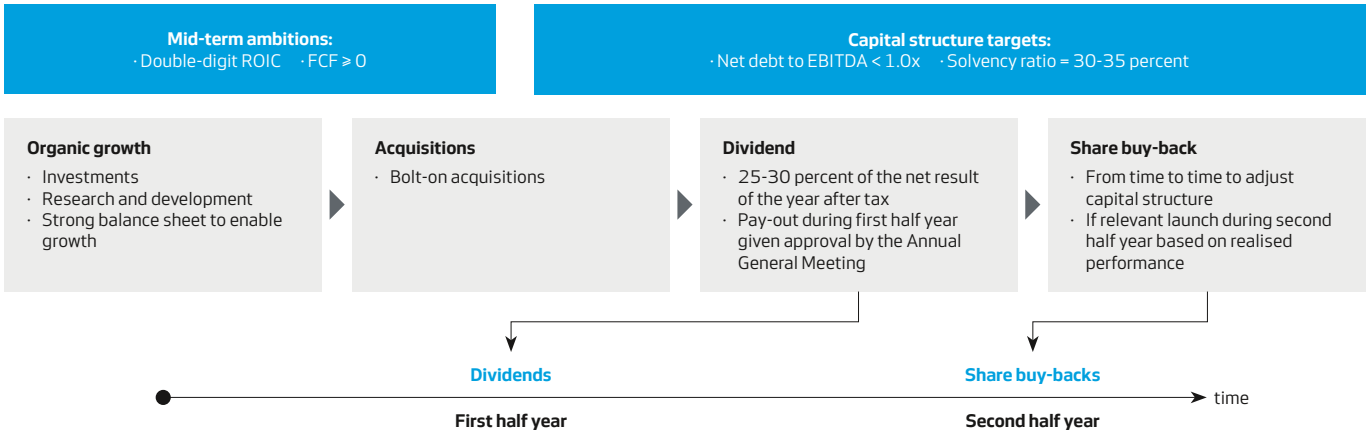
Vestas' corporate strategy positioned to support growth in all areas

Vestas has a strong position within its three main business areas, onshore wind turbines, services, and offshore wind. Each area offers a solid base for continued growth and stability.

In the coming years, Vestas expects the onshore wind turbine market to transition from high global growth rates to high but steady volumes, while Vestas expects to see double-digit growth in the worldwide installed base creating important new opportunities to grow the service business. Finally, offshore wind is projected to become a large-scale renewable technology, creating the foundation for a high growth scenario in the offshore market.

Financial and capital structure strategy

Priorities for capital allocation



Vestas' financial and capital structure targets as well as related dividend policy, link to the strategic aspirations of the company.

Financial ambitions

Vestas wants to exhibit the strongest performance in the sector. To achieve such a performance Vestas has set itself some high financial ambitions towards 2020.

Vestas' mid-term ambition is to grow faster than the market and be the market leader in revenue, while at the same time deliver best-in-class EBIT margin.

By increasing earnings and keeping investment and net working capital requirements low, Vestas aims to generate a double-digit return on invested capital (ROIC) each year over the cycle. Vestas expects to be able to finance its own growth and thus, the free cash flow excl. marketable securities and short-term financial investments is expected to be positive each financial year.

Capital allocation priorities

The main priority is to invest in Vestas' corporate strategy and use capital resources for required investments and R&D to realise this strategy.

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. Capital resources will be maintained to secure compliance with the capital structure targets:

- Net interest bearing debt/EBITDA ratio is to be below 1x at any point in the cycle.
- Solvency ratio in the range of 30-35 percent by the end of each financial year.

Available capital resources may also be used for bolt-on acquisitions to accelerate or increase profitable growth prospects.

Any decision to distribute cash to shareholders will be taken in appropriate consideration of the capital structure targets and availability of excess cash. Determining the level of excess cash will be based on the company's growth plans and liquidity requirements.

The dividend policy reflects the general intention of the Board of Directors to recommend a dividend of 25-30 percent of the year's net result after tax, which will be paid out following the approval by the annual general meeting.

In addition, Vestas may from time to time supplement with share buy-back programmes to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major extraordinary investments the total distribution to shareholders through dividends and share buy-backs may constitute the majority of the free cash flow.

Outlook 2017

Revenue is expected to range between EUR 9.25bn and 10.25bn including service revenue, which is expected to grow. Vestas expects to achieve an EBIT margin before special items of 12-14 percent with the service EBIT margin remaining stable.

Total investments[1)] are expected to amount to approx EUR 350m, and the free cash flow[1)] is expected to be minimum EUR 700m in 2017.

It should be emphasised that Vestas' accounting policies only allow the recognition of supply-only and supply-and-installation activities as income when the risk has finally passed to the customer, irrespective of whether Vestas has already produced, shipped, and installed the wind turbines. Disruptions in production and challenges in relation to wind turbine installation, for example bad weather, lack of grid connections, and similar matters may thus cause delays that could affect Vestas' financial results for 2017. Further, movements in exchange rates from current levels may also impact Vestas' financial results for 2017.

Outlook 2017

Revenue (bnEUR)	9.25-10.25
EBIT margin (%) before special items	12-14
Total investments[1)] (mEUR)	approx 350
Free cash flow[1)] (mEUR)	min. 700

1) Before investments in marketable securities and short-term financial investments, and incl. expected proceeds from sale of office buildings.

2016 at a glance

For full-year 2016, revenue amounted to EUR 10.2bn, EBIT margin before special items was 13.9 percent, total net investments[1)] was EUR 617m, and the free cash flow[1)] amounted to EUR 1,564m. The wind turbine order intake increased from 8,943 MW in 2015 to 10,494 MW in 2016 and the value of the service order backlog increased by EUR 1.8bn to EUR 10.7bn.

Dividend

The Board of Directors recommends to the General Meeting that a dividend of DKK 9.71 per share be paid for the financial year 2016.

100 %

Share of renewable energy was 52 percent and share of renewable electricity 100 percent.

EUR 401m

Vestas initiated a share buy-back programme – bought back 6.0m Vestas shares at a value of EUR 401m.

1 GW onshore order

Vestas signed the largest single project in the history of the company with the 1 GW Fosen/ Hitra project in Norway.

1,750 MW service contact

UpWind Solutions signed a multi-site service contract with Berkshire Hathaway Energy, to provide maintenance services of 1,750 MW across 15 sites in the US.

Acquisition of Availon

Vestas acquired the Germany-based independent service provider Availon Holding GmbH.

910 MW offshore orders

MHI Vestas Offshore Wind received firm and unconditional orders for 910 MW.

9,957 MW

2016 was another busy year for Vestas. The number of MW produced and shipped reached 9,957 (4,264 wind turbines).

-21 percent

Through the dedicated efforts of its employees and supervised contractors, Vestas reduced the rate of total recordable injuries by 21 percent.

Record-breaking

Vestas achieved record-breaking order intake and, amongst others, announced 31 orders in 31 days, across 12 countries and five continents in the month of December.

1) Before investments in marketable securities and short-term financial investments.

Financial performance

" In 2016, we continued to execute on our strategy. Strong performance from across the Group contributed positively to all key parameters – revenue above EUR 10bn, an EBIT margin of 13.9 percent and a free cash flow[1)] above EUR 1.5bn."

Marika Fredriksson
Executive Vice President & CFO

Project performance

Order intake

In 2016, the order intake was strong and amounted to 10,494 MW corresponding to EUR 9.5bn. Compared to 2015, the order intake in MW for the year increased by 17 percent equivalent to EUR 1.3bn.

All regions contributed to the increase in order intake. The US market displayed a strong demand especially during December 2016, while the steady growth continued across the markets in Europe, Middle East, and Africa (EMEA) and Asia Pacific and amongst others Vestas received its largest order to date during 2016. The order, which is to be delivered in Norway, contributed with 1 GW to the order intake.

EMEA accounted for 49 percent (2015: 43 percent), Americas for 41 percent (2015: 46 percent), and Asia Pacific for 10 percent (2015: 11 percent) of the order intake in 2016 in MW. In 2016, 72 percent of total orders were announced publicly.

Level of activity

Vestas had a busy year with a high activity-level. Final projects delivered to the customers totalled 9,654 MW, which was a 29 percent increase compared to 2015. The growth was in particular driven by increased deliveries to the US market. Americas accounted for 50 percent (2015: 45 percent), EMEA for 41 (2015: 49 percent) percent, and Asia Pacific for 9 percent (2015: 6 percent) of the deliveries in MW. By the end of the year Vestas had installed 82 GW in 76 countries.

Order backlog

At the end of the year, the order backlog amounted to 9,530 MW equalling EUR 8.5bn. Compared to last year, the order backlog in MW increased by 9 percent equivalent to EUR 0.6bn. Despite the increase in delivery of wind turbines, the order backlog has developed positively due to the strong order intake. EMEA accounted for 52 percent (2015: 44 percent) of the backlog, Americas for 36 percent (2015: 45 percent), and Asia Pacific for 12 percent (2015: 11 percent) in MW.

The average pricing as measured in EUR/MW in the year-end backlog was stable at 0.9m EUR/MW compared to 0.9m EUR/MW in 2015.

Overview per region

MW

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Under completion, 1 January 2016	916	884	139	1,939
Delivered to customers during 2016	(3,991)	(4,825)	(838)	(9,654)
Produced and shipped during 2016	4,282	4,826	849	9,957
Under completion, 31 December 2016	**1,207**	**885**	**150**	**2,242**

Service performance

Level of activity

The service activity was at a higher level compared to last year, due to a combination of organic growth and acquisitions. By the end of 2016 Vestas has more than 37,000 wind turbines under service equivalent to approx 71 GW.

During the year, the Germany-based independent service provider Availon Holding GmbH was acquired to strengthen the ability to service a broad range of wind turbine technologies amongst others, and hence, support the growth strategy in the service business.

Order backlog

At the end of 2016, Vestas had service agreements with expected contractual revenue of EUR 10.7bn, up 20 percent from 8.9bn in 2015. At the end of the year, the average duration in the service order backlog was approx six years, which was stable compared to last year.

1) Before investments in market securities and short term financial investments.

Result for the year

Revenue

Revenue in 2016 amounted to EUR 10.2bn, which was an increase of 22 percent compared to 2015 and within the updated guidance range of EUR 10.0bn-10.5bn announced 8 November 2016. The revenue growth was derived from all regions. EMEA accounted for 45 percent (2015: 52 percent) of revenue, while Americas and Asia Pacific accounted for 47 percent (2015: 41 percent) and 8 percent (2015: 7 percent), respectively. Revenue from the Project segment increased by 23 percent to EUR 8,928m, which was driven by the increased deliveries to customers. Service revenue increased by 15 percent to EUR 1,309m.

Distribution of revenue

mEUR

	2016	2015
Europe, Middle East, and Africa	4,641	4,357
Americas	4,823	3,476
Asia Pacific	773	590
Total	**10,237**	**8,423**
– of which service revenue	1,309	1,138

Gross profit

Gross profit increased by 41 percent to EUR 2,126m compared to 2015, corresponding to a gross margin of 20.8 percent – a 2.9 percentage point increase relative to 2015. The gross profit increase was mainly driven by the increased volumes, but a favourable product mix and better average project margins also contributed to the increase.

EBITDA

EBITDA before special items amounted to EUR 1,826m in 2016, up 51 percent from EUR 1,212m in 2015, primarily driven by the strong development in gross profit. The EBITDA margin before special items was 17.8 percent, which was an increase of 3.4 percentage points compared to last year.

Depreciation and amortisation

Depreciation, amortisation and impairment amounted to EUR 405m in 2016, compared to EUR 352m in 2015. The increase was mainly due to depreciations related to assets held for sale reclassified to property, plant and equipment, higher depreciations due to reassessment of useful life of certain assets as well as impairment losses on assets.

Research and development costs

Research and development costs recognised in the income statement amounted to EUR 227m, which was slightly higher compared to EUR 211m in 2015. The total R&D expenditure prior to capitalisation and amortisation increased to EUR 198m in 2016, against EUR 156m in 2015.

Distribution costs

Distribution costs amounted to EUR 190m in 2016, equivalent to the level in 2015, despite a growth in revenue of 22 percent.

Administration costs

2016 administration costs amounted to EUR 288m, which was EUR 40m higher than in 2015. Administration costs constituted 2.8 percent of revenue in 2016, compared to 2.9 percent in 2015.

Operating profit (EBIT)

EBIT before special items increased by 65 percent to EUR 1,421m in 2016 relative to 2015. This resulted in an EBIT margin before special items of 13.9 percent, which is within the adjusted guidance range of 13-14 percent announced 8 November 2016. The EBIT margin before special items increased by 3.7 percentage point mainly driven by the strong gross profit.

13.9%

EBIT margin before special items amounted to 13.9 percent – an increase of 3.7 percentage points compared to 2015.

The EBIT margin before special items from the Project segment was 15.9 percent in 2016, up 4.5 percentage points from 11.4 percent in 2015. The EBIT margin before special items from the service segment was 17.2 percent in 2016, which was a slight decrease of 0.5 percentage points from 17.7 percent in 2015, caused by additional operating costs from integration of acquisitions.

Profit for the year

Profit for the year amounted to EUR 965m in 2016, which was an increase of 41 percent compared to 2015. The profit for the year was a result of the high activity level and the cost management through-out the year.

As the targets for bonus pay-out were achieved in 2016, a global bonus of EUR 120m will be paid out to all employees (cash effect 2017), compared to EUR 101m in 2015 (cash effect 2016).

Working capital

Net working capital by the end of the year was a result of the well-executed working capital management strategy. Net working capital amounted to a net liability of EUR 1.9bn at the end of 2016, which is an improvement of 40 percent compared to last year. The level was significantly impacted by large prepayments received from customers by the end of the year due to the strong order intake.

Other operating assets and liabilities

At 31 December 2016, invested capital amounted to negative EUR 361m, which was an improvement of EUR 662m compared to 2015, where invested capital amounted to positive EUR 301m. The improvement was primarily driven by the large prepayments received from customers by the end of 2016.

Return on invested capital (ROIC)

Return on invested capital was 265.2 percent in 2016, up 148.0 percentage points from 117.2 percent in 2015, primarily driven by the well-managed working capital strategy as well as the improved operating result after tax.

Capital structure and financing items

Equity

At 31 December 2016, total equity amounted to EUR 3,190m, up 10 percent from EUR 2,899m end of 2015. Equity was positively impacted by the profit for the year partly offset by the impact of dividend pay-out and the share buy-back programme.

To adjust the capital structure and to meet the obligations arising from employee share option programmes, Vestas bought back 6,047,780 shares under the share buy-back programme active during the period 18 August 2016 to 30 December 2016.

The strength of the balance sheet combined with the strong results achieved in 2016 has led the Board of Directors to recommend a dividend of DKK 9.71 (EUR 1.31) per share equivalent to 30.0 percent of the net result for the year after tax.

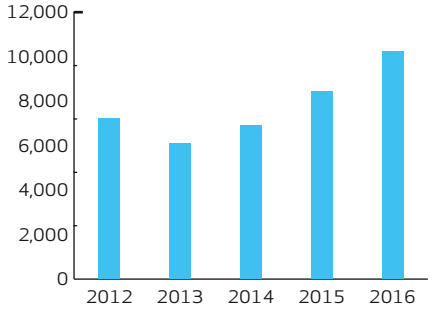
Earnings per share

Earnings per share increased by 42 percent to EUR 4.4 in 2016, compared to last year, due to higher net profit and cancellation of treasury shares.

Net interest-bearing debt and cash equivalents

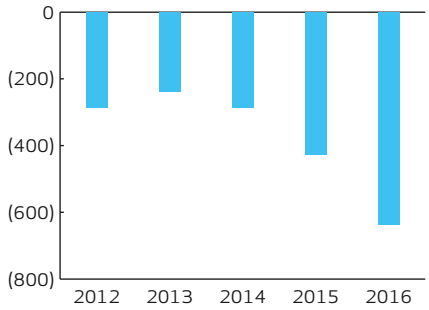
The average net interest-bearing position was positive of EUR 2,111m in 2016 compared to EUR 1,721m in 2015, which was an improvement of 23 percent, driven by strong cash flow during the year.

Revenue
mEUR



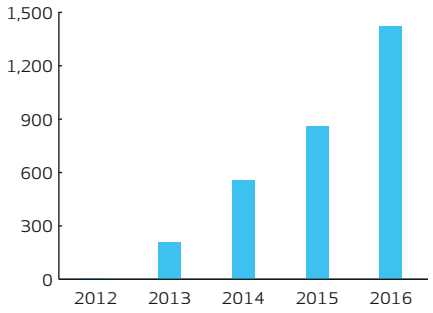
+68%
In just three years, Vestas has managed to increase the revenue by 68 percent – from EUR 6,084m in 2013 to EUR 10,237m in 2016.

Total investments*
mEUR



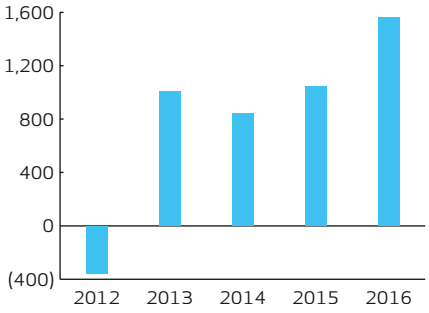
Investing in the future
In 2016, Vestas acquired the independent service provider Availon Holding GmbH, with total net investments* amounted to EUR 617m.

EBIT before special items
mEUR



+573%
Since the introduction of the profitable growth strategy, Vestas has increased EBIT before special items from EUR 211m in 2013 to EUR 1,421m – an increase of 573 percent.

Free cash flow*
mEUR



+ EUR 1,923m
Vestas is generating significant more cash flow from the underlying business. In 2016, Vestas reported a free cash flow* of EUR 1,564m – an increase of EUR 1,923m compared to 2012.

* Before investments in marketable securities and short-term financial investments.

At the end of 2016, net interest-bearing position was positive of EUR 3,255, an improvement of EUR 985m, compared to the end of 2015 with a positive net interest-bearing position of EUR 2,270m.

Net interest-bearing debt/EBITDA
The ratio net interest-bearing debt/EBITDA before special items of (1.8) by the end of 2016 was comparable to (1.9) in 2015.

Solvency ratio
At the end of December 2016, the solvency ratio was 32.1 percent, which was a decline of 1.7 percentage points from 2015. The solvency ratio was within the target of 30-35 percent.

Return on equity
Return on equity was 32.6 percent in 2016, which was an increase of 6.4 percentage points compared to 2015. The increase was a result of the higher net profit partly offset by an increase in equity.

Cash flow

Operating activities
Cash flow from operating activities was EUR 2,181m in 2016, which was an increase of 48 percent compared to last year. The increase was a result of the higher net profit for the year.

Net investments
Cash flow used for investing activities amounted to EUR 817m in 2016, up 92 percent from EUR 425m in 2015. Total net investments excluding investments in marketable securities and short-term financial investments amounted to EUR 617m in 2016, which was in line with the updated guidance of approx EUR 600m announced 8 November 2016. The increase compared to 2015 was mainly driven by the acquisition of the Germany-based independent service provider Availon Holding GmbH and the investment in the blade facility in India.

Free cash flow
The free cash flow excluding investments in marketable securities and short-term financial investments amounted to EUR 1,564m, which was in line with the updated guidance of EUR 1,500m-1,600m announced 6 January 2017.

EUR 1,564m

Vestas reported a free cash flow before investments in marketable securities and short-term financial investments of EUR 1,564 – an increase of EUR 517m compared to 2015.

Cash position
Cash and cash equivalents amounted to EUR 3,550m in 2016, up 28 percent from EUR 2,765m in 2015. The cash position was at a record-high level, and the increase was significantly impacted by operating activities and the large prepayments received from customers by the end of the year.

Wind turbines – Sales and market development

Global trends in the onshore wind energy market 2016

In 2016, global onshore installations is expected to decline to 55 GW compared to 59 GW installed in 2015.[1] The deterioration was mainly caused by a slowdown in the Chinese market, where onshore wind power installations declined to 22 GW in 2016 – a decline of 22 percent compared to 2015.[2]

Excluding the Chinese market, global onshore installations is expected to increase by 2 GW in 2016.[1] More importantly, Bloomberg New Energy Finance predicts the wind energy market to continue to expand its position amongst energy sources. While the share of total installed electricity generation capacity only constituted approx 7 percent in 2015, it is estimated that wind energy accounted for approx 18 percent of the new installed electricity generation capacity in 2016.[3]

Vestas' market development in 2016

Vestas' installed capacity increased from 74 GW in 2015 to almost 82 GW in 2016 – an increase of 11 percent.

With deliveries across 34 countries in 2016, Vestas' wide geographic diversification remains a key strategic strength, allowing it to balance out the inevitable ups and downs in any given market. Vestas' global presence in 76 countries across six continents underlines its ability to provide wind energy solutions anywhere in the world.

During 2016, Vestas continued its focus on early engagement, thereby offering more attractive cost-effective wind energy solutions to the benefit of both the customers and Vestas. By early engagement with customers, for example on site design, Vestas is able to unlock value and offer a more optimised solution.

Combined with the ongoing efforts to build closer and expand already existing customer relationships and partner with new customers in both mature and new wind power markets, Vestas experienced order intake growth across all regions and signed orders in a total of 33 countries in 2016. Demand for wind turbines from Vestas' 2 MW and 3 MW platforms remains strong. In 2016, approx two-thirds of the order intake was based on the 3 MW platform, while the remaining one-third related to the 2 MW platform.

2016 order intake and backlog per region
MW

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Order intake	5,141	4,318	1,035	10,494
Wind turbine order backlog	4,974	3,448	1,108	9,530

Europe, Middle East, and Africa
Vestas delivered 3,991 MW to the markets in the Europe, Middle East, and Africa region in 2016, up from 3,672 MW in 2015. In 2016, Vestas had an order intake of 5,141 MW in the region, while the order backlog amounted to 4,974 MW as of 31 December 2016.

The European onshore market is expected to be stable in 2016, adding 12 GW of new installations, an increase from 11 GW in 2015.[4] The stable market development in Europe is founded on long-term targets and policy stability for renewable energy. However, Europe is still characterised by varying growth patterns on a national level due to differences in regulatory, economic, and geopolitical conditions. Europe continues to be driven by the EU member states' approach towards achieving their renewable energy targets for 2020 and 2030. Conventional utility groups across Europe are facing structural

1) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016.
2) Source: Bloomberg New Energy Finance: 2016 China's top 10 wind turbine manufacturers. January 2017.
3) Source: Bloomberg New Energy Finance: Bloomberg New Energy Outlook 2016. June 2016
4) Source: Make Consulting: Global Wind Power Market Update. November 2016.

pressure as the energy markets are being re-regulated by policymakers to enforce de-carbonisation of the energy mix.

By demand of the EU state aid guidelines, European markets are moving towards more market-based support systems, putting greater focus on the development in power prices and cost of energy.

Northern Europe

Northern Europe remains a stable core market for Vestas. The German market continues to display its importance as it once again was Vestas' largest northern European market in terms of deliveries in 2016. Markets like Norway, Finland, and Sweden also supported Vestas' performance in 2016, while activity levels in the UK were more stable.

More specifically in Germany, 2016 marked another year with high installation activity, which reached 4.3 GW in 2016.[5] Repowering accounted for approx 679 MW of German installations in 2016 and thus, continued representing an interesting segment in Europe's largest onshore market.[5]

In July 2016, the German parliament passed renewable energy legislation covering the shift from the current feed-in premium system to an auctioning system. The auctioning volume (including repowering) is fixed by law at 2.8 GW yearly, split over three to four rounds from 2017 to 2019 and at 2.9 GW yearly from 2020 onwards. The administratively fixed feed-in premium system will, however, remain valid for all projects permitted until end of 2016 and constructed until end of 2018 (transition period), which will drive important market activity in the near-term despite a sharpened support level regression.[6]

The new auction system will influence market size in terms of installations from the second half of 2017 and onwards with the first winning bids of the auction rounds in 2017 starting to be installed. From 2019 onwards, the auctioned volume will entirely drive the market size. Vestas delivered 1,119 MW to the German market in 2016 and expects that Germany will remain one of its key markets in the years to come.

In 2016, Vestas signed the largest single project in the history of the company with the 1 GW Fosen/Hitra project in Norway. The Norwegian market continues to be driven by the joint green certificate system with Sweden, which was implemented in 2012. Further support came from new taxation rules approved in July 2016. Currently, the green certificate system is expected to be phased out by the end of 2021.

1 GW order

In February 2016, Vestas signed a 1 GW order in Norway consisting of
· 248 V117-3.45 MW turbines
· 30 V112-3.45 MW turbines

Finland experienced another strong year for wind energy in 2016 with installations reaching 570 MW – almost a doubling compared to 379 MW in 2015.[5] The Finnish market continues to be driven by a feed-in tariff mechanism implemented in 2011 and is expected to transition to an auction-based system as of 2018. With deliveries of 340 MW in 2016 – an increase of 54 percent compared to 2015 – Vestas solidified its market leading position in the Finnish market.

As expected, the Swedish market witnessed a weakening in 2016. Market installations reached 493 MW in 2016, down from 615 MW in 2015.[5] In the near-term, low power and green certificate prices are expected to dampen the activity level in the Swedish market. Despite the weakened Swedish market, Vestas strengthened its leading position by securing an order intake of 496 MW in 2016 – an increase of 78 percent compared to 2015 – and delivering 343 MW, compared to 194 MW in 2015.

The UK market has been driven by developers seeking to qualify for the existing support scheme that requires projects to be operational by the end of March 2017. The regulatory environment for the development of onshore wind power is increasingly challenging in the UK, as exemplified by the decision to end the existing support scheme one year ahead of schedule. Vestas delivered 310 MW to the UK market in 2016, including 155 MW offshore via the joint venture MHI Vestas Offshore Wind, while order intake amounted to a total of 328 MW (read more about the joint venture on page 037). The wind power industry has so far been unaffected by British vote to withdraw from the EU whereas the long-term market impact from the referendum remains unclear.

Southern Europe

Stagnated demand for electricity and constrained economic conditions in several countries in southern Europe have dampened wind energy installations in the region. Even though demand is still below historical peak levels, a modest market improvement was observed in 2016. During the year, the market in southern Europe saw good support from France, Turkey, and Greece, while activity in Spain remains subdued.

France experienced another good year in terms of installed capacity and order intake in 2016. The approval of a new ambitious energy law during 2015 combined with a focus on simplifying permitting processes has paved the way for a stable market development. Total installations reached 1.6 GW in 2016, which was 45 percent higher compared to 2015.[7] Vestas delivered 534 MW in France in 2016, an increase of 54 percentage compared to 2015, while Vestas managed to sign orders totalling 642 MW.

Despite political turmoil, Turkey installed 1.4 GW of new wind power capacity in 2016, representing a new record for the Turkish market.[5] Near-tem market activity should remain at a healthy level, supported by a pipeline of projects under construction and increasing electricity demand in the country. Vestas delivered 221 MW to the Turkish market in 2016, a decrease of 35 percent compared to 2015.

Greece commissioned 239 MW of new wind power capacity in 2016.[5] Representing an increase of 53 percent compared 2015.[5] Vestas has been successful in the country in 2016 with deliveries of 174 MW and an order intake of 149 MW.

In January 2016, Spain conducted its first renewable power auction in which 500 MW of new wind power capacity obtained approval to be built. However, low bid prices among the approved projects have created uncertainty as to when these projects are expected to be executed as they have until 2019 to be completed. Consequently, the Spanish wind energy market stayed at a very low level in 2016 with only 49 MW of new installations.[5]

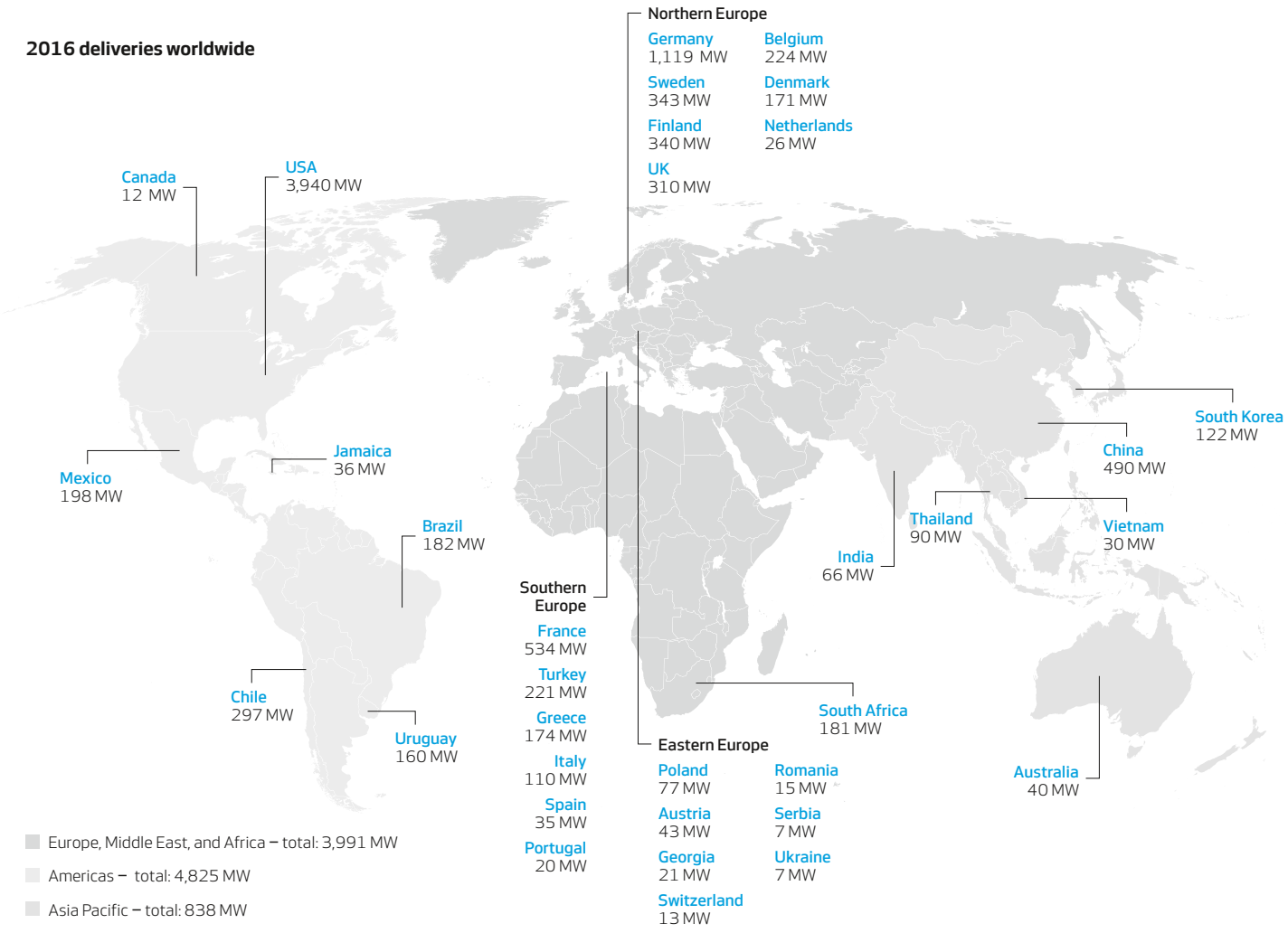
Eastern Europe

Despite the long-term growth potential, regulatory uncertainty and geopolitical conflicts are taking their toll on the markets in Eastern Europe. Even though several smaller markets are experiencing steadily increasing support for renewables, it has not been enough to compensate for the shortfall in activity that is affecting large markets such as Poland, Romania, and Ukraine.

In Poland, notable regulatory changes took place in 2016. The subsidy scheme changed to an auction-based support system that has replaced the former green certificate system. This shift created record-high market activity in 2015 as developers permitted their projects under the previous subsidy scheme. Market installations in 2016 is expected

5) Source: WindEurope. February 2017.
6) Source: Bloomberg New Energy Finance: New Q4 2016 European Policy Outlook. December 2016.
7) Source: France Energie Eolienne: +45 % d'installations éoliennes raccordées en France 2016 : une année record pour l'éolien français. 11 January 2017.

2016 deliveries worldwide



to be markedly below the installation level in 2015 of 1.5 GW.[8] A new government was elected in 2015 and it has during 2016 for instance adopted stricter requirements for the distance between wind turbines and adjacent buildings, houses, and natural protected sites. Observers of the market are concerned that these stricter requirements will slow the build-out of wind power in Poland. Vestas delivered 77 MW in Poland during the year, down from 774 MW in 2015.

Africa and the Middle East

Africa and the Middle East offer growth potential, although from a low base. The region is characterised by good wind resources and holds an enormous potential due to the historical untapped nature of these markets. Vestas has been active in the region delivering 181 MW in South Africa and securing an order of 120 MW in Morocco.

Vestas continued making solid progress in connection with the Lake Turkana Wind Power project in Kenya – its largest-ever project in terms of the number of wind turbines being installed.

Americas

Vestas delivered 4,825 MW to the markets in the Americas region in 2016, up from 3,357 MW in 2015. In 2016, Vestas had an order intake of 4,318 MW in the region, while the order backlog amounted to 3,448 MW as of 31 December 2016.

North America

In the USA, an extension of the American Production Tax Credit (PTC) was approved in December 2015, the main element of which was a two-year extension of the 100 percent value followed by a three-year phase-down period. The PTC extension provides the policy certainty necessary for effective business planning and investment. The longer-term expected certainty, alongside wind energy's natural competitiveness against other power generation sources, will ensure an expected solid future for wind energy in the USA.

The US market is currently at very high activity levels and during 2016, Vestas has successfully broadened its customer base. In terms of order intake, the USA was once again Vestas' largest market with 3,465 MW, corresponding to one third of total order intake in 2016. Components orders that enable future project pipeline constituted 1,640 MW.

In 2016, Vestas delivered almost 4 GW in the USA.

Canadian wind power installations reached 702 MW in 2016, representing a decrease of 53 percent compared 2015.[9] Vestas had deliveries of 12 MW and an order intake of 224 MW.

Latin America

In Latin America, the Brazilian market drove installations, while the introduction of power auctions in Argentina and Mexico opens up for new growth opportunities in the region.

In 2016, total installations in Brazil are expected to be fairly stable compared to the 2.7 GW realised in 2015.[8] The same goes for Vestas' order intake in the market, which landed at 371 MW in 2016, showcasing its reignited efforts in the market in accordance with its local

8) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016.
9) Source: The Canadian Wind Energy Association: Wind energy continues strong growth in Canada in 2016. January 2017.

strategic plan. However, 2016 also marked a year for Brazil where no energy auction took place and Brazil is therefore expected to be a challenging market near term.

The potential in the remaining Latin American markets is strong, driven by demand for energy security and diversity of supply. During 2016, markets such as Argentina and Mexico have carried out their first power auctions where wind power won a substantial part of the new electricity contracts.

Vestas delivered 873 MW to the markets in the Latin American region in 2016, compared to 336 MW in 2015.

Asia Pacific

Asia Pacific is expected to see an overall decline in market installations in 2016 compared to 2015, driven by a sharp decline in Chinese wind power installations. Installations in China reached almost 30 GW in 2015, but due to changes in the subsidy regime, installations declined to 22 GW in 2016.[10] An expected increased activity in the rest of Asia Pacific will not compensate for the large decline in the Chinese market and hence, installations for Asia Pacific is expected to reach 29 GW representing a decrease of around 9 percent compared to 2015.[11]

The long-term outlook remains very promising for Asia Pacific. According to the International Energy Agency (IEA), the growth level of electricity demand in Asia Pacific is expected to be higher than in any other region of the world.[12]

The Chinese market remained the largest global wind energy market in 2016. However, a feed-in tariff reduction has taken its toll on installations. According to preliminary data, installations in China declined by 21 percent in 2016 compared to 2015.[10] Part of the strong development in 2015 can be attributed to a rush in the market for securing subsidies under the previous feed-in tariff scheme. It remains to be seen how the change to the feed-in tariffs will impact the level of installations going forward. Grid curtailment remains a challenge though the Chinese authorities are taking responsive actions to solve this.

During 2016, Vestas introduced its largest onshore wind turbine – the V136-3.45 MW turbine – to the Chinese market. Vestas will manufacture and sell the wind turbine and introduce an unprecedented level of service flexibility to the Chinese market. Thus, Vestas continues to show commitment to its strategy in China by focusing entirely on the relatively smaller, but still attractive, addressable segments of the market where Vestas' offerings are relevant. Vestas delivered 490 MW in China in 2016 and signed orders totalling 415 MW.

India's energy sector is currently undergoing a huge transformation towards greater deployment of renewables in the country. The Government has set an ambitious target of 60 GW by 2022.[13] Despite the high ambitions, the Indian market continues to be challenging and short-term the market performance could potentially be impacted by policy uncertainty.

Vestas took an important step forward in 2015 by announcing its plans to build a new blade facility in India. Once completed in early 2017, this new blade facility is expected to improve Vestas' competitiveness in the Indian market. Vestas made its mark on the market in 2016 by delivering 66 MW in India.

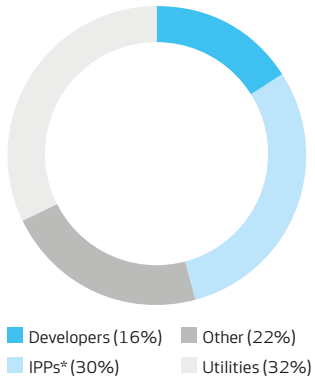
In Australia, the first effects of the new Renewable Energy Target (RET) became visible in 2016. Installations in the market remain at a low level in 2016 but within the year, Vestas secured three orders in the market with a total capacity of 480 MW. The RET will give much needed clarity for the future of the Australian wind energy market. Historically, Australia has been a Vestas stronghold, and with a market share of almost 50 percent based on total expected installed capacity as of 2016,[14] Vestas welcomes the new RET resolution.

Customer relations

Vestas maintains its focus on its key account management programme, which it expanded in 2016.

With a diverse set of offerings encompassing both products and services, Vestas has broad access to all relevant segments and markets and an undisputed global ability to target value driving growth. Vestas directly or indirectly serves a broad base of customers, including utilities, developers, independent power producers, pension funds, large corporations, and others.

Customer segmentation based on order intake 2016
Percent



10.5 GW in order intake
Vestas experienced order intake growth across all regions and signed orders in a total of 10.5 GW in 33 countries.

* IPP includes community wind power plant customers.

Vestas measures its customer relationships through an annual survey. The most recent survey took place from 2 to 22 November 2016 and included around 300 respondents in more than 40 countries repre senting around 180 customers.

Overall, customer perception of Vestas improved from 2015 to 2016. The Net Promoter Score increased from 40 to 54 index points with more than two-thirds of Vestas customers being considered as promoters. The results are above industry average for large industrial companies.

10) Source: Bloomberg New Energy Finance: 2016 China's top 10 wind turbine manufacturers. January 2017.
11) Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016.
12) Source: International Energy Agency: World Energy Outlook 2016. November 2016.
13) Source: Recharge News: India is on track to installing 175 GW of renewable energy by 2020. 28 September 2016.
14) According to the Global Wind Energy Council, total installed capacity in Australia by end 2015 amounted to 4.2 GW (Source: Global Wind Energy Council: Global Wind Report 2015. April 2016) and with added installations in 2016 (Source: Bloomberg New Energy Finance: Q4 2016 Market Outlook. December 2016), total capacity by end 2016 is around 126 MW. At the end of 2016, Vestas had installed 2 GW in Australia.

Service – Sales and market development

Outlook and market trends for the service business

The service market is expected to provide a strong long-term platform for Vestas to grow its business.

The service market is growing faster than the market for wind turbines and is becoming more and more important to Vestas as customers shift their focus from capital expenditure to total cost of ownership. The latest market reports indicate that the service market is expected to grow by 9 percent annually over the next 10 years.[1)]

The Vestas service business is a key element in the company's long-term corporate strategy. With data derived from the world's largest installed fleet and more than 35 years of technical insight, Vestas' goal is to release the full potential of Vestas customers' wind power businesses. That is why a service partnership with Vestas stands apart.

Changes in customer needs are creating new trends in the market. Vestas is observing a customer trend away from availability toward a greater focus on lifetime service costs and output optimisation. Other general trends that can be observed within wind turbine operations and maintenance are the increased demand for unique offerings as opposed to standard products as well as greater importance of data solutions.

Finally, to succeed in the service market, understanding the commercial needs and the strategies of the asset owners are crucial.

Strategic position and ambitions for the future

More customers choose to build in-house service capabilities while more independent service providers are emerging, leading to increased competition. Thus, to maintain its leading position in the service market, Vestas will continue to invest in its service business.

Vestas' extensive data processing and asset management capabilities enable anticipating and planning service requirements. This means that Vestas has been able to keep a Lost Production Factor consistently under 2 percent. Vestas' technology and service know-how are mutually reinforcing elements in maximising wind power plant output and lowering the cost of energy.

As part of Vestas' goal to become the leader in the service solutions market, Vestas will grow its multi-brand service solutions. Multi-brand service solutions offer a large opportunity as Vestas turbines cover approx 16 percent of the total installed fleet worldwide.

Vestas' service business is expanding with an installed base of more than 37,000 wind turbines under service by the end of 2016, and with a revenue increase of 171m from EUR 1,138m in 2015 to EUR 1,309m in 2016. Combined with the global footprint of the service organisation and the unmatched ability to analyse data related to wind and weather conditions, the installed base of wind turbines gives Vestas a distinctive advantage, which provides ideal conditions for stable growth going forward.

During the year, the service business grew by 15 percent – excluding impact from acquisitions and foreign exchange rate developments, the organic growth amounted to 8 percent.

Vestas will continue to expand the catalogue of service offerings and improve existing solutions to increase the customers' output and lower the cost of energy. Based on current market opportunities and order intake, Vestas has an ambition towards 2020 to grow the service business organically by more than 50 percent.

At the end of 2016, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 10.7bn an increase of EUR 1.8bn compared to 2015, and the expectation is that the service business will continue to grow with stable margins in 2017. The main dilutive effects from acquisitions are expected to be fully absorbed by the end of 2017.

Four service business areas

Vestas' service offerings are divided into four business areas:

- Maintenance partnering
- Parts & repair offerings
- Fleet optimisation solutions
- Data & consultancy services

1) Source: MAKE Consulting: Global Wind Turbine O&M. 22 November 2016.

– each of which contributes to increasing performance and lowering the cost of energy for customers' wind power plants. Vestas works closely with its customers to tailor service packages to meet site-specific wind power plant requirements. Responding to Vestas customers' evolving demands, Vestas offers a new generation of flexible fleet optimisation capabilities such as advanced plant and data management, diagnostics, and forecasting.

Maintenance partnering
The core of Vestas' service business is the partnerships the company engages in with customers that need Vestas to monitor the wind energy production, do preventive maintenance, and ensure continuous maximum performance of the wind power plant throughout its lifetime.

Vestas customers benefit from the Group's scale and its efficient, cost-effective global supply chain, thus creating a great advantage in the competitive market. Vestas' service organisation operates on a global basis, with warehouses and service centres distributed across more than 50 countries, plus three 24-hour surveillance centres located in Portland, USA; Madrid, Spain; and Chennai, India.

The Active Output Management® (AOM) concept addresses this need: The service programme ensures the highest output at all times, giving customers a predictable return on investment.

Average contract length per contract type (initial contract and renewal) has increased in recent years, a testament to Vestas that its customers continue to value its contract offerings. Vestas have several examples of 20-year service contracts, indicating the long-term partnership Vestas strives to have with its customers.

Service agreements signed with new wind turbine orders*
Percent (of MW service order intake)

Type of contract	2016	2015
AOM 2000	6.0	4.3
AOM 3000	11.4	6.4
AOM 4000	45.9	42.3
AOM 5000	36.7	47.0

* AOM 1000 not included as it conceptually registers as pay-as-you-go services on demand.

Parts and repair offerings
Choosing the right repair solution at the right time is critical when taking care of the components, thereby reducing cost and increasing output of the wind turbines. Vestas' parts and repair set-up allows its customers to access a one-stop parts and repair shop, where all service needs are covered, from preventive inspections to advanced repairs. Vestas distributes more than 500,000 parts per year and co-operates with more than 1,000 suppliers globally, to make sure that costs are minimised.

In 2016, Vestas established a new global repair function: Global Repair Operations. The new function takes over all responsibility for Vestas' repair operations and locations. The aim with the new function is to align all internal and external repair activities in Vestas and create a centre of excellence for industry leading fleetwide repair offerings.

During the year, Vestas also introduced an eCommerce channel within parts and repairs. Vestas' ambition is to provide a simple and convenient way for the customer to identify and order spare parts and consumables.

While the parts & repair business is more variable compared to the rest of the service operation, it remains an interesting area to further develop as it supplements the offerings provided under the maintenance partnering concepts.

Fleet optimisation solutions
With more than 35 years of experience in optimising wind turbines, Vestas knows that individual needs deserve a tailor-made approach. Vestas' fleet optimisation solutions can help customers release the full potential of their wind power business.

Vestas PowerPlus™ is a key offering targeted existing wind power plants. Vestas PowerPlus™ optimises the performance of the wind power plant by up to 5 percent.

In addition, a wind turbine life extension programme has been developed, called Vestas LifePlus™ that allows the owners to continue operating the wind turbines beyond their initially estimated design lifetime. Vestas LifePlusTM solutions offer up to 25-50 percent extended life.

Data & consultancy services
In 2016, Vestas strengthened its data & consultancy offerings by establishing a separate business area devoted to commercialising the current extensive in-house data insight and processing capabilities applied to create transparency on historical and future asset performance and anticipate and plan service activities to lower the cost of energy. Vestas has the largest data source in the wind power industry with more than 32,000 wind turbines online.

Vestas ensures that customers can transfer and access data through the optimal applications, allowing them to focus on the core of their business. From the biggest fleet of wind turbines in the world, Vestas is able to transfer huge amounts of data real-time to the Vestas data eco-system enabling its customers to take decisions based on insights. Depending on customers' organisational needs, Vestas identifies possibilities for optimising their infrastructure and tailor solutions that fits their needs. Vestas is also able to integrate any other renewable energy asset into Vestas' own data system.

In 2016, the company introduced Vestas ClearSight™, which is an industry leading data tool that offers a combination of infrastructure solutions, analytical/computational software, data products, consulting services, and operational services.

Acquisitions support fleetwide partner growth
In December 2015, Vestas acquired the independent US service provider UpWind Solutions, Inc., followed by the announcement in early 2016 of the agreement to acquire the German-based company Availon Holding GmbH. These acquisitions have strengthened Vestas' offerings within servicing of both Vestas and non-Vestas wind turbines and are expected to further accelerate the corporate strategy within the service area. The ambition is to become the preferred fleetwide lifetime service partner globally.

Vestas currently services more than 71 GW of installed capacity, of which the service backlog consist of approx 8 GW non-Vestas turbines. Vestas will use its unmatched database and analytics capabilities to further accelerate servicing of third-party wind turbines. Today, Vestas covers approx 16 percent of the total installed capacity, but the ambition is to increase this share by growing services on third-party wind turbines along with keeping renewal rates at a steady high level. On top of Vestas' regular service offerings, Vestas experience an increasing demand for advanced service offerings, driven by customers' search for new improvement levers.

In May 2016, UpWind Solutions, Inc., a fully owned subsidiary of Vestas, announced the signing of a multi-site service contract with Berkshire Hathaway Energy and its subsidiaries MidAmerican Energy Co. and PacifiCorp, to provide maintenance services for 1.75 GW of third party wind turbines across 15 sites located in USA. The contract was a great achievement and Vestas recognises that customers are increasingly demanding a lifetime service provider that can maximise performance across a variety of wind turbine models.

Customer relations
On the service business, the 2016 survey results show that overall, customer perception of Vestas Service improved year-on-year, reflected by the Net Promoter Score (NPS), which rose from 22 to 52. The NPS especially improved in the German service customer base.

Technology

" Vestas has a clear ambition to lower the cost of energy faster than anyone in the wind power industry by bringing commercially valuable products and services to the market."

Anders Vedel
Executive Vice President & CTO

Vestas' technology strategy

Being the global wind power leader requires a long-term line of sight in technology development. Vestas continuously strives to bring commercially competitive products to the market in a profitable way. Vestas' technology strategy derives its strength from market-driven product development and extensive testing at Vestas' test facilities in Denmark – the largest test facilities in the wind power industry – and the UK. This enables Vestas to continuously introduce new and integrate proven technologies to create high-performing products and services in pursuit of the overriding objective: lowering the cost of energy.

By building on the existing 2 MW and 3 MW platforms, Vestas secures an ability to grow profitably and deliver highly competitive and reliable products and services for its customers' projects in all wind classes. For Vestas, industrialisation means moving from a "one-size-fits-all" approach to custom configurations based on modularised building blocks that enable Vestas to offer customers tailored solutions to meet project-specific requirements.

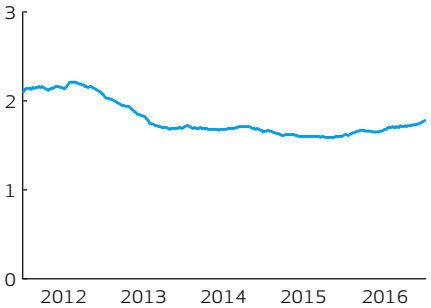
The modularity increases the flexibility of Vestas' product range by combining different modules with standardised interfaces, making it possible to optimally configure the wind turbine as well as the wind power plant for the local wind and grid environment. Vestas' product range can thus match an increasingly wider variety of wind conditions, even within the same wind class, and in this way optimise wind turbine output and strengthen customers' business case.

In addition to industrialisation and modularisation, Vestas works with more than 40 product options to ensure that specific market requirements are met. These range from simple add-ons to fully integrated options. An example of the latter is the de-icing option. To date, more than 1 GW of wind turbines with the de-icing option have been ordered by customers in Austria, Canada, Finland, Germany, Norway, Sweden, and Japan.

With an increased strategic focus, Vestas works more and more with external technology and innovation partners such as suppliers, research institutes, universities as well as adjacent industries. This approach gives Vestas insights and access to new, innovative technologies and materials that may already be in use in other ways. Vestas integrates these "external" technologies in unique ways that result in new products or configurations that contribute to efficiently increasing power output and lowering the cost of energy.

The efforts made as part of the technology strategy have resulted in steady reductions in the levelised cost of energy year-on-year.

Lost Production Factor
Percent



Below 2 percent
In 2016, the Lost Production Factor – the share of the wind not harvested by Vestas' turbines – was 1.8 percent across almost 22,700 wind turbines with performance guarantee.

Committed to remain the technology leader

Vestas continue to be the technology leader in the wind power industry by translating its global reach and industry knowledge into new investments. Vestas combines its superior technical knowledge and insight in how Vestas maximises components and technical systems to deliver the lowest levelised cost of energy for Vestas customers.

From the design of the first wind turbine on the 3 MW platform years back, comprising just one size and suitable for a single type of site, Vestas has now developed a whole family of wind turbines within the same platform, based on relatively few, interchangeable parts. Rotor diameters now range from 105 to 136 metres and cover all wind classes within the wind segment. Using proven technologies like a full-scale converter, the 3 MW platform meets even the most challenging grid requirements providing excellent energy yield in all wind and weather conditions.

The flexible portfolio means that Vestas can offer the optimal wind turbine configuration and maximise energy production under all types of wind and site conditions across the world, underpinning Vestas' aim to expand its global reach. In September 2015, Vestas introduced the V136-3.45 MW turbine, its latest and as yet largest addition to the 3 MW platform. The V136-3.45 MW turbine has been very well-received after its launch, particularly in the low wind segment across several markets due to the wind turbine's compelling balance between advanced technology and proven performance, enabling an increase in energy output and reduction in the cost of energy.

The 2 MW platform continues to be a preferred choice by many of Vestas customers. Vestas' 2 MW platform is one of the most trusted platforms in the industry providing customers with great business case certainty. With many new large orders in the USA for the V110-2.0 MW turbine in 2016, the platform once again confirmed its flagship status in the market.

Vestas' two highly competitive turbine platforms – 2 MW and 3 MW – are continuously subject to performance upgrades by introducing new technical features.

Vestas wind turbine portfolio - a product for every site

	IEC III (6.0 – 7.5 m/s)	**IEC II** (7.5 – 8.5 m/s)	**IEC I** (8.5 – 10.0 m/s)	Above 10.0 m/s
2 MW PLATFORM*				
V90-1.8/2.0 MW® IEC IIA/ IEC IIIA	■	■	■	
V100-1.8/2.0 MW™ IEC IIIA/IEC S	■	■		
V100-2.0 MW® IEC IIB		■	■	
V110-2.0 MW™ IEC IIIA	■	■		
3 MW PLATFORM*				
V105-3.45 MW™ IEC IA			■	■
V112-3.45 MW™ IEC IA			■	■
V117-3.45 MW™ IEC IB/IEC IIA		■	■	■
V126-3.45 MW™ IEC IIA		■	■	
V126-3.45 MW™ IEC IIB	■	■		
V136-3.45 MW™ IEC IIB/IIIA	■	■		

Wind classes - IEC ■ Standard IEC conditions ■ Site dependent

* Wind turbine application is flexible depending on site specific conditions.
All wind turbines can be deployed on sites with lower wind speeds than indicated.

In 2016, the V136-3.45 MW turbine was upgraded to IEC 2B 3.6 MW power mode, while an upgrade of the 2 MW platform has resulted in additional annual energy production on the V110-2.0 MW and improved reactive power capabilities on both V100-2.0 MW and V110-2.0 MW, lowering balance of plant costs.

Vestas' tower roadmap has resulted in new way to customise towers for specific sites, resulting in an improvement of performance, cost, and sustainability for its customers. Further, 2016 also marked updated regulatory certifications of Vestas Obstacle Collision Avoidance System (OCAS) an innovative solution that only activates the aviation lights when an aircraft is operating in the immediate vicinity of a wind power plant. OCAS minimises the visual impact on local environment and opens up new commercial opportunities for sites with regulatory lightning restrictions.

During 2016, Vestas received the first wind turbine certification under the new system administered by the International Electrotechnical Committee conformity assessment system for Renewable Energy (IECRE). The new certification system creates a clearer, more harmonised and less costly process to certify wind turbines and other renewable energy equipment.

Customers and official bodies require certifications in almost all markets, and with the increasingly broad adoption of the new IECRE certificates, customers will be able to bring wind power projects online more quickly and less expensively. The first wind turbine certificate under the new system was issued on 27 October 2016 by certification body DNV GL for the Vestas 2 MW platform V100-2.0 MW version.

Vestas Customer Advisory Board, which was established in 2013 with participation of selected key customers, is creating great value, working as a compass for the medium- to long-term technology strategy. At the annual meetings, customers provide feedback on the broader product vision and have the opportunity to advise on specific challenges that Vestas can help overcome from a technological standpoint.

Investing in digitalisation

Leveraging on Vestas' world-class data collection is key when developing new technologies and solutions to Vestas' customers. Vestas' product development, value chain simulation, and operations & maintenance performance and optimisation, are all founded on high performance data computing. Vestas and its external partners utilise big data in all stages of the innovation and implementation process of new technologies.

Vestas took a big leap forward in the first half of 2000s, with major investments in its supercomputing analytics capabilities. Over time, this included the Vestas Diagnostics and Performance Centre in 2006, introducing the Firestorm supercomputer in 2011, and continuing today integrating an even more powerful new supercomputer.

These investments have contributed to creating the highly data-driven business Vestas is today with an unmatched ability in the wind power industry to create and utilise smart data to lower the cost of energy. Equally important is to use Vestas' knowledge to overcome and eliminate risks associated with new technology.

The multi-rotor spins off new knowledge

Continuing to reduce the levelised cost of energy in the long-term will require new solutions and new ways of thinking. In cooperation with the Technical University of Denmark, Vestas has installed a concept demonstrator to test the technical feasibility of operating and controlling a multi-rotor wind turbine.

The multi-rotor concept demonstrator was installed in April 2016 and entered the second test phase mid-September, during an official launch event at the Risø test site in Denmark.

By challenging the scaling rules of wind turbine efficiency and energy output, the aim with the multi-rotor demonstrator is to address two main challenges in the industry:

1. The ability to continuously reduce the Levelised Cost of Energy (LCOE)
2. The ability to continuously improve Annual Energy Production (AEP) without an exponential scaling in cost

The multi-rotor demonstrator uses four refurbished V29-225 kW nacelles, which were produced by Vestas from 1990 to 1997. This nacelle and rotor size was chosen because it is a well-proven product suitable for the concept demonstrator. At the same time, using an existing wind turbine keeps the demonstrator investment as low as possible.

This process of innovation is extremely important for Vestas. It provides essential knowledge that can help Vestas bring down further the cost of clean energy in the future, demonstrating its position as technology leader in the industry.

Manufacturing and sourcing

Manufacturing strategy

As is often the case in infrastructure businesses, national political climates around the world change, which calls for an agile organisation that can adjust quickly to changes in demand. By continuing to manufacture core components in-house, while acquiring non-core wind turbine components from a group of sub-suppliers chosen through a careful selection process, the current manufacturing setup of Vestas is lean and scalable, with the Vestas quality stamp on every single wind turbine sold.

Vestas' manufacturing strategy is built on four key pillars:

- levering scale,
- managing suppliers at a global level,
- building flexibility through outsourcing, and
- manufacturing and sourcing in best-cost countries.

Vestas uses its geographic reach to generate economies of scale on new projects and to ensure its manufacturing, transportation, and sourcing costs are continuously optimised.

Managing Vestas suppliers at a global level is key to ensure optimised manufacturing and sourcing. Vestas has continued its comprehensive global supplier selection process in 2016, resulting in a stronger supplier portfolio to better meet customer requirements.

Building flexibility through outsourcing made another step forward in 2016 with several new agreements in every region. The goal is to accelerate Vestas' flexibility and competitiveness by moving production to cost-efficient countries and outsource production where it is relevant.

In support of the corporate strategy, cost savings and achieving cost leadership within the wind power industry remains a priority for the company.

Safety is always number one

Safety is an integral part of achieving operational excellence. Over the last 10 years, Vestas has been through a remarkable journey building a strong safety culture. In 2015, Vestas changed its main safety-related key performance indicator to "Incidence of total recordable injuries per one million working hours" and in 2016, the incident rate was 6.9, below the full-year 2016 target of 8.0. The 2016 rate corresponds to less than one recordable incident per day for a workforce of more than 22,000.

Flexible, asset-light, and low-cost manufacturing footprint

2016 was another busy year for Vestas. The number of MW produced and shipped reached 9,957 MW (4,264 wind turbines), compared to 7,948 MW (3,330 wind turbines) in 2015. A further ramp-up of the production was required in 2016 due to the high activity level. In the USA, Vestas increased produced and shipped MW by 25 percent to 4,150 MW from an already record-high activity level in 2015 of 3,315 MW.

Produced and shipped per region in 2016 compared to 2015
Percent

Produced and shipped, Europe, Middle East, and Africa:	
Vestas produced and shipped 4,282 MW to Europe, Middle East, and Africa - an increase of 18 percent	+ 18%
Produced and shipped, Americas:	
Vestas produced and shipped 4,826 MW to Americas - an increase of 27 percent	+ 27%
Produced and shipped, Asia Pacific:	
Vestas produced and shipped 849 MW to Asia Pacific - an increase of 66 percent	+ 66%
Total produced and shipped:	**+ 25%**

The increased activity level in 2016 was achieved without adding new factories to the current manufacturing footprint, highlighting the flexibility and strength of the operating model that was introduced during the turnaround years.

The collaboration with suppliers has generally moved to a new level of maturity, and a supplier account management programme is now being rolled out, similar to the one used for customers.

Vestas is forming close partnerships with large suppliers and involve these in the development of products and processes, as the suppliers often possess many years of knowledge and experience that can be utilised to the benefit of both parties. An example of this approach is Vestas' annual supplier day, during which workshops are held to identify initiatives through which suppliers can become more active contributors to developing new ways of working.

Vestas has an established manufacturing agreement with TPI Composites in China. In addition, Vestas has chosen to expand its business relationship with TPI Composites and further outsource parts of its blade production in the Europe, Middle East, and Africa and Americas regions. TPI Composites will also supply Vestas with blades from its factory in Turkey.

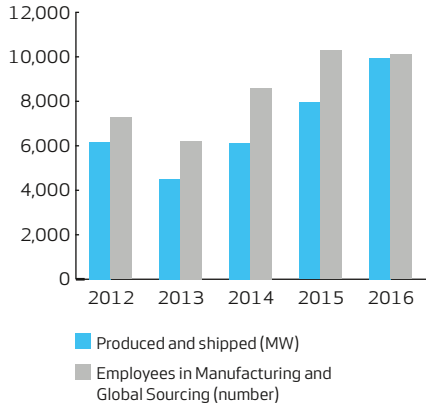
Work continues in close collaboration with R&D to phase-in the various new subsystems for the 2 MW and 3 MW platforms at Vestas' factories. During 2016, Vestas took a great step forward with cost-out programmes in all markets, making its cost set-up even more competitive. Competition remains high in all markets so further progress on the cost-out journey will have to continue in coming years.

Warranty consumption was EUR 90m in 2016 compared to EUR 95m the year before. The Lost Production Factor remains at a low level of under 2 percent. Both indicators demonstrate Vestas' high quality levels and that Vestas has maintained a well-functioning operation throughout the ramp-up.

In 2016, Vestas unfortunately had to reduce the staffing levels at the blades factory in Lem, Denmark by approx 300 employees. The reduction at the Lem factory was necessary due to its high manufacturing costs compared to the market level as well as the need to strengthen Vestas' overall manufacturing and supply chain competitiveness in response to evolving market conditions. However the factory in Lem remains a very important part of Vestas' global manufacturing footprint.

Globally in 2016, Vestas decreased the workforce in Manufacturing and Global Sourcing by 1.7 percent compared to last year. Total recordable injuries was reduced with an even higher rate (10 percent), showing the strength of Vestas' safety culture.

Productivity
MW · Number



Productivity up
2016 was another busy year with 9,957 MW produced and shipped MW up by 25 percent, but at the same Vestas managed to increase productivity in its manufacturing.

Evolution of manufacturing footprint

To ensure profitability in new markets with high growth potential, Vestas has outlined separate plans for the target markets China, India, and Brazil. Local presence and local sourcing is of great importance in these countries, be it for reasons of proximity to customers, cost-effectiveness, or fulfilling local content requirements in manufacturing.

In 2016, Vestas announced that it will manufacture and intend to sell its largest onshore wind turbine in China the V136-3.45 MW turbine. Vestas is continuously bringing its latest technologies, products, and service solutions to China and is determined to grow together with its partners in the country while simultaneously leveraging on the continuous supply chain localisation.

Beside China, the V136 blade is also produced in Lauchhammer, Germany.

The Brazilian Development Bank (BNDES) has in recent years required increasing levels of local content supply for developers seeking the low-rate BNDES financing through the FINAME programme, which in turn reflects on the wind turbine manufacturers.

Vestas has been present in Brazil since 2000 and announced 371 MW in firm orders in 2016. In addition to the sales office in São Paulo, Vestas inaugurated a hub and nacelle production facility in Aquiraz (Ceará) as well as established successful partnerships for producing blades and generators locally. Vestas is today included in BNDES' approved list of suppliers.

Late in 2015, Vestas announced that it would build a blade factory in India, the construction of which is progressing according to plan. This will be the first significant addition to the manufacturing footprint since 2011 and is an example of Vestas' ambitions to grow in its strategic focus markets. The new factory will support Vestas' operations in the Indian market as well as potentially servicing activities in other markets. It is expected to be fully operational by early 2017.

Equally important, during 2016, Vestas started sourcing of blades from third parties in China, Turkey, and Brazil. Integrating external manufacturers into Vestas' global manufacturing set-up illustrate the scalability and flexibility of Vestas' supply chain and its ongoing commitment to providing cost-effective wind power plant solutions for its customers.

In addition to these three specific growth markets, Vestas continues working on establishing supply chains in new markets with growth potential around the world. Strategic collaboration with large, global suppliers that have an understanding of the market conditions to be able to meet regulatory and customer requirements in new markets is key to succeed. As the company is maturing, the need for flexibility and agility is also extended to supplier partnerships, requiring key suppliers to be able to act quickly and adapt to market shifts.

Working capital management

Due to the high activity in 2016, focus was mainly on keeping working capital under control. This highlights the fact that the efforts undertaken during the turnaround period have not been forgotten but remain an inherent part of the DNA of the transformed business. Vestas continues to work on improving all parameters in net working capital, which will remain important focus area.

In 2016, Vestas introduced new tools to optimise make-to-order and standard lead times. Overall, Vestas has taken a further step to align its working capital management with the goal of reducing levelised cost of energy.

Social and environmental performance

Sustainability inherent in Vestas' way of working

Vestas' vision is to be the global leader in sustainable energy solutions. This requires excellence in everything that Vestas does. In addition to creating sustainable products, Vestas also strives to produce them in a sustainable way.

Vestas believes that in the long term, it is in the best interests of the company, its employees, and its owners to be accountable for Vestas' impact on its surroundings: the environment as well as the local, national, and global communities.

Standards, goals, and priorities

Vestas' standards and goals within sustainability build on global certificates for the three standards: ISO 9001 for Quality, ISO 14001 for Environment, and OHSAS 18001 for Health and Safety as well as recognised conventions established by international organisations such as the UN, ILO, and OECD.

Vestas joined the UN Global Compact in 2009. The UN Global Compact is a commitment to 10 universally accepted principles in the areas of human rights, labour, environment, and anti-corruption.

These standards and goals are reflected in Vestas' social and environmental priorities:

- The lowest possible incidence of recordable as well as lost time injuries – the ultimate goal being to avoid accidents altogether.
- CO_2 impact from wind power must excel against other energy forms.
- The lowest possible percentage of waste from the wind turbines.
- Avoid or minimise negative impacts on communities where Vestas operates, whilst enhancing Vestas' positive impacts.

The priorities and associated policies and due diligence address the principal risks related to Vestas' operations, which are identified as: occupational injuries of employees and contractors; carbon footprint of wind turbines; and negative impacts on human rights of communities where Vestas operates.

Combined with additional information about Vestas' sustainability initiatives at vestas.com, this annual report constitutes Vestas' 'Communication on Progress' (COP) [1] under the UN Global Compact. In this way, Vestas applies the option stipulated in section 99a of the Danish Financial Statements Act concerning the statutory duty of large enterprises to report non-financial information by referring to the COP report.

To take sustainability at Vestas to the next level, a Sustainability Committee with cross-functional participation has been established. The role of the Sustainability Committee is to oversee, prioritise, and coordinate cross-functional sustainability initiatives in Vestas and ensure sustained conformity according to UN Global Compact. The Committee reports to the Executive Management and has met five times in 2016, with a planned meeting frequency of four times a year going forward.

This year the Committee conducted an internal materiality assessment to determine the focus areas in sustainability for improvement. Three areas have been identified for priority: stakeholder dialogue, supply chain management, and local community development. Separate working groups have been established for each respective area and report to the Committee on an ongoing basis. The Committee will also oversee Vestas' work with the UN Sustainable Development Goals.

How Vestas works: Code of Conduct

In 2016, Vestas revised its Code of Conduct, dividing it into two: one dedicated to Vestas employees and one specifically for Vestas' business partners. The revision reflects an increase in ambition level to match Vestas' own standards and the external expectations and requirements of Vestas today as an international company. The Employee Code of Conduct and the Business Partner Code of Conduct were launched in the fourth quarter of 2016.

Vestas' Employee Code of Conduct and the Business Partner Code of Conduct form the foundation for how Vestas does business as a global company operating in many countries. The Employee Code of Conduct and Business Partner Code of Conduct outline the rules and principles

1) Read more: www.vestas.com/en/about/sustainability.

by which the company expects its employees and business partners to behave. The Codes cover the areas of health and safety, human rights, bribery and corruption, environment, and protect company assets, information and reputation.

To support employees in understanding Vestas' expectations, Vestas has developed new training on the Employee Code of Conduct and the Business Partner Code of Conduct. All white collar employees must take the new Employee Code of Conduct e-learning; high risk employees receive tailored face-to-face training. All new employees enrolled in Vestas must also take the training as part of their onboarding training.

Human rights and labour practices in Vestas projects

Vestas recognises its responsibility to respect human rights as set out in the UN Guiding Principles on Business and Human Rights. This commitment, which includes its expectations for Vestas' business partners, is outlined in the Vestas Human Rights Policy and implemented across the organisation. Read more on vestas.com/about/sustainability under "Human rights and labour".

To support Vestas' emerging markets entry strategy, Vestas has developed a Social Due Diligence (SDD) methodology. The SDD is targeted on ensuring that social risks and impacts are identified, prevented and mitigated in Vestas wind power plant projects. For projects in scope, Vestas conducts an assessment of the project and the affected local communities. The assessment includes, for example, a review of stakeholder engagement and development, including whether Free, Prior, and Informed Consent (FPIC) is required, considerations of involuntary resettlement, and potential impacts on communities' health and safety, and cultural heritage.

The results from the SDD include mitigation actions, which are integrated into project plans to ensure integrity in the project execution. The SDD is based on the International Finance Corporation's Environmental and Social Performance Standards and the World Bank Group's Environmental, Health, and Safety Guidelines for Wind Energy, ensuring that, regardless of where the customer obtains financing, Vestas supports the project's execution according to accepted international standards.

The first contact with potential project-affected communities is taken by Vestas' customer, with the aim to obtain the social license prior to project development. As a wind turbine supplier, Vestas strives to work closely with its customers to assist them in securing and maintaining the social license to operate during construction and operation, according to international standards. Vestas' SDD process plays a central role in informing its dialogue with the customer concerning their social license to operate in the particular project. In addition to the ongoing dialogue with relevant stakeholders, the establishment of project-level grievance mechanisms available to workers, affected local communities and other stakeholders plays a vital role.

Ethical compliance

In 2016, Export Control & Sanctions and Competition Law was consolidated into Compliance. This has resulted in a more simplified process, as Integrity Due Diligence (IDD) and Sanctions is a joint effort, and a more focused approach towards Export Control and Competition Law.

During 2015, Vestas undertook a Bribery Risk Assessment with the purpose of raising awareness of bribery risks, determine Vestas' risk appetite and act as a starting point for establishing an enhanced compliance programme.

Three focus areas were identified, resulting in three key activities: revising the business partner due diligence process, building awareness of bribery risks, and updating related compliance policies.

Since the completion of the Bribery Risk Assessment, Vestas has taken a number of actions to further support an ethical behaviour among its employees and business partners, including:

- Development of a revised Business Partner Compliance Programme, which includes a web-based portal to help manage Business Partner relationships and incorporates a risk based approach to the selection of Vestas business partners.
- Increasing awareness of bribery and other compliance risks through face-to-face business ethics training.
- Revision of compliance guidelines associated with the Code of Conduct; Conflict of Interest, Gifts and Business Entertainment, Voluntary Contributions, Facilitation Payments, Anti-Bribery, Export Control & Sanctions and Competition Law.
- Revision of the process for registering gifts and business entertainment through an online register.

Ethical behaviour in all Vestas does, will be maintained by introducing employee sign-off of the Employee Code of Conduct, launch new targeted e-learning in the business ethics areas, continue face-to-face awareness and training sessions.

EthicsLine

Vestas' employees, business partners, and stakeholders should feel empowered to report unethical behaviour – anonymously or openly. Vestas continued to raise awareness of the EthicsLine throughout 2016. The revised Employee Code of Conduct makes it mandatory for managers to report compliance violations to EthicsLine and employees are strongly advised to speak up. Vestas aims to ensure that inappropriate behaviour or incidents are always brought forward and handled immediately.

Vestas received a total of 111 cases/reports through EthicsLine in 2016 compared to 91 in 2015.

The substantiated cases closed in 2016 have led to various disciplinary actions such as 5 warnings and 15 dismissals .

Reporting categories

Number

	2016	2015*
Questions submitted to EthicsLine	8	4
Compliance cases reported	103	87
– hereof substantiated	19	24
– hereof non-substantiated	68	63
– Case under investigation end year	16	0
Total	**111**	**91**

* 2015 cases have been updated with status at end of 2016.

Suppliers

Vestas works closely with sub-suppliers of components and raw materials to improve the sustainability of Vestas' products. The risk management covers the whole process from qualifying and developing suppliers to the daily business. The expected conduct of its suppliers is described both in the Business Partner Code of Conduct as well as in purchase agreements. Vestas takes action to ensure that suppliers comply with its policies by screening significant suppliers on sustainability issues, including human rights and labour standards using the supplier assessment tool.

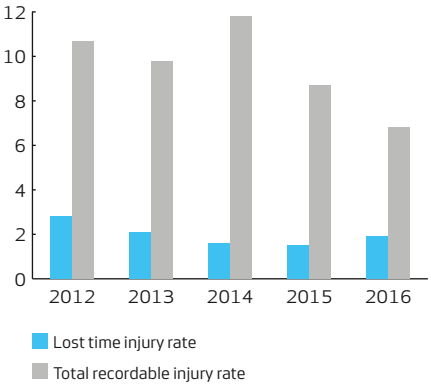
In 2016, 104 suppliers were assessed on site by Vestas in all regions. Of these 92 were approved, 3 were rejected and 9 are under approval. Similar assessments are conducted for service, installation, and transportation contractors. Furthermore 17 Code of Conduct audits were provided by third parties.

Health & Safety

Through the dedicated efforts of its employees and supervised contractors, Vestas reduced the rate of total recordable injuries in 2016. At the end of 2016, the incidence rate was 6.9 compared to 8.7 in 2015. The target for 2016 was 8.0 total recordable injuries per million working hours and the target was reached. The target for 2017 is 6.0. In 2016, the incidence of lost time injuries was 1.9 per one

million working hours. By putting safety first, Vestas has significantly improved its injuries per one million working hours for 10 years in a row.

Incidence of injuries
Per one million working hours



-36%
Through the dedicated effort of its employees and supervised contractors, Vestas has managed to reduce the total recordable injury rate by 36 percent from 2012 to 2016.

While the overall incidence rate on injuries was kept at a satisfactory low level, during 2016 an employee of a Vestas contractor sadly suffered fatal injuries. The root cause of the incident has been identified as human errors due to lack of compliance with existing safety processes.

In 2016, absence due to illness increased by 0.3 percentage points for hourly-paid and increased by 0.1 percentage points for salaried employees compared to 2015.

New safety initiatives implemented
Vestas continually raises safety awareness regarding the dangers of complacency. As a direct result of the fatality in Denmark in October 2015 a safety dialogue was initiated, involving more than 15,000 employees across Vestas. The safety dialogue enabled Vestas to identify seven lifesaving rules that will contribute to the prevention of fatalities and serious incidents in the future. The seven rules have been implemented throughout Vestas and is now a part of the mandatory safety training.

To support the lifesaving rules and have global alignment on lifting activities such as equipment, tools, procedures, and training, a global craning committee is introduced with subject matter experts available to support the manufacturing organisation.

Vestas continuously focuses on the safety of its employees, both at and away from work. Following the tragic fatality of an employee while driving home, Vestas implemented a Safe Driving tool box, which also supports the lifesaving rules. "My Team, My Responsibility", a framework to achieve consistent safety behaviour standards across Vestas was launched in 2016 and will be rolled out in 2017.

An occupational health and safety strategy has been identified and will be implemented in 2017. A Global Occupational Health Committee has been established with the overall ambition that when employees leave or retire from employment with Vestas they should be able to reflect on their career and consider that their physical and mental well-being has been enhanced due to the conscientious focus Vestas places on occupational health and safety.

Employees

Throughout 2016, Vestas has experienced an increase in activity level within the production area. As a result, Vestas has increased the number of full time employees (FTE) with 1,317 compared to 2015. The increase can primarily be attributed to an increase in the amount of hourly-paid employees.

Vestas employees at 31 December 2016
Number of full time employees

	Europe, Middle East, and Africa	Americas	Asia Pacific	Total
Manufacturing & Global Sourcing	4,516	3,188	2,408	10,112
Sales and service	5,441	2,265	1,250	8,956
Technology & Service Solutions	1,099	41	274	1,414
Others	793	121	428	1,342
Total	**11,849**	**5,615**	**4,360**	**21,824**

Satisfaction survey
Each year, Vestas conducts an employee engagement/satisfaction survey to measure how Vestas employees perceive their daily workplace, and subsequently finds areas where Vestas can become an even better place to work. Vestas conducted the annual employee satisfaction survey in October 2016, and the response rate was 95 percent – 1 percent point higher than in 2015. The overall satisfaction and motivation index was 72 in 2016, compared to 71 in 2015, which is a satisfactory development, and the best result ever for Vestas.

Global bonus programme
All employees contribute to the same value creation and provide support to the same customers, regardless of whether they work in a support function or in developing, manufacturing, marketing, selling, installing, or servicing wind turbines. As such, all employees are rewarded when Vestas achieves a set of KPIs, which helps accomplish Vestas' strategic goals.

As the targets for bonus pay-out were achieved in 2016, a global bonus of EUR 120m will be paid out to all employees (cash effect 2017), compared to EUR 101m in 2015 (cash effect 2016).

Statutory report on gender diversity at management levels
As required in section 99b of the Danish Financial Statements Act, Vestas has a policy to offer all employees equal opportunities. Vestas aims for a more equal distribution of gender among employees in leadership positions.

Once a year, the Nomination and Compensation Committee discusses the status of diversity and the strategy for the diversity area in Vestas for the coming year – and the Board of Directors discusses the overall principles regarding diversity.

Vestas is working with a number of activities to ensure relevant diversity at management levels, such as:

- assuring that both genders are represented in the search process – and in the last process of the selection of the new employee, and
- exposing the engineering opportunities to women, including specific events for female engineering candidates.

In 2016, the share of women at management level within Vestas was 19.4 percent, compared to 18.2 percent in 2015.

By the end of 2016, Vestas' workforce represented 86 nationalities. Non-Danish nationals held 60 percent of the positions in the top management layers – an increase of 4 percentage points over the course of the last five years. The development mirrors the continued globalisation of the Vestas Group with Vestas' Executive Management team itself as an example of increased diversity with members from Denmark, France, Spain, and Sweden.

The Board of Directors of Vestas Wind Systems A/S

The Board of Directors believes that its members should be chosen for their overall competences, yet it also recognises the benefits of a diverse board in respect of culture, gender, and other factors.

The Board of Directors pursues the goal of having members representing multiple nationalities as well as both genders. In addition, the Board of Directors focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

The Board of Directors consists of eight members elected by the shareholders:

- two women and six men;
- one from Finland, three from Sweden, and four from Denmark; and
- mean age of approx 54.

The Board of Directors' ambition regarding diversity is unchanged – the under-represented gender should constitute two to three board members elected by the general meeting no later than in 2017.

The Board of Directors of Vestas' subsidiaries

Among the Group's Danish subsidiaries five companies are subject to the reporting requirement for the underrepresented gender according to Article 99b in the Danish Financial Statements Act.

Four subsidiaries have set a target to reach equal gender distribution no later than 2017, and the fifth company has already achieved equitable gender distribution in the company's board of directors, and is therefore not subject to the requirement to set a target.

The directors in the boards in the subsidiaries is appointed based on key positions in Vestas Wind Systems A/S, and the current constitution of the boards is therefore reflecting who is currently holding these positions within Vestas Wind Systems A/S.

Environmental footprint

A single Vestas wind turbine will generate around 25 to 40 times more energy than it uses in its entire lifecycle. A single Vestas wind turbine only emits around 1 percent of carbon dioxide when compared to a coal power plant.

As the wind power industry is expected to account for a growing share of the future energy mix, it is important that Vestas acknowledge that when producing solutions to harness wind energy a small negative impact on the environment is made.

Vestas is committed to reducing this impact to the extent possible together with its suppliers and customers and believe that it is a prerequisite for Vestas' continued development.

Life Cycle Assessment

In 2016, 96 percent of the MW delivered by Vestas was covered by a publicly available, full ISO 14040/44 Life Cycle Assessment (LCA). LCA is used to identify and evaluate the environmental impact throughout the lifetime of a wind power plant. Based on the LCA, informed decisions are made to minimise overall environmental impacts.

Environmental strategy

Vestas' environmental strategy for 2016-2020 aims to support our business offering and operational excellence.

Carbon footprint

The target for reduction in product carbon footprint will be 5 percent by 2020 from a baseline of 6.9 grams CO_2 per kWh in 2015. In order to further reduce carbon footprint, Vestas continues to improve and optimise wind turbine performance through technology development and innovation.

The next generation of 3 MW wind turbines offers higher power rating at 3.45 MW and increased energy production in all wind classes. For example, the new V136-3.45 MW™ combines Vestas' most advanced aerofoil design to date with the proven 3 MW nacelle and Large Diameter Steel Tower (LDST) technology, to deliver a 16 percent [2)] increase in annual energy production. Currently, the ISO life cycle assessment of the new range is under completion and results will be available in 2017.

Product waste

Vestas' aim within product waste is that a wind turbine will be at least 3 percent more efficient compared to the 2015 baseline by 2020, and that it will generate no more than 3.9 grams of waste per kWh.

Nearly all parts of a Vestas wind turbine are recyclable. The composite materials of the blades are the largest barrier to achieving 100 percent recyclability. To address this issue, Vestas has engaged in development projects funded by the Innovation Fund of Denmark.

One project called Genvind ended November 2016 and aimed at developing and demonstrating technologies for reusing and recycling end of life composite materials.

In Genvind, valuable knowledge and lessons were learned from investigating potential applications of composites in e.g. furniture or building materials. These composites were either used directly, after pretreatment and shaping or even after advanced recovering and cleaning of fibers. Potential future solutions were demonstrated but at the same time technical and market driven barriers were also revealed.

Another newly established project called DreamWind (Designing Recyclable Advanced Materials for Wind Energy) aims at focusing on developing sustainable composite materials for blades. Furthermore Vestas is cooperating with the Ellen MacArthur Foundation on circular economy and retaining materials that create value – even after the product's end of life.

Renewable energy

The target for Vestas' energy consumption is to reach a 60 percent share of renewable energy in 2020 from 55 percent in 2015. The road to the target will be both improvements in energy efficiency and further transition to renewable energy. The non-renewable energy is used in equal share in Manufacturing and Service. The target is challenging given the growth of Service and limited availability of suitable vehicles able to use non-fossil fuel.

Vestas has defined a goal that 100 percent of electricity consumption in Vestas must come from renewable energy sources, subject to availability, which continued to be fulfilled in 2016. This was achieved partly by purchasing renewable electricity where available, partly by compensating for the consumption of non-renewable electricity with Vestas-owned wind power plants.

Vestas activities

For Vestas' activities in designing, manufacturing, installing and servicing wind turbines, performance is reported in terms of inputs of resources and outputs of CO_2 emissions and waste. Increased production and service in 2016 compared to 2015 was not to the same degree reflected in the consumption of water and energy and emissions of CO_2 and waste, which increased relatively less than the increased production level due to improved efficiency.

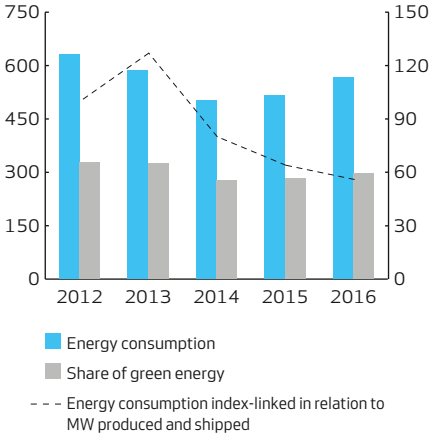
Resource utilisation

In 2016, Vestas' total energy consumption increased by 10 percent. When index-linked to MW produced and shipped, Vestas' energy consumption decreased 12 percent compared to 2015. The share of renewable energy in Vestas' total energy consumption decreased from 55 percent in 2015 to 52 percent in 2016 due to increased consumption of fuel for transport. In 2016, the MW serviced by Vestas increased 24 percent compared to 2015. Since 2012, the MW under service has increased by 60 percent.

In 2016, water consumption increased by 0.2 percent. When index-linked to MW produced and shipped, water consumption decreased 20 percent compared to 2015.

2) Compared to V117-3.3 MW™.

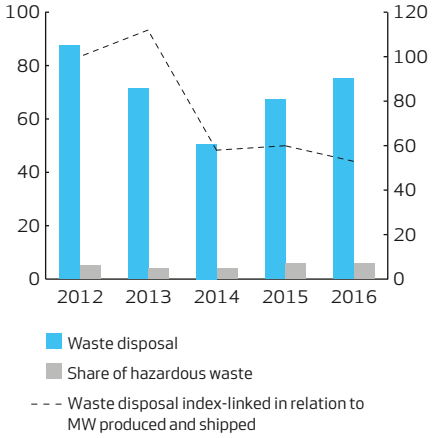
Energy consumption and share of green energy
1,000 MWh · Index



Green energy

Compared to 2015, the green energy consumption increased 5 percent whereas the total energy consumption increased 10 percent in 2016 due to increased consumption of fuel for transport.

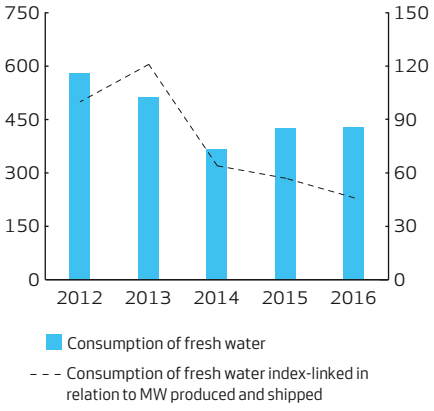
Waste disposal and share of hazardous waste
1,000 tonnes · Index



Waste

In 2016, the total amount of waste increased 12 percent, whereas the amount of hazardous waste decreased 1 percent due to improvements in Vestas' blade production.

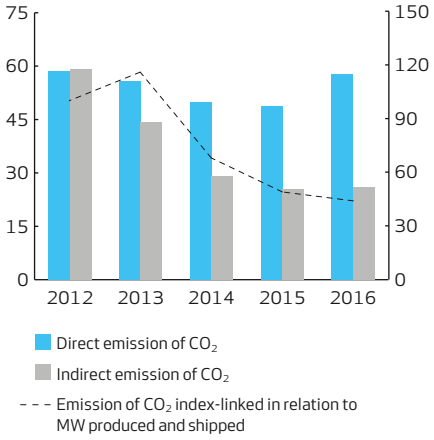
Consumption of fresh water
1,000 m^3 · Index



Water

The divestment of Vestas' machining and casting units in 2013 resulted in a reduction in water consumption. From 2014 to 2016 the water consumption increased relatively less than the increased production level due to higher efficiency usage.

Direct and indirect CO_2 emissions
1,000 tonnes · Index



CO_2 emissions

Compared to 2015, the indirect CO_2 emission increased 4 percent whereas the direct CO_2 emission increased 18 percent in 2016 due to increased consumption of fuel for transport.

Waste disposal

In 2016, the amount of waste increased by 12 percent compared to 2015. When index-linked to MW produced and shipped in 2016, Vestas decreased its amount of waste by 11 percent compared to 2015.

In 2016, 49 percent of the total volume of waste was recycled, the same share as the year before. In 2016, the share of hazardous waste was 5,862 tonnes compared to 5,930 tonnes in 2015.

CO_2 emissions

Vestas increased its direct CO_2 emissions by 18 percent in 2016, and the indirect CO_2 emissions by 4 percent. When index-linked to MW produced and shipped in 2016, Vestas decreased its CO_2 emissions by 10 percent compared to 2015.

Local community

In the first quarter of 2016, a breach of the internal inspection conditions was observed at the towers factory in the USA as air emissions exceeded permit levels. The root cause has been identified and corrected to ensure proper control of the emissions levels.

Products

A wind turbine in operation saves CO_2 emissions. The CO_2 savings over the lifetime for the MW produced and shipped in 2016 will be 281m tonnes, an increase of 25 percent compared to 2015, due to a higher amount of MW produced and shipped in 2016.

Accounting policies

Accounting policies for health & safety, employees, resource utilisation, waste disposal, CO_2 emissions, local community, and products are available on page 052.

MHI Vestas Offshore Wind

Cost of offshore wind falls

Offshore wind power continues to mature as a fast-growing renewable energy technology. As the offshore industry grows and technology improves, various players turn to offshore as a realistic solution for deploying large-scale wind power plants.

In recent years, the offshore wind power industry has made considerable progress in reducing levelised cost of energy (LCOE), the most visible evidence stemming from the Danish and Dutch tender systems. Even though some of the difference in support levels obtained in those markets can be explained by different wind conditions at the respective sites, the main progress derives from technology improvements and increased competition in the market, from companies like MHI Vestas Offshore Wind.

Observers of the global offshore industry expect it to grow by approx 10 to 20 percent per year over the medium term [1)], however, coming from a small base of 14 GW of accumulated installations in 2016.[2)]

The northern European markets remain the most mature offshore markets with UK and Germany expected to be the largest. Installations are, however, also expected in countries such as the Netherlands, Belgium, France, and Denmark in coming years.

The US offshore industry took a major step during 2016 after the legislature in Boston, Massachusetts passed a bill mandating the state's utilities to procure 400 MW of offshore wind power in 2017 on route to 1.6 GW installed by 2027. It is expected that USA will commission its first large-scale offshore wind power plant around 2020.

Increasingly, forecasters are also expecting Asia Pacific to grow its offshore wind power installations.[3)] China already has an established market, while new offshore wind markets such as Taiwan and Japan are exploring the opportunities to install large-scale offshore wind power plants.

Good order activity in 2016

During the year, the joint venture MHI Vestas Offshore Wind announced four firm and unconditional orders for the following projects: Blyth project in the UK (42 MW), Horns Rev III project in Denmark (406 MW), Norther project in Belgium (370 MW) and the Aberdeen Bay project in the Scotland (92 MW). Furthermore, the joint venture also announced that it had been appointed preferred supplier for the Deutsche Bucht project in Germany (252 MW) and a small project at lake Eire in the USA – Icebreaker (21 MW). With the announcement of Borssele III & IV (2 x 340 MW), the company also ended the year by adding another preferred supplier agreement to the list - a milestone project for the offshore industry in cost competitiveness with a reported price of EUR 54.50 per MWh (excluding transmission costs).

Based on these levels of order activity, the joint venture finds itself well positioned as one of the strongest players in the offshore market. MHI Vestas Offshore Wind has been a very active participant in the market, and has generally had a presence in most tenders taking place since its formation.

All V164-8.0 MW turbines installed at Burbo Bank Extension

During 2016, MHI Vestas Offshore Wind completed installation of the first large-scale commercial project based on the V164-8.0 MW wind turbine at DONG Energy's 258 MW Burbo Bank Extension project off the coast of Liverpool, UK. The project started installation in September, where the first of 32 V164-8.0 MW wind turbines was installed, with the last wind turbine being installed in December. The Burbo Bank Extension project will set a new benchmark as the first large-scale offshore project to utilise the world's most powerful wind turbine.

Most of the blades for the project have been produced at the manufacturing facility on the Isle of Wight, off the southern coast of the UK – the first facility with the capacity to serial produce blades for future UK offshore projects.

1) Sources: Bloomberg New Energy Finance : Q4 2015 Global Wind Market Outlook. November 2015; MAKE Consulting: Global Wind Power Market Update. August 2016.
2) Based on 12 GW of total installed offshore capacity by end 2015 (Source: Global Wind Energy Council: Global Wind Report 2015. April 2016) and an estimated 1,802 MW of added capacity in 2016 (Source: MAKE Consulting: Global Wind Power Market Update. November 2016).
3) Source: MAKE Consulting: Global Offshore Wind Power Market. December 2016.

Delivered projects in 2016 and projects currently under work-in-progress

Ramping up for higher activity

During the year, MHI Vestas Offshore Wind has almost completed delivery of the 165 MW Nobelwind project located in Belgium, comprising 50 V112-3.3 MW turbines.

As planned, the joint venture ramped-up production of the V164-8.0 MW turbine in anticipation of delivery of the 258 MW Burbo Bank Extension project, the 330 MW Walney Extension project, and the 42 MW Blyth project in 2017, all located in the UK. Further, it is planned for the coming financial year that MHI Vestas Offshore Wind will hand-over 116 V112-3.45 MW turbines for the 400 MW Rampion project in the UK.

During 2016, MHI Vestas Offshore Wind has recruited and trained over 500 employees due to increased demand. The production ramp-up is progressing according to plan.

Financial guidance

MHI Vestas Offshore Wind continues to enjoy success in the marketplace and activity levels are expected to continue to increase with factories ramping up for new installations of V164-8 MW projects. In the short-term, this will adversely impact earnings. In addition, large amortisations of the 8 MW platform will likewise impact financial performance.

Accordingly, MHI Vestas Offshore Wind expects to double its revenue over the next three years (based on the latest completed joint venture fiscal year) while EBITDA is expected to reach break-even by 2018 while pre-tax profit is anticipated to reach break-even by 2019.

The expected development is in line with previous internal expectations and the strong financial position secured during the first years of operation is tailored to cope with this strategy.

Risk management

Risk management remains important

The Group is exposed to a variety of risks in the daily business. Vestas works actively to ensure that such risks are understood, monitored and, to the extent possible, mitigated to ensure that they do not adversely impact the realisation of Vestas' strategic and financial targets.

In order for the Group to take risk-adjusted decisions, Vestas has integrated a group-wide enterprise risk management framework. This framework focuses on identification, evaluation, treatment, monitoring, and communication of risks, where risk owners are responsible for managing risks within their area of responsibility.

Group risk management governance

All parts of the organisation report relevant risks on a quarterly basis. A selection of these are discussed in the Group Risk Management Committee and mitigation activities are evaluated for potential implementation. The Group Risk Management Committee is chaired by Vestas' CFO and includes other senior management members from relevant parts of the business.

On a semi-annual basis, the Executive Management as well as the Board of Directors review key risks. These reviews are based on the ongoing work in the Group Risk Committee and focus on the main risks of the Group.

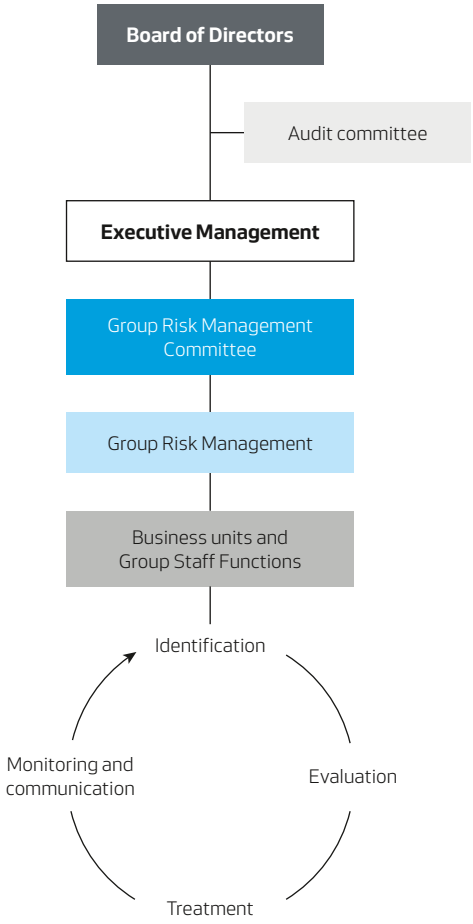
Financial risks, including risks related to currency, interest rate, tax, credit, and commodity exposures are addressed in the notes to the consolidated financial statements. These risks are also reported to the Board of Directors and evaluated by the Audit Committee.

Main Group risks

The main risks of the Group are:

- Transition to auction-based markets and risk of reduced support to wind energy
- Adapting to markets with greater complexity hereunder sanctions and social performance
- Cyber risks

Risk management



Transition to auction-based and risk of reduced support to wind energy

Description
While renewable energy continues gaining in importance in the energy mix, this is increasingly happening through competitive bidding and auctions and in some markets combined with demands for local content, which in turn has changed the market dynamics. This increased focus on price creates a pressure on the wind power industry in general and Vestas specifically to understand the dynamics of the competitive landscape.

Impact
The design of auction systems differs from market to market and can, depending on structure, create uncertainties in relation to size and timing of available projects and order intake. Auction-based markets are generally seen to be quite competitive, however the competitive structure of those markets vary significantly based on individual market characteristics.

Mitigation
Vestas monitors the developments in the different markets and works closely with its customers to continuously adapt sales strategies and product offerings to meet the different auction criteria.

Adapting to markets with greater complexity hereunder sanctions and social performance

Description
A number of the markets in which Vestas is exploring business opportunities has characteristics that differ from the more mature markets in Europe and USA. Some of the main differing areas and risks to be understood and addressed are:

- Security in relation to employees and subcontractors
- Corporate social responsibilities in relation to local communities
- Sanctions and export control according to international law
- Protection of intellectual property rights

Impact
The adverse impacts related to risk in complex markets are many and different but amongst others, adverse reputational impact may occur if risks are not mitigated. Risks related to intellectual property rights may amongst others lead to reductions in the competitive positioning of Vestas whereas other risks may prevent Vestas from engaging in business relationships or undertaking projects.

Mitigation
To prevent and mitigate potential risks within these areas, Vestas uses a stage gate based process to systematically evaluate and adapt the project offering during the contracting, construction, and servicing phases of the projects.

Cyber risks

Description
As many other corporations, Vestas' dependence on its commercial, technical, and operational IT infrastructure is significant and hence, Vestas is exposed to potential loss or harm related to this.

Impact
Risks include economical theft and theft of intellectual property rights or personal data, which may result in monetary losses in the form of lost business opportunities or fines and penalties from authorities.

Malicious hacking activities can in addition harm the infrastructure and create physical loss of property and consequential difficulties for Vestas to meet its contractual obligations.

Mitigation
Vestas works systematically to educate its organisation in methods to address exposure and is continuously working on improving the technical ability to protect against, detect and to respond to any attempts to enter its commercial, technical, and operational IT infrastructure.

Share and financial management

The Vestas share

Vestas Wind Systems A/S' total share capital amounts to DKK 221,544,727, and its shares are listed on Nasdaq Copenhagen. Vestas has one share class and a total of 221,544,727 shares, which are 100 percent free float.

In 2016, the Vestas share was the second most traded share on NASDAQ Copenhagen with a turnover of EUR 17bn.

The share price ended the year at DKK 459.00, equal to a market capitalisation of EUR 14bn.

During 2016, the price of the Vestas share declined by 5 percent. This was in line with the general trend in NASDAQ Copenhagen's C20 index, which fell by 2 percent in 2016.

Ownership

At the end of the year, the company had 145,267 shareholders registered by name (212,871,304 shares), including custodian banks – a decrease of approx 3 percent during 2016.

No shareholders have reported that they have a shareholding of 5 percent or more in accordance with the Danish Companies Act, article 55.

Management's ownership

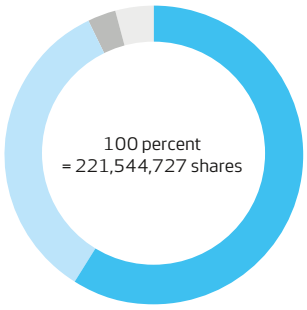
At 31 December 2016, members of Vestas' Board of Directors held a total of 52,018 Vestas shares, and Vestas' Executive Management held 140,569 Vestas shares. These shareholdings represented a combined market value of EUR 12m. Furthermore the members of the Executive Management are exposed to the Vestas share via Vestas' long term incentive programme.

The members of Vestas' Board of Directors and Executive Management are registered on Vestas Global Insider List's permanent insider section. As a general rule, they may only trade in Vestas shares, Vestas debt instruments, derivatives or other financial instruments linked thereto during a four-week period following the release of financial reports or other similar financial announcements. Furthermore they have a duty to report any such transactions to Vestas, and an overview of the transactions made during the year is available at vestas.com/investor.

As per 31 December 2016, Vestas owned 7,770,888 treasury shares corresponding to 3 percent of the share capital.

Share capital distribution at 31 December 2016

Number of shares · Percent



- Capital, international shareholders
- Capital, Danish shareholders
- Capital, Vestas
- Capital, shareholders not registered by name

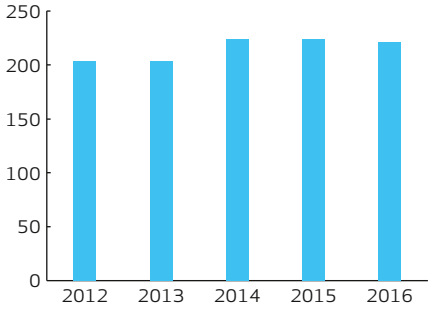
Ownership

As per 31 December 2016, the international shareholders, Danish shareholders, and Vestas held 130m (59 percent), 75m shares (34 percent), and 8m shares (3 percent) respectively – and capital not registered by name amounted to 9m shares (4 percent).

Financial management

The Board of Directors continuously evaluates to which extent the company's capital structure, including equity capital and other financial resources, are reasonable in consideration of the Group's operations and the stakeholders' interests. Read more about financial and capital structure strategy on page 016.

Development in number of shares
Number in 1,000,000



At the Annual General meeting in 2016, the shareholders decided to cancel 2,529,786 shares from Vestas' holding of treasury shares.

Distribution to shareholders
In general, the intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year. In addition, Vestas may from time to time supplement with share buy-back programmes. However, any distribution of cash to shareholders will always be decided with due consideration of capital structure targets and availability of excess cash.

Dividend
In March 2016, the shareholders approved a dividend of DKK 6.82 per share to be paid out for the financial year 2015. This was equivalent to a dividend percentage of 29.9 percent measured against the net profit for the year. For the financial year 2016, the Board of Directors recommends a dividend of DKK 9.71 (EUR 1.31) per share equivalent to 30.0 percent of the net result for the year after tax.

Distribution

	2016	2015
Dividend per share (DKK)	9.71*	6.82
Dividend per share (EUR)	1.31*	0.91
Dividend (EURm)**	289*	205
Payout ratio (%)	30.0*	29.9
Share buy-back (EURm)	401	150

* Based on recommended dividend.
** Based on issued shares as per 31 December.

Share buy-back programme 2016
On 18 August 2016, the Board of Directors initiated a new share buy-back programme. The programme was implemented in accordance with Article 5 of Regulation No 596/2014 of the European Parliament and Council of 16 April 2014 (MAR) (the "Safe Harbour" rules).

The share buy-back programme was initiated pursuant to the authorisation granted to the Board of Directors by the General Meeting. The main purpose of the share buy-back programme was to adjust Vestas' capital structure and secondly to meet the obligations arising from share based incentive programmes to employees of Vestas. It was completed on 30 December 2016. In total, Vestas paid EUR 401m for 6.0m shares.

Holding of treasury shares as per 31 December 2016
Number

Treasury shares as per 31 December 2015	5,170,588
Reduction of the share capital – 28 April 2016	(2,529,786)
Acquisition of treasury shares outside buy-back programme	+300,000
Bought under the share buy-back programme 2016	+6,047,780
Exercised share options and performance shares	(1,217,694)
Total holding of treasury shares as per 31 December 2016	**7,770,888**

At Vestas' Annual General Meeting in 2017, a resolution will be proposed that 6,047,780 shares out of Vestas' holding of 7.8m treasury shares will be cancelled.

Authorities granted to the Board of Directors
Vestas' articles of association include an authorisation to Vestas' Board of Directors to increase the company's share capital in one or more issues of new shares up to a nominal value of DKK 22,407,451 (22,407,451 shares), ref. article 3 of the articles of association. The authorisation is valid until 1 March 2019.

At the Annual General Meeting in 2016, the shareholders authorised the Board of Directors to let the company acquire treasury shares in the period until 31 December 2017 equal to 10 percent of the share capital at the time of the authorisation, provided that the nominal value of the company's total holding of treasury shares at no time exceeds 10 percent of the company's share capital at the time of the authorisation.

Communication with shareholders
Vestas aims to be visible and accessible to existing and potential shareholders and other stakeholders with due consideration to legislative requirements and based on corporate governance standards.

To maintain the interest in the Vestas share at a high level, Vestas regularly provides information to the company's stakeholders by means of:

- broad distribution of the company's financial reports and company announcements;
- live audiocasts in connection with the company's presentation of financial results;
- an informative website;
- roadshow activities following each financial presentation;
- meetings for investors and analysts, investor seminars, exhibitions, conference calls, capital markets days, company visits, and other events; and
- daily contact and correspondence through Investor Relations.

Executive Management and Investor Relations also travel extensively to ensure that all investors with a major holding of Vestas shares can meet with the company on a regular basis and other shareholders and potential investors also have access to the company's Management and Investor Relations.

Vestas aims to continuously improve the communication with its shareholders to inform them about Vestas' goals and to safeguard long-term shareholder interests.

However, in order to optimise communication it is necessary for Vestas to know the identity of its shareholders. Vestas therefore recommends that its shareholders have their Vestas shares registered by name in the company's register of shareholders.

Financial calendar

3 March 2017	Convening for the Annual General Meeting
6 April 2017	Annual General Meeting
5 May 2017	Disclosure of Interim financial report first quarter 2017
17 August 2017	Disclosure of Interim financial report second quarter 2017
9 November 2017	Disclosure of Interim financial report third quarter 2017

Analyst coverage
Vestas is currently covered by 24 sell-side analysts, including the major global investment banks that regularly produce research reports on Vestas. A list of analysts covering Vestas can be found at vestas.com/investor, where other information such as annual and quarterly reports, company announcements, information about annual general meetings, and the composition of the Board of Directors are available.

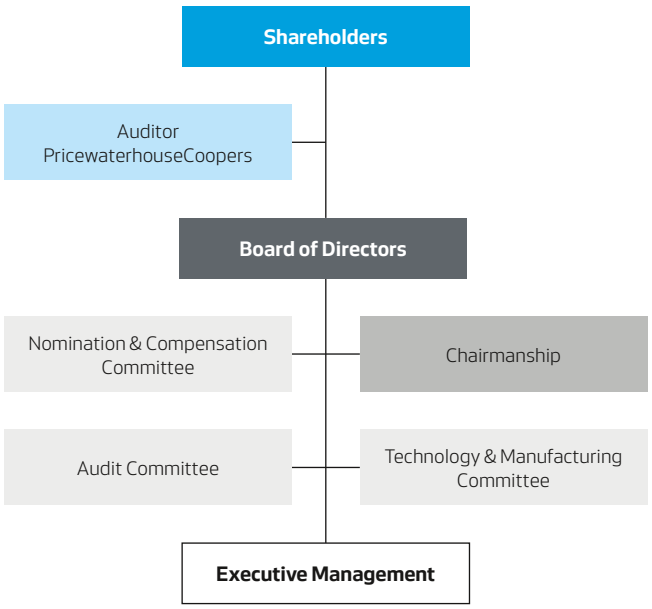
Corporate governance

Management structure

Vestas Wind Systems A/S is a Danish limited liability company with a two-tier management system in which the Board of Directors and the Executive Management handle the management of the company's affairs. No persons hold dual membership of the Board of Director and the Executive Management, and no member of the Board of Directors is a former member of the Executive Management. The company is also the parent company of the Vestas Group.

The management of the company and the Group is governed by the company's articles of association, the Danish Companies Act, and other applicable Danish laws and regulations.

Vestas' management structure



Shareholders

At the end of the year, the company had 145,267 shareholders registered by name, including custodian banks. Vestas seeks to have an international group of shareholders and to inform everyone openly about the company's long-term targets, priorities, and initiatives conducted as well as short-term opportunities and limitations.

General meeting

The general meeting, consisting of the company's shareholders, is the supreme management body of Vestas Wind Systems A/S and is the supreme authority in all company matters, subject to the limits laid down by Danish legislation and the company's articles of association. Shareholders may exercise their rights to make decisions in the company at the general meeting.

The general meeting is held at least once a year. All shareholders are entitled, in compliance with a few formal requirements, to have equal access to submit proposals, attend, vote, and speak at general meetings, ref. articles 4 and 6 of the articles of association.

Attendance

Shareholders wishing to exercise their influence at the general meeting must first register their shares by name in order to subsequently request an admission card and voting papers.

The right of a shareholder to attend the general meeting and to vote is based on the shares held by the shareholder at the record date. The record date is one week before the general meeting. The shares held by each shareholder at the record date are calculated on the basis of registration of the shareholder's ownership in the register of shareholders and notifications about ownership received by the company, but which have not yet been registered in the company's register of shareholders.

Voting and amendment requirements

Vestas has a single class of shares, and no shares carry any special rights. Each share carries one vote. Proposals put to the vote are adopted by a simple majority of votes, unless the Danish Companies Act or the articles of association prescribe special rules regarding the adoption. Amendments to the articles of association, dissolution, demerger and merger, which under Danish law must be passed by the general meeting, can only be passed by a majority of no less than

two-thirds of all votes cast and of the voting capital represented at the general meeting unless otherwise prescribed by the Danish Companies Act. Read more about Share and financial management on page 041.

The Board of Directors encourages all shareholders to exercise their influence and recommends that all shareholders ensure that their holding of Vestas shares are registered by name in the company's register of shareholders.

The Board of Directors also encourages all shareholders to express their opinions by voting at the general meeting.

Board of Directors
Pursuant to the company's existing articles of association, the company is managed by a Board of Directors composed of five to 10 members elected by the general meeting and a number of representatives elected by the employees. The Board of Directors currently consists of 12 members, of which eight are elected by the general meeting and four are elected by and among the employees. Read more about the members of the Board of Directors on page 050.

The Board of Directors is responsible for the overall operation of the Group and, through the independent oversight of management, accountable to shareholders for the performance of the business. They also deal with the overall and strategic management of the company, including:

- appointing the Executive Management;
- laying down guidelines for and exercising control of the work performed by the Executive Management;
- ensuring responsible organisation of the company's business;
- defining the company's business concept and strategy;
- ensuring satisfactory bookkeeping and financial reporting;
- ensuring the necessary procedures for risk management and internal controls; and
- ensuring that an adequate capital contingency programme is in place at all times.

In cooperation with the Executive Management, the Board of Directors establishes and approves overall policies, procedures and controls in key areas, not least in relation to the financial reporting. This requires a well-defined organisational structure, unambiguous reporting lines, authorisation and certification procedures, and adequate segregation of duties.

Composition of the Board
The existing Board members elected by the general meeting were elected in 2016 and their election term expires in 2017, as Board members elected by the general meeting must retire at the following annual general meeting. However, such Board members shall be eligible for re-election, ref. article 8(1) of the articles of association.

Board members elected by the general meeting may be recommended for election by the shareholders or by the Board of Directors.

When proposing candidates for Board membership, the Board of Directors seeks to ensure that it is possible for the general meeting to elect a continuing Board of Directors that:

- is able to act independently of special interests;
- represent a balance between continuity and renewal;
- match the company's situation;
- is knowledgeable of the industry and has the business and financial competencies necessary to ensure that the Board of Directors can perform its duties in the best way possible; and,
- reflects the competencies and experience required in order to manage a company with shares registered for trade on a stock exchange and fulfils its obligations as a listed company.

When proposing new board candidates, the Board of Directors pursues the goal of having several nationalities of both genders represented.

In addition, the Board of Directors focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

As it is not considered good corporate governance by international shareholders and to not limit shareholders' ability to nominate candidates, the articles of association do not stipulate a retirement age for members of the Board of Directors. But according to the rules of procedure for the Board of Directors, the Board of Directors will not nominate candidates who have reached the age of 70.

In 2016, the Annual General Meeting re-elected all members of the Board of Directors. After the Annual General Meeting, the Board of Directors held a statutory board meeting. At the meeting, Bert Nordberg was re-elected as Chairman of the Board and Lars Josefsson was re-elected as Deputy Chairman of the Board.

Assessment of the work performed by the Board of Directors
Pursuant to the rules of procedure for the Board of Directors, once a year, the Board of Directors must evaluate its work. In connection with the approval of the interim financial report for the third quarter, the Board evaluates its working methods and the results of its work and each Board member's contribution in an open dialogue at the Board meeting. The evaluation is headed by the Chairman.

The Nomination & Compensation Committee has the responsibility of conducting an annual evaluation of:

- the contributions and results of the individual members of the Board of Directors – and the combined board;
- the contributions and results of the individual members of the Executive Management – and the combined Executive Management; and
- the co-operation between the Board of Directors and the Executive Management.

The Chairman presents the result of the evaluation at a board meeting – and the result of the evaluation is discussed.

In October 2016, the three board committees evaluated their performance for 2016. The evaluations were conducted as an open dialogue among the members of the Committees. An evaluation form was used to guide the members of the Committees in their preparation and to make sure that all relevant issues were touched upon in connection with the evaluations. The evaluations did not result in any significant changes.

The same procedure was used when the Board of Directors conducted their evaluation in November 2016. The evaluation did not result in any significant changes.

Board committees
The purpose of Vestas' Board committees is to prepare decisions and recommendations for consideration and approval by the entire Board of Directors. The committees are not authorised to make independent decisions; instead they report and make recommendations to the entire Board of Directors.

Vestas has established three permanent Board committees.

Audit Committee – supports the Board of Directors in assessments and controls relating to auditing, accounting policies, systems of internal controls, financial reporting, procedures for handling complaints regarding accounting and auditing, the need for an internal audit function, and Vestas' ethics and anticorruption programmes.

The Nomination & Compensation Committee – supports the Board of Directors in evaluation of the performance and achievement of the Board of Directors and Executive Management and overall staff-related topics, including assessments of remuneration.

The Technology & Manufacturing Committee – assists the Board of Directors in assessing technological matters, IPR strategy, and product development plans. The committee also supports the Board in matters concerning production, monitors and evaluates the short- and long-term manufacturing footprint, evaluates sustainability performance, and gives support to the Vestas Governance Forums.

All members of the committees are elected by the Board of Directors from among its members.

Executive Management
The Executive Management of Vestas Wind Systems A/S is appointed by the company's Board of Directors and among the members of the Executive Management they have appointed a Chief Executive Officer who is the manager of the day-to-day work of the Executive Management. Moreover, the Board of Directors lays down the distribution of competences among the members of the Executive Management.

The work of the Executive Management
The Executive Management is responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board of Directors.

The Executive Management is also responsible for presenting proposals for the company's overall objectives, strategies, and action plans as well as proposals for the overall operating, investment, financing, and liquidity budgets to the Board of Directors.

The Executive Management monitors compliance with relevant legislation and other financial reporting regulations and provisions.

Corporate governance principles
Corporate governance, defined as "the system used to manage and control a business", is to a wide extent reflected in the provisions concerning the Board of Directors set out in the Danish Companies Act.

To the Board of Directors of Vestas Wind Systems A/S corporate governance is not just a set of rules but a constant process. Consequently, the Board of Directors continuously addresses the guidelines and processes for the overall management of the Vestas Group. This ensures that the management is at any time able to conduct its managerial tasks professionally and with due consideration to current legislation, practices, and recommendations.

Financial reporting risks
Based on Vestas' financial risk management policy, the Global Finance function prepares a description of the key risks relating to financial reporting and measures taken to control such risks.

Global Finance works actively with anchoring financial risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks relating to financial reporting.

As part of the financial risk assessment, Vestas' Board of Directors and Executive Management annually assess the risk of fraud and the measures to be taken to reduce and/or eliminate such risks, including assessing any possibility of the general management overriding controls and affecting the financial reporting. Read more about risk management on page 039.

Control activities
Global Finance is responsible for the implementation and monitoring of Vestas' global financial processes. This helps to ensure a uniform design and structure of the Group's internal controls. The objective of the Group's control activities is to ensure compliance with the targets, policies, manuals, procedures, etc. defined by the Executive Management.

Furthermore, the activities must help ensure that any errors, deviations, and shortcomings are prevented, discovered, and rectified.

Vestas continuously adjusts and implements global financial processes and controls for all units and functions aimed at further mitigating the risk of incorrect financial reporting.

Information and communication
Vestas' policies, adopted by the Board of Directors, lay down, among other things, overall requirements on financial reporting and external financial reporting in accordance with current legislation and applicable regulations.

The information systems are designed to identify, collect, and communicate relevant information, reports, etc. on an ongoing basis and on all levels to facilitate an effective, reliable workflow and the performance of controls. This is done in due consideration of the confidentiality required as a listed company.

Code of Conduct
As Vestas gradually grows bigger with employees and business partners with widely different cultural backgrounds, business practices, religious beliefs, and political convictions, it is becoming more and more important to have a formal set of common values. The purpose of Vestas' Code of Conduct is to ensure that all employees and other persons acting on behalf of Vestas know what correct Vestas behaviour is.

Vestas' Code of Conduct sets the framework for the work of supporting the principles of the UN Global Compact. Vestas will endeavour to ensure that its business partners also respect these principles. Read more about Vestas' Code of Conduct on page 032.

Statutory report on corporate governance
Pursuant to section 107b of the Danish Financial Statements Act and clause 4.3 of "Rules for Issuers of Shares – Nasdaq Copenhagen", listed companies shall give a statement on how they address the Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance. The recommendations of the report specify that the circumstances of each company will govern the extent to which the recommendations are complied with or not, as the key issue is to create transparency in corporate governance matters.

Danish recommendation regarding corporate governance
Number

	2016	2015
Complies with the recommendation	43	44
Partly complies with the recommendation	4	3
Does not comply with the recommendation	0	0
Number of recommendations	**47**	**47**

Vestas' statutory report, which is part of the annual report, is only available at www.vestas.com/investor/corporate_governance#!statutoryreports.

Annual General Meeting 2017

The Annual General Meeting of Vestas Wind Systems A/S will be held on 6 April 2017 at 1 p.m. (CET) at Crown Plaza Copenhagen Towers in Copenhagen, Denmark.

Time schedule

22 February 2017	Deadline for proposals for the agenda
3 March 2017	Disclosure of the convening
30 March 2017	Record date
31 March 2017	Deadline for ordering an admission card
	Deadline for submitting a proxy
5 April 2017	Deadline for voting by correspondence
6 April 2017	Annual General Meeting 2017

Dividend

For the financial year 2016 the Board of Directors recommends a dividend of DKK 9.71 (EUR 1.31) per share be paid for 2016. This is equivalent to a dividend payout ratio of 30.0 percent measured against the net profit for the year.

Election of board members

The board members' election terms expire in 2017, as board members elected by the general meeting must retire at the following annual general meeting. The board members elected by the general meeting have all informed the Board of Directors that they will stand for re-election.

Appointment of auditors

The Board of Directors proposes that PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab be re-appointed as the company's auditor.

Proposals from the Board of Directors

The Board of Directors expects to propose that the share capital be reduced by 6,047,780 number of treasury shares. The proposal can only be adopted by a majority of not less than two-thirds of all votes cast and of the share capital represented. The shares were acquired as part of the company's share buy-back programme as disclosed in company announcement No. 26/2016 of 18 August 2016.

The Board of Directors wil also propose that the Board of Directors is granted an authorisation to, in the period until 31 December 2018, allow the company to acquire treasury shares up to an aggregate nominal value of 10 percent of the company's share capital at the time of the authorisation, provided that the company's total holding of treasury shares does not at any time exceed 10 percent of the company's share capital. The purchase price paid in connection with acquisition of treasury shares must not deviate from the price quoted on Nasdaq Copenhagen at the time of acquisition by more than 10 percent. The proposal can be adopted by a simple majority of votes.

The Board of Directors proposes that articles 6(3) and 6(4) of the articles of association are amended since it is not a requirement pursuant to the Danish Companies Act that shareholders request an admission card in order to attend a General Meeting. It is however a requirement that shareholders notify the company of their attendance. The articles will hereafter read as follows:

- Article 6(3) Any shareholder who is entitled to attend a General Meeting, ref. Article 6(2), and who wishes to attend a General Meeting or to be represented by proxy, must notify the Company of their attendance no later than three days before the date of the relevant General Meeting. Notification of participation shall not prevent the shareholder from deciding to be represented by proxy after notification has taken place.
- Article 6(4) Voting rights may be exercised by proxy, provided that the proxy holder documents the right to attend the General Meeting and presents a written and dated proxy form.

Members of the Board of Directors

	Born	Independent	Date of election	Expiry of election period	Share trading in 2016	Number of shares 2016[1]
Mr Bert Nordberg	23/03/1956	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	0	14,000
Mr Lars Josefsson	31/05/1953	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	+ 500	2,500
Mr Carsten Bjerg	12/11/1959	Yes	March 2011 and re-elected for subsequent terms, most recently in 2016	2017	0	4,019
Ms Eija Pitkänen	23/04/1961	Yes	March 2012 and re-elected for subsequent terms, most recently in 2016	2017	0	1,250
Mr Henrik Andersen	31/12/1967	Yes	March 2013 and re-elected for subsequent terms, most recently in 2016	2017	+1,500 +1,000	7,000
Mr Henry Sténson	10/06/1955	Yes	March 2013 and re-elected for subsequent terms, most recently in 2016	2017	- 5,000	5,000
Mr Kim Hvid Thomsen	08/08/1963	-	May 1996 and re-elected for subsequent terms, most recently for 2016	2020	0	5,810
Ms Lykke Friis	27/10/1969	Yes	March 2014 and re-elected for subsequent terms, most recently for 2016	2017	+ 594	2,305
Mr Michael Abildgaard Lisbjerg	17/09/1974	-	April 2008 and re-elected for subsequent terms, most recently for 2016	2020	0	834
Mr Peter Lindholst	25/02/1971	-	March 2016	2020	0	500
Ms Sussie Dvinge Agerbo	05/10/1970	-	November 2005 and re-elected for subsequent terms, most recently for 2016	2020	0	3,300
Mr Torben Ballegaard	07/02/1951	Yes	March 2015 and re-elected in 2016	2017	0	5,500

Members of the Executive Management

	Born	Position	Date of appointment	Fiduciary positions / positions of trust	Share trading in 2016	Number of shares 2016[1]
Mr Anders Runevad	16/03/1960	Group President & CEO	September 2013	Deputy chairman of the board of MHI Vestas Offshore Wind A/S (DK). Member of the board of NKT Holding A/S (DK). Member of the General Council of the Confederation of Danish Industries (DK) and The Industrial Policy Committee of the Confederation of Danish Industries (DK).	+ 12,627[2] - 7,675 + 1,500	11,452
Mr Anders Vedel	06/03/1957	Executive Vice President & CTO	February 2012	Member of the boards of Hvide Sande Harbour (DK) and MHI Vestas Offshore Wind A/S (DK).	+ 26,823[3] + 18,938[3] - 33,761	16,941
Mr Jean-Marc Lechêne	29/10/1958	Executive Vice President & COO	July 2012	Member of the board of Norican Global A/S (DK).	+ 11,758[4] + 18,938[4] - 5,000	27,696
Mr Juan Araluce	17/01/1963	Executive Vice President & CSO	February 2012	Member of the board of MHI Vestas Offshore Wind A/S (DK).	+ 46,578[5] + 18,938[5] - 18,354 + 6,589	66,353
Ms Marika Fredriksson	04/11/1963	Executive Vice President & CFO	May 2013	Member of the boards of SSAB (SE) and ÅF AB (SE).	+ 12,627[6]	18,127

1) The mentioned number of shares includes both own and related parties' total shareholdings. At 31 December 2016, the shares of the Board of Directors and the Executive Management represented a combined market value of approx EUR 12m.
2) In 2016, Mr Anders Runevad was granted 12,627 performance shares (DKK 0 per share).
3) In 2016, Mr Anders Vedel exercised 22,426 and 4,397 share options (DKK 57.76 and DKK 181.16 per share, respectively) – and was granted 18,938 performance shares (DKK 0 per share).
4) In 2016, Mr Jean-Marc Lechêne exercised 11,758 share options (DKK 57.76 per share) – and was granted 18,938 performance shares (DKK 0 per share).
5) In 2016, Mr Juan Araluce exercised 33,952 and 12,626 share options (DKK 57.76 and DKK 181.16 per share, respectively) – and was granted 18,938 performance shares (DKK 0 per share).
6) In 2016, Ms Marika Fredriksson was granted 12,627 performance shares (DKK 0 per share).

Remuneration report 2016 · Board of Directors

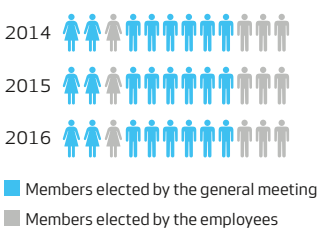
In 2016, Vestas' remuneration policy for members of Vestas Wind Systems A/S' Board of Directors was updated, and approved at the Annual General meeting in March 2016. The amendment of the remuneration policy concerned the remuneration of the chairmen of the board committees.

Efforts are made to ensure that the remuneration of the Board of Directors matches the level in comparable companies, whilst also taking into consideration board members' required competencies, efforts and the scope of the board work, including the number of meetings.

In 2016, the Board of Directors held nine board meetings, six Audit Committee meetings, four Nomination & Compensation Committee meetings, and four Technology & Manufacturing Committee meetings.

Fixed remuneration Members of the Board of Directors receive a fixed cash amount (basic remuneration), which is approved by the general meeting for the current financial year. The chairman receives a triple basic remuneration and the deputy chairman receives a double basic remuneration for their extended board duties. Annual committee remuneration is paid to board members who are also members of one of the board committees. The remuneration is determined as a base fee, and the committee chairman receives an additional remuneration of 80 percent of the base committee remuneration. Board members elected by the employees receive the same remuneration as the board members elected by the general meeting. On any takeover, retiring board members will not receive any compensation for their lost board remuneration and similar benefits.	· Basic remuneration of EUR 53,619 (DKK 400,000) - compared to EUR 52,763 in 2015. · Basic committee remuneration of EUR 33,512 (DKK 250,000) - compared to EUR 26,382 in 2015 · Chairmen of the committees receive EUR 60,322 (DKK 450,000) - compared to EUR 52,764 in 2015
Remuneration for ad hoc tasks Individual board members may take on specific ad hoc tasks outside their normal duties assigned by the Board of Directors. In each such case, the Board of Directors shall determine a fixed remuneration for the work carried out in relation to those tasks. The fixed remuneration will be presented for approval at the following annual general meeting.	In 2016, no members of the Board of Directors have taken on specific ad hoc tasks.
Social security taxes and similar taxes In addition to the remuneration, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.	EUR 106,263 – compared to EUR 95,809 in 2015.
Incentive programme, bonus pay, etc. According to the remuneration policy the members of the Board of Directors are not included in incentive programmes (share programmes, bonus pay, or similar plans).[1]	–
Reimbursement of expenses Expenses in connection with board and committee meetings are reimbursed as per account rendered.	EUR 22,069 – compared to EUR 40,308 in 2015.
Pension scheme The Board of Directors is not covered by any Vestas pension scheme or a defined benefit pension scheme.	–

Members of the Board of Directors
Number



The Board of Directors has defined a target outlining that members of the underrepresented gender should constitute two to three board members elected by the general meeting no later than in 2017.

Board of Directors remuneration for the financial year [2]

	2016		2015	
	Number of members	EUR	Number of members	EUR
Board	12	804,285	12	791,445
Committees:				
Audit	4	160,858	4	131,910
Nomination & Compensation	4	160,858	4	131,910
Technology & Manufacturing	4	160,858	4	131,910

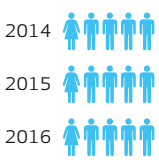
1) Employee elected members of the Board of Directors participate in incentive programmes, bonus pay, etc. on equal terms with other Vestas employees, ref. note 6.2 to the consolidated financial statements. Vestas annual report 2016, page 100.
2) Exclusive of social security taxes and similar taxes.

Remuneration report 2016 · Executive Management

The Board of Directors believes that a combination of fixed and performance-based pay to the Executive Management helps ensure that the company can attract and retain key employees. The Executive Management is paid partly through variable performance-based elements to motivate performance, align with short- and long-term business targets, and to enable flexible remuneration costs.

Fixed salary The fixed salary is based on market level to attract and retain talented executives with the required competencies.	EUR 4.3m – compared to EUR 4.2m in 2015.
Cash bonus The bonus scheme is based on the results for the year and is paid out annually after adoption of the annual report for the relevant financial year. The bonus pay-out-level is defined by a weighted target achievement and is capped at a certain percentage of the fixed salary with the target and maximum pay-out levels set at 50 percent and 75 percent of the annual base salary, respectively. The bonus scheme is based on target achievement of a number of parameters, including financial key performance indicators like EBIT as well as any other targets approved by the Board of Directors. No pay-out will be made if the target for EBIT is not met at the defined minimum acceptable performance level. The members of the Executive Management will not receive any extraordinary compensation in the event of termination in connection with a change of ownership of the company's voting majority or if the company is dissolved through a merger or demerger. The Executive Management's notice of termination will, however, be extended to 36 months. There is no agreed redundancy pay or compensation for voluntary or non-voluntary termination.	EUR 3.1m – compared to EUR 2.8m in 2015.
Share-based incentives The focus of the share-based programme is to retain executive talent and create long-term shareholder value. The targets may be based on financial key performance indicators as well as the Group's market share as defined by the Board of Directors. For any financial year, the number of shares to be granted to the combined Executive Management may amount to a total of 120,000 performance shares based on an initial target level. The programme is based on three performance years. The maximum size of the grant is 150 percent of the target, corresponding to a total grant to the Executive Management of 180,000 performance shares. The number of shares available for grant may be adjusted in the event of changes in the company's capital structure. The performance shares will be granted in two portions; the first half of the shares will be granted after the three performance years following the disclosure of the programme and the second half of the shares will be granted five years after the disclosure, with the total grant size based on the results in the three performance years. If the minimum requirements for financial performance are not met, there will be no grant of performance shares.	97,467 shares – compared to 136,000 shares in 2015.
Personal benefits Members of the Executive Management have access to a number of work-related benefits, including company car, free telephony, broadband at home, and work-related newspapers and magazines.	–
Pension scheme Members of the Executive Management are not covered by Vestas' employer administered pension plan or a defined benefit pension scheme. Pension is considered included in the fixed salary.	–

Members of the Executive Management
Number



In 2016, there has been no change in the composition of the Executive Management.

Executive Management's remuneration [1)]

	2016	2015
Fixed salary (EUR)	4,338,163	4,214,731
Bonus (EUR)	3,082,664	2,840,118
Performance shares:		
For the financial year (number)	97,467[2)]	136,000[3)]
Options:		
Total outstanding options for the period 2008-2012 (number)	-	85,159
Expired options (number)	-	9,376
Options exercised (number)	85,159	15,475

1) Ref. note 1.3 and note 6.2 to the consolidated financial statements. Annual report 2016.
2) The number of shares has been adjusted based on current estimate of performance in 2016. Allocation of performance shares for the 2016-2018 performance programme will be adjusted based on the level of actual achievement in the measurement period. The 2016 performance shares will be granted equally to the Executive Management in 2019 and 2021.
3) The 2015 performance shares will be granted equally to the Executive Management in 2018 and 2020.

Fiduciary positions of the members of the Board of Directors

The members of the Board of Directors have informed the company of the following competencies and fiduciary positions in Danish and foreign companies and organisations.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
Bert Nordberg Director	· Chairman of the Board of Directors · Chairman of the Nomination & Compensation Committee	Member of the boards of AB Electrolux (SE), Axis AB (SE), Saab Group AB (SE), and Svenska Cellulosa Aktiebolaget SCA (SE).		Special competence in restructuring, services and infrastructure business; several years of international business experience; development market knowledge.
Lars Josefsson Independent consultant	· Deputy Chairman of the Board of Directors · Chairman of the Technology & Manufacturing Committee · Member of the Nomination & Compensation Committee	Chairman of the Boards of Driconeq AB (SE), Ouman Oy (FI), and TimeZynk AB (SE). Member of the Boards of Holmen AB (SE) and Metso Oyj (FI).		In-depth knowledge of managing international companies including research and development, technology and production.
Carsten Bjerg Director	· Member of the Board of Directors · Member of the Technology & Manufacturing Committee · Member of the Audit Committee	Chairman of the boards of PCH Engineering A/S (DK), Ellegaard A/S (DK), and Guldager A/S (DK). Deputy chairman of the boards of Højgaard Holding A/S (DK) and Rockwool International A/S (DK). Member of the boards of Agrometer A/S (DK), MT Højgaard A/S (DK), and Nissens A/S (DK).		In-depth knowledge of managing an international group including thorough knowledge of R&D, manufacturing, and strategic management.
Eija Pitkänen Sustainability and Compliance Officer Sonera	· Member of the Board of Directors · Member of the Technology & Manufacturing Committee		Member of the board of Finnish Refugee Council (FI).	Extensive international experience in developing and executing global sustainability strategies as part of business in several international companies.
Henrik Andersen Group President & CEO of Hempel A/S	· Member of the Board of Directors · Chairman of the Audit Committee[1)] · Member of the Nomination & Compensation Committee	Member of the board of Maj Invest Holding A/S (DK).	Member of The investment committee of Maj Invest Equity 4 K/S (DK).	In-depth knowledge of accounting, finance and capital markets, international business experience including restructuring and strategic management of international companies.
Henry Sténson Executive Vice President of Corporate Communication & Sustainability Affairs, Volvo Group	· Member of the Board of Directors · Member of the Audit Committee	Member of the boards of Braathens Regional AB (SE) and Stonghold Invest AB (SE).		More than 20 years' experience from executive teams in global business and extensive experience from communications with media, capital markets and international public affairs. Furthermore, experience from industrial turnaround processes and crisis management.
Kim Hvid Thomsen HR Business Partner, People & Culture, Vestas Wind Systems A/S	· Member of the Board of Directors (elected by Group employees) · Member of the Technology & Manufacturing Committee			In-depth knowledge of production processes and human resources, etc. of the Vestas Group.

1) Fulfils the demand for qualifications within financial accounting and meets the definition of independence of audit committee members as set out in the Danish Auditors Act.

Name and title	Position in Vestas	Fiduciary positions	Positions of trust	Special competencies
Lykke Friis Prorector for Education, University of Copenhagen	· Member of the Board of Directors · Member of the Nomination & Compensation Committee	Member of the boards of European Council of Foreign Relations (UK), Rockwool Foundation, and VELUX A/S (DK). Member of the European Commission's high level group on Horizon 2020 (EU).	Chairman of the Danish Foreign Policy Society (DK). President of the Danish Cancer Society. Member of The Danish-German Chamber of Commerce (DK).	In-depth knowledge of international energy policy and European Union regulation. Furthermore, experience from public affairs and managing research and development.
Michael Abildgaard Lisbjerg Senior Shop Steward and Skilled Worker, Production, Vestas Manufacturing A/S	· Member of the Board of Directors (elected by Group employees)	Deputy chairman of the boards of DM Skjern-Ringkøbing P/S (DK) and DMSR af 24. oktober 2016 ApS (DK).		In-depth knowledge of production processes and human resources, etc. of the Vestas Group.
Peter Lindholst Vice President, Concept Development, Power Solutions, Vestas Wind Systems A/S	· Member of the Board of Directors (elected by company employees)			In-depth knowledge of wind turbine design and innovation, and experience from Vestas in managing R&D activities in an international set-up.
Sussie Dvinge Agerbo Management Assistant, Power Solutions, Vestas Wind Systems A/S	· Member of the Board of Directors (elected by company employees)			In-depth knowledge of project management and organizational structures including human resources and staff development.
Torben Ballegaard Director	· Member of the Board of Directors · Member of the Audit Committee	Chairman of the boards of AS3 Companies A/S (DK), CAPNOVA A/S (DK), Tajco Group A/S (DK), and Liquid Vanity A/S (DK). Member of the board of Egmont International Holding A/S (DK).	Chairman of The Foundation Capnova Invest Zealand (DK). Member of the boards of The Egmont Foundation (DK) and Centre for Advanced Technology (CAT) Foundation (DK).	Experience from growth and continuous improvement of global and complex industrial organizations. Leadership development. Product and business innovation and strategic execution. International sales and marketing. Value adding board work, financial controlling, and interaction with capital markets.

Accounting policies social and environmental highlights

Basis for preparation of the statement

General reporting standards

Vestas' reporting contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The below description of accounting policies of social and environmental performance refer to the social and environmental key figures and indicators presented on page 007 of the annual report.

All Vestas' wholly owned companies are covered by the report. Newly established companies are included from the time of production start and for acquired companies from the time when coming under Vestas' control. Companies are excluded from the reporting from the time when they leave Vestas' control.

Defining materiality

Vestas bases its materiality assessment on an analysis of significant economic, environmental and social impacts of the Group's activities. The analysis is based on internal priorities as well as experience from dialogue with and direct involvement of customers, investors, policy makers, employees and media. The result of the analysis is incorporated in Vestas' COP.

Vestas has previously selected a number of social and environmental key figures that are relevant to understand Vestas' development, results and financial position. These key figures have been maintained after the materiality assessment. The status of the key figures is monitored closely and for relevant key indicators specific targets have been defined.

Change in accounting policies

The same measurement and calculation methods are applied at all Vestas sites. There have been no significant changes from previous reporting periods in the scope and boundary applied in the report.

Social performance

Occupational health & safety

Occupational health & safety is measured for all activities under the organisational structure. Lost time injuries of all employees are stated on the basis of registration of incidents that have caused at least one workday of absence after the day of the injury. Total recordable injuries include Lost time injuries, Restricted work injuries and Medical treatment injuries.

Injuries and working hours for external supervised employees are also included. The incidence of injuries is defined as the number of lost time injuries including fatalities per one million working hours. The number of working hours is measured on the basis of daily time cards registered in the payroll system for hourly-paid employees and prescribed working hours for salaried employees. For external supervised employees, the injuries are reported by Vestas, and working hours are reported by the external suppliers.

Absence due to illness does not include absence caused by lost time injuries, maternity leave and child's illness leave. Absence due to illness is measured by means of registrations in the payroll system based on daily time cards for hourly-paid employees and absence records for salaried employees, respectively.

Employees

The number of employees is calculated as the number of full time employees (FTE) who have a direct contract with Vestas. Employee information is determined on the basis of extracts from the company's ordinary registration systems with specification of nationality, gender and IPE level (Mercer's International Position Evaluation). Employee indicators are calculated based on head counts.

Environmental performance

Energy consumption, water consumption, waste generation and CO_2 emission are reported on the basis of significance. All production facilities are included as well as larger offices, warehouses and other facilities ensuring a comprehensive and sufficient statement of these environmental aspects.

Utilisation of resources

Electricity, gas and district heating are measured on the basis of quantities consumed according to direct meter readings per site including related administration. Consumption of electricity comprises electricity purchased externally and consumption of production from own wind turbines. Oil for heating is stated on the basis of external purchases adjusted for inventories at the beginning and at the end of the period. Fuel for transport has been recognised on the basis of supplier statements. Electricity from renewable energy sources is calculated on the basis of supplier statements.

Renewable energy is energy generated from natural resources, which are all naturally replenished – such as wind, sunlight, water and geothermal heat. Nuclear power is not considered to be renewable energy. Consumption of electricity from non-renewable sources purchased as a result of not being able to purchase renewable electricity at some locations, is in the Group statement balanced with renewable electricity produced by wind power plants owned by Vestas and sold to the local grid.

The consumption of water is stated as measured consumption of fresh water. Cooling water from streams, rivers, lakes, etc. that is solely used for cooling and released to the stream after use without further contamination than a higher temperature, is not included.

Waste disposal

Waste is stated on the basis of weight slips received from the waste recipients for deliveries affected in the accounting period, apart from a few types of waste and non-significant volumes which are estimated on the basis of subscription arrangement and load. Waste disposal is based on supplier statements.

Emissions of CO_2

Direct emission of CO_2 is calculated on the basis of determined amounts of fuel for own transport and the direct consumption of oil and gas, with the usage of standard factors published by the UK Department for Environment, Food & Rural Affairs. Indirect emission of CO_2 is calculated on the basis of direct consumption of electricity and district heating, with the usage of national grid emissions factors published by International Energy Agency. Indirect CO_2 emissions from electricity consumption based on non-renewable sources is balanced out by CO_2 emission savings in the production and sale to the grid from Vestas owned wind turbines.

Local community

Environmental accidents are accidental releases of substance and chemicals which are considered by Vestas to have a significant impact on the environment. Breaches of internal inspection conditions are stated as the conditions for which measurements are required, and where measurements show breaches of stated conditions.

Products

CO_2 savings from the produced and shipped MW are calculated on the basis of a capacity factor of 30 per cent of the produced and shipped MW, an expected lifetime of 20 years of the produced and shipped MW, and the latest updated standard factor from the International Energy Agency of average CO_2 emission for electricity in the world, at present 536 grams of CO_2 per kWh.

Consolidated financial statements

Income statement 1 January – 31 December

mEUR	Note	2016	2015
Revenue	1.1, 1.2	10,237	8,423
Production costs	1.3, 1.4, 2.2	(8,111)	(6,918)
Gross profit		**2,126**	**1,505**
Research and development costs	1.3, 1.4	(227)	(211)
Distribution costs	1.3, 1.4	(190)	(186)
Administration costs	1.3, 1.4	(288)	(248)
Operating profit (EBIT) before special items		**1,421**	**860**
Special items	1.6	-	46
Operating profit (EBIT)		**1,421**	**906**
Income/(loss) from investments in associates and joint ventures	3.4	(101)	34
Financial income	4.3	56	61
Financial costs	4.3	(89)	(76)
Profit before tax		**1,287**	**925**
Income tax	5.1	(322)	(240)
Profit for the year		**965**	**685**
Earnings per share (EPS)	4.2		
Earnings per share (EUR)		4.41	3.10
Earnings per share (EUR), diluted		4.39	3.07

Statement of comprehensive income 1 January - 31 December

mEUR	Note	2016	2015
Profit for the year		**965**	**685**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		8	62
Fair value adjustments of derivative financial instruments designated as cash flow hedges		(140)	137
Fair value adjustments of derivative financial instruments designated as cash flow hedges transferred to the income statement, production costs		9	(107)
Tax on fair value adjustments of derivative financial instruments		33	(8)
Share of other comprehensive income of joint venture	3.4	13	(5)
Other comprehensive income after tax		**(77)**	**79**
Total comprehensive income		**888**	**764**

Balance sheet 31 December – Assets

mEUR	Note	2016	2015
Intangible assets	3.1, 3.3	828	687
Property, plant and equipment	3.2	1,329	1,279
Investments in associates and joint ventures	3.4	201	225
Other investments		26	20
Tax receivables	5.1	49	109
Deferred tax	5.2	208	149
Other receivables	2.5, 4.5	55	39
Marketable securities	4.5	190	-
Total non-current assets		**2,886**	**2,508**
Inventories	2.2	1,985	1,899
Trade receivables	2.3, 4.5	1,038	795
Construction contracts in progress	2.4, 4.5	19	15
Tax receivables	5.1	25	60
Other receivables	2.5, 4.5	322	442
Marketable securities	4.5	11	-
Cash and cash equivalents	4.4, 4.5	3,550	2,765
Total current assets		**6,950**	**5,976**
Non-current assets held for sale	6.7	95	103
Total assets		**9,931**	**8,587**

Balance sheet 31 December – Equity and liabilities

mEUR	Note	2016	2015
Share capital	4.1	30	30
Other reserves		61	138
Retained earnings		3,099	2,731
Total equity		**3,190**	**2,899**
Provisions	3.5	457	314
Deferred tax	5.2	34	20
Financial debts	4.5, 4.6	496	495
Tax payables	5.1	37	44
Other liabilities	2.6, 4.5	90	10
Total non-current liabilities		**1,114**	**883**
Prepayments from customers		3,002	2,258
Construction contracts in progress	2.4	73	17
Trade payables	4.5	1,666	1,760
Provisions	3.5	131	124
Tax payables	5.1	191	147
Other liabilities	2.6, 4.5	564	499
Total current liabilities		**5,627**	**4,805**
Total liabilities		**6,741**	**5,688**
Total equity and liabilities		**9,931**	**8,587**

Statement of changes in equity 1 January – 31 December

mEUR	Share capital	Reserves: Premium	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Total
Equity at 1 January 2016	**30**	**-**	**99**	**37**	**2**	**138**	**2,731**	**2,899**
Profit for the year	-	-	-	-	-	-	965	965
Other comprehensive income for the year	-	-	8	(98)	13	(77)	-	(77)
Total comprehensive income for the year	-	-	8	(98)	13	(77)	965	888
Transactions with owners:								
Dividends distributed	-	-	-	-	-	-	(205)	(205)
Dividends distributed related to treasury shares	-	-	-	-	-	-	4	4
Acquisitions of treasury shares	-	-	-	-	-	-	(419)	(419)
Sale of treasury shares	-	-	-	-	-	-	11	11
Share-based payment	-	-	-	-	-	-	12	12
Total transactions with owners	-	-	-	-	-	-	(597)	(597)
Equity at 31 December 2016	**30**	**-**	**107**	**(61)**	**15**	**61**	**3,099**	**3,190**

A dividend of DKK 9.71 (EUR 1.31) per share, corresponding to EUR 289m in total, is proposed for 2016. The proposed dividend is included in retained earnings. Dividends of EUR 201m, net of treasury shares, have been paid in 2016 relating to the financial year 2015.

Ref. to the parent company's statement of changes in equity on page 123 for information about which reserves are available for distribution. For proposed distribution of profit, ref. to page 120 of the parent company's financial statements, and note 4.1 to the consolidated financial statements.

mEUR	Share capital	Reserves: Premium	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Total
Equity at 1 January 2015	**30**	**439**	**37**	**15**	**7**	**498**	**1,851**	**2,379**
Premium transferred to retained earnings	-	(439)	-	-	-	(439)	439	-
Profit for the year	-	-	-	-	-	-	685	685
Other comprehensive income for the year	-	-	62	22	(5)	79	-	79
Total comprehensive income for the year	-	-	62	22	(5)	79	685	764
Transactions with owners:								
Dividends distributed	-	-	-	-	-	-	(116)	(116)
Acquisitions of treasury shares	-	-	-	-	-	-	(176)	(176)
Sale of treasury shares	-	-	-	-	-	-	40	40
Share-based payment	-	-	-	-	-	-	8	8
Total transactions with owners	-	-	-	-	-	-	(244)	(244)
Equity at 31 December 2015	**30**	**-**	**99**	**37**	**2**	**138**	**2,731**	**2,899**

Dividends of EUR 116m have been paid in 2015 relating to the financial year 2014.

Statement of cash flows 1 January – 31 December

mEUR	Note	2016	2015
Profit for the year		965	685
Adjustments for non-cash transactions	6.6	1,086	603
Financial income received		25	14
Financial costs paid		(71)	(43)
Income tax paid	5.1	(212)	(184)
Cash flow from operating activities before change in net working capital		1,793	1,075
Change in net working capital	2.1	388	397
Cash flow from operating activities		**2,181**	**1,472**
Purchase of intangible assets	3.1	(202)	(148)
Purchase of property, plant and equipment	3.2	(287)	(220)
Disposal of property, plant and equipment		21	1
Purchase of other non-current assets		-	(3)
Purchase of marketable securities		(200)	-
Acquisition of subsidiaries, net of cash	6.5	(83)	(55)
Acquisition of associates and joint ventures	3.4	(66)	-
Cash flow from investing activities		**(817)**	**(425)**
Free cash flow[1)]		**1,364**	**1,047**
Acquisition of treasury shares		(417)	(176)
Disposal of treasury shares		11	40
Dividends paid		(201)	(116)
Raising of financial debt	4.5	-	496
Repayment of financial debts	4.5	(4)	(604)
Cash flow from financing activities		**(611)**	**(360)**
Net increase in cash and cash equivalents		**753**	**687**
Cash and cash equivalents at 1 January		2,765	2,014
Exchange rate adjustments on cash and cash equivalents		32	64
Cash and cash equivalents at 31 December		**3,550**	**2,765**
The amount can be specified as follows:			
Cash and cash equivalents without disposal restrictions		3,215	2,569
Cash and cash equivalents with disposal restrictions		335	196
Cash and cash equivalents at 31 December		**3,550**	**2,765**

1) Free cash flow excluding investments in marketable securities EUR 1,564m (2015: EUR 1,047m).

Overview of notes

1. Result for the year

1.1 Segment information

Reportable segments
Vestas operates in the following two business segments, Project and Service, which forms the Group's management's day-to-day control of the business.

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

Group accounting policies
The reportable segments are determined based on the Group's management structures and the consequent reporting to the Chief Operating Decision Maker ("CODM"), 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 Project and Service. Certain income and costs relating to group functions, investing activities, tax, special items, etc. are managed on group level. These items are not included in the reportable segments, and therefore, presented as 'Not allocated'.

The measure of revenue, costs and EBIT before special items 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 before special items.

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, research and development 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.

1.1 Segment information (continued)

2016 mEUR	Project	Service	Not allocated	Total Group
Revenue	8,928	1,309	-	10,237
Total revenue	**8,928**	**1,309**	**-**	**10,237**
Total costs	**(7,505)**	**(1,084)**	**(227)**	**(8,816)**
Operating profit (EBIT) before special items	**1,423**	**225**	**(227)**	**1,421**
Special items, ref. note 1.6			-	-
Operating profit (EBIT)				**1,421**
Loss from investments in associates and joint ventures, ref. note 3.4			(101)	(101)
Financial income			56	56
Financial costs			(89)	(89)
Profit before tax				**1,287**
Amortisation and depreciation included in total costs, ref. note 1.4	(320)	(28)	(29)	(377)
Investments in associates and joint ventures, ref. note 3.4				201

Impairment loss of EUR 28m has in 2016 negatively impacted the Group's EBIT before special items, of which the largest contributors are EUR 10m related to R&D activities and EUR 11m related to production equipment, both impacting the Project segment. Furthermore, EUR 5m impairment loss from properties held for sale, impacting Not allocated.

Write-down of inventory relating to development and construction activities in prior years, EUR 54m, has been recognised and consequently negatively impacted the project EBIT before special items.

2015 mEUR	Project	Service	Not allocated	Total Group
Revenue	7,285	1,138	-	8,423
Total revenue	**7,285**	**1,138**	**-**	**8,423**
Total costs	**(6,456)**	**(937)**	**(170)**	**(7,563)**
Operating profit (EBIT) before special items	**829**	**201**	**(170)**	**860**
Special items, ref. note 1.6			46	46
Operating profit (EBIT)				**906**
Income from investments in associates and joint ventures, ref. note 3.4			34	34
Financial income			61	61
Financial costs			(76)	(76)
Profit before tax				**925**
Amortisation and depreciation included in total costs, ref. note 1.4	(317)	(14)	(18)	(349)
Investments in associates and joint ventures, ref. note 3.4				224

Impairment loss and write-offs on service inventory of EUR 25m has been recognised and consequently negatively impacted the service EBIT before special items.

Write-down on inventory relating to development and construction activities in prior years, EUR 50m, has been recognised and consequently negatively impacted the project EBIT before special items.

1.1 Segment information (continued)

Revenue specified by country

mEUR	2016	2015
USA	3,882	2,994
Germany	1,447	1,026
Denmark	301	328
Other countries	4,607	4,075
Total	**10,237**	**8,423**

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 the Group's total revenue and revenue in Denmark.

In 2016 and 2015, no single customer accounted for more than 10 percent of the Group's total revenue.

Non-current assets specified by country[1)]

mEUR	2016	2015
Denmark	955	930
USA	545	549
Other countries	657	487
Total	**2,157**	**1,966**

1) Non-current assets are broken down geographically based on the physical location of the assets and comprise intangible assets and property, plant and equipment.

The non-current assets in all other countries did not individually exceed 10 percent of total non-current assets for the Group.

1.2 Revenue

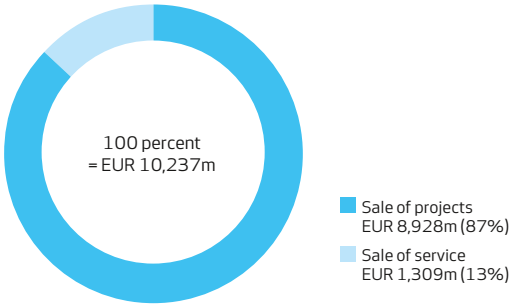
Group accounting policies
Revenue comprises sale of wind turbines and wind power plants, after-sales service, and sale of spare parts.

Sale of individual wind turbines and small wind power plants based on standard solutions (supply-only and supply-and-installation projects) as well as spare parts sales are recognised in the income statement provided that risk has been transferred to the buyer in the reporting period, and provided that the income can be measured reliably and is expected to be received. Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised as the wind power plants are constructed based on the stage of completion of the individual contracts (turnkey projects). 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.

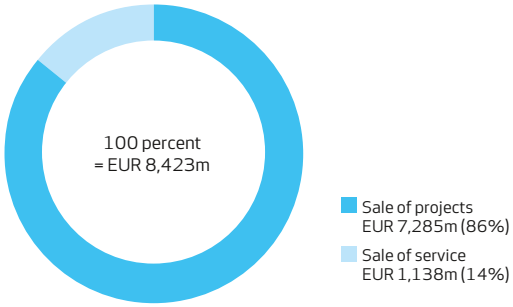
Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised as revenue over the term of the agreement as the services are provided.

Key accounting estimates and judgements
Recognition of contract elements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. Provided that the wind power plants are customised to a high degree, revenue from projects in progress is recognised under the percentage-of-completion method corresponding to the selling price of the assessed work performed based on the stage of completion (turnkey projects). Revenue from service contracts is also recognised under the percentage-of-completion method. Where projects do not qualify for recognition under the percentage-of-completion method, total revenue is, to the extent applicable, recognised based on an assessment of the point in time when the risk is transferred to the customer (supply-only and supply-and-installation projects).

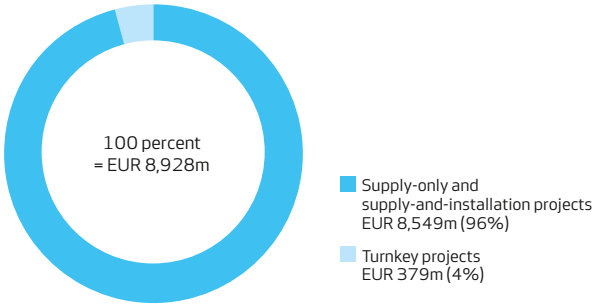
Revenue 2016
mEUR · Percent



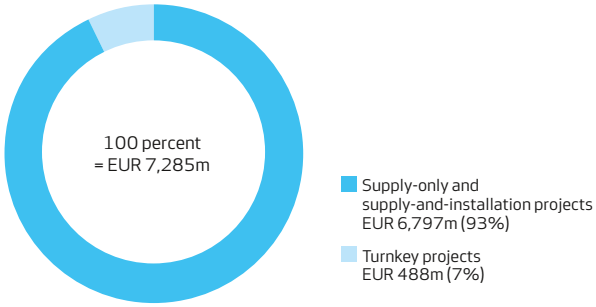
Revenue 2015
mEUR · Percent



Project segment revenue 2016
mEUR · Percent



Project segment revenue 2015
mEUR · Percent



1.3 Costs

Group accounting policies

Production costs

Production costs, including warranty costs, comprise the cost incurred to achieve revenue for the year. Costs comprise 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 losses on 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

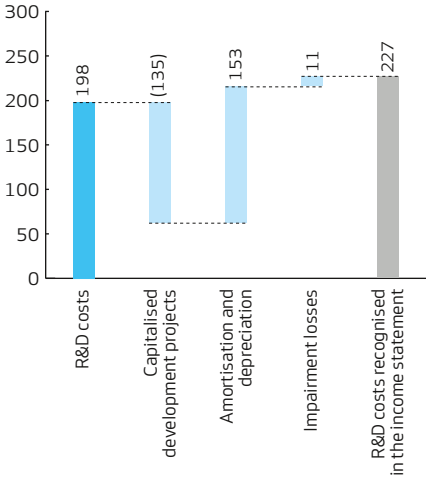
Distribution costs comprise cost incurred for the sale and distribution of products, etc. sold during the year. Also included are cost relating to employees and depreciation.

Administration costs

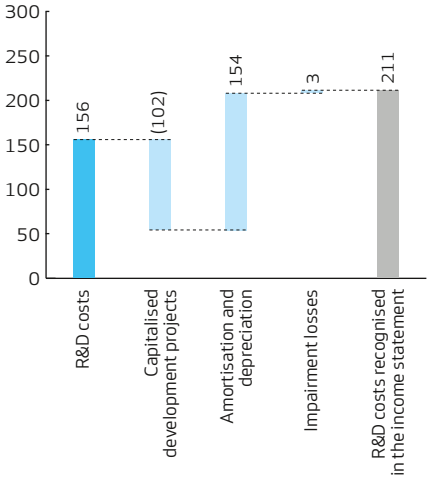
Administration costs comprise cost incurred during the year for management and administration of the Group, including costs for administrative staff, management, office premises, office cost, and depreciation.

Research and development costs

R&D costs 2016
mEUR



R&D costs 2015
mEUR

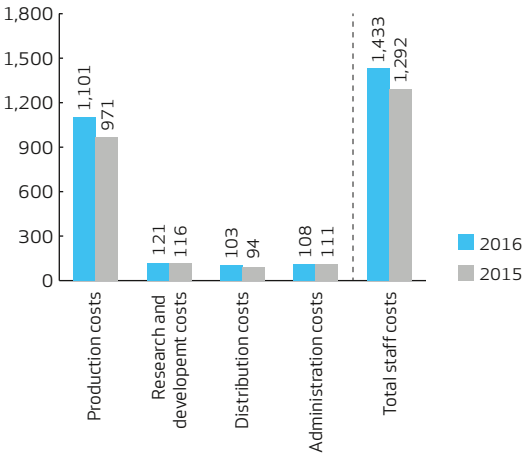


Staff costs

mEUR	2016	2015
Staff costs are specified as follows:		
Wages and salaries, etc.	1,213	1,101
Share-based payment, ref. note 6.2	12	8
Pension schemes, defined contribution schemes	55	49
Other social security costs	153	134
	1,433	**1,292**
Average number of employees	21,625	18,986
Number of employees 31 December	21,824	20,507

1.3 Costs (continued)

Staff costs recognised in the income statement
mEUR



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

mEUR	2016	2015
Attributable to:		
Board of Directors		
Board remuneration	1	1
	1	**1**
Executive Management		
Wages and bonus	7	7
Share-based payment, ref. note 6.2	4	2
Social security costs	0	0
	11	**9**

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

2016 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	12	130	-	20	-	162
Depreciation, property, plant and equipment, ref. note 3.2	152	23	21	19	-	215
Impairment losses, property, plant and equipment, ref. note 3.2	12	11	-	5	-	28
Total	**176**	**164**	**21**	**44**	**-**	**405**

2015 mEUR	Production costs	Research and development costs	Distribution costs	Administration costs	Special items	Total
Amortisation, intangible assets, ref. note 3.1	-	171	-	-	-	171
Depreciation, property, plant and equipment, ref. note 3.2	133	8	29	8	-	178
Impairment losses, intangible assets, ref. note 3.1	-	3	-	-	-	3
Reversal of impairment losses, property, plant and equipment, ref. note 3.2	-	-	-	-	(47)	(47)
Total	**133**	**182**	**29**	**8**	**(47)**	**305**

1.5 Government grants

Group 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.

The Group has received government grants of which EUR 2m (2015: EUR 4m) has been offset against incurred cost and EUR 4m (2015: EUR 0m) against non-current assets.

1.6 Special items

Group accounting policies
Special items comprise costs and income of a special or non-recurring nature in relation to the main activities of the Group. This includes costs related to significant organisational restructuring and adjustments to production capacity and the product programme. The costs include the write-down of tangible assets as well as provisions for reorganisations 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 special or non-recurring nature in relation to the main activities of the Group.

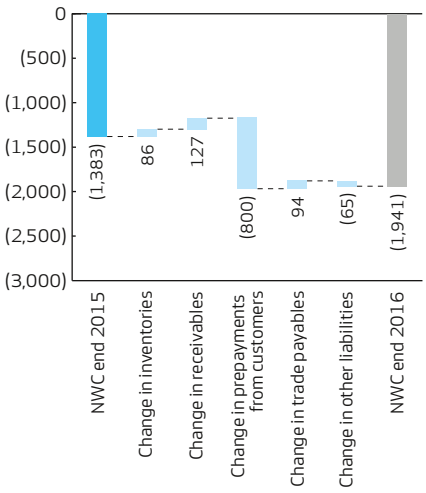
There are no special items in 2016.

mEUR	2016	2015
Reversal of impairment loss on property, plant and equipment	-	47
Other items	-	(1)
	-	**46**

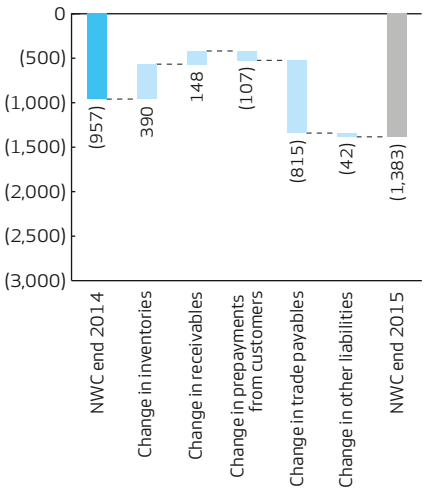
2. Working capital

2.1 Change in net working capital

NWC change over the last 12 months 2016
mEUR



NWC change over the last 12 months 2015
mEUR



Included in the 2016 change in net working capital ('NWC') are non-cash adjustments and exchange rates adjustments with a total amount of EUR 170m (2015: EUR 29m).

2.2 Inventories

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

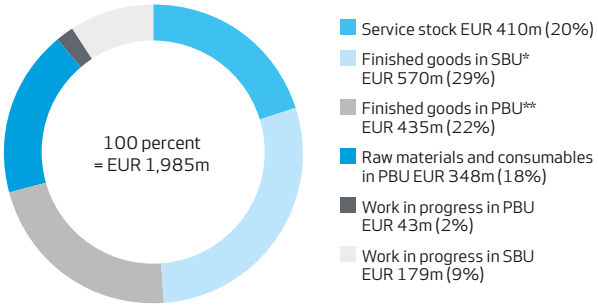
The cost of raw materials and service stock comprise purchase price of materials, consumables, duties, and transportation costs.

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.

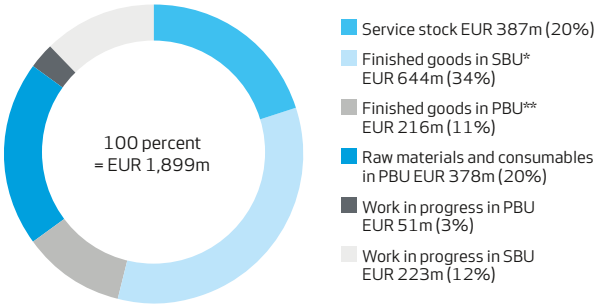
The NRV of inventories is measured at sales price less costs of completion and selling costs. NRV is determined taking into account marketability, obsolescence, and development in the expected selling price.

Key accounting estimate
Estimate of net realisable value
The Group 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 not estimated to be 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 2016
mEUR and percent



Inventories 2015
mEUR and percent



* Sales business units
** Production business units

mEUR	2016	2015
Inventories consumed		
Inventories consumed for the year, which are included in production costs	6,661	5,593
Write down inventories		
Write-downs of inventories in the year[1)]	68	100
Utilised write-down in the year	(25)	(6)
Reversal of write-downs in the year[2)]	(6)	(31)

1) Include write-down of EUR 54m (2015: EUR 50m) relating to development and construction activities in prior years.
2) 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 Trade receivables

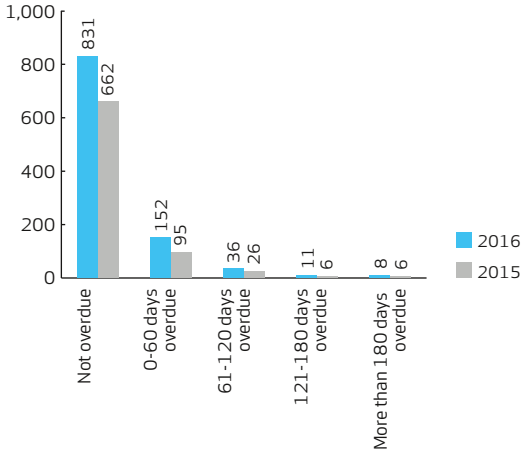
Group accounting policies
Trade receivables are measured at amortised cost or net realisable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower.

mEUR	2016	2015
Trade receivables	1,038	795
	1,038	**795**
Fair value of security received for trade receivables balances outstanding as at 31 December	347	187
Write-downs included in trade receivables, developed as follows:		
Write-downs at 1 January	(15)	(10)
Write-downs realised	2	1
Write-downs in the year	(2)	(6)
Write-downs at 31 December	**(15)**	**(15)**

All trade receivables are expected to be received within 12 months.

The total write-downs of trade receivables of EUR 15m at 31 December 2016 (2015: EUR 15m) are based on an individual assessment of each receivable.

The age distribution of receivables[1)]
mEUR



1) The age distribution of receivables is including write-downs.

2.4 Construction contracts in progress

Group accounting policies
Construction contracts in progress comprise agreements to deliver wind power plants with a high degree of customisation (turnkey projects).

Construction contracts in progress 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 contract costs incurred to date bear to the estimated total contract costs. Where it is probable that total contract 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 construction contracts in progress upon delivery of the components to the specific wind power plant's construction site.

Prepayments from customers are recognised as liabilities. Prepayments from customers recognised in liabilities are measured at cost and comprise prepayments received for wind power plants ordered but not yet delivered and service prepayments received in respect of service on wind turbines and wind power plants to be delivered.

A construction contract in progress for which the selling price of the work performed exceeds progress billings and expected losses is recognised as an asset. Construction contracts in progress for which interim billings and expected losses exceed the selling price are recognised as a liability.

Costs relating to sales work and the securing of contracts are recognised in the income statement as incurred.

mEUR	2016	2015
Sales value of construction contracts in progress	605	716
Progress billings	(659)	(718)
	(54)	**(2)**
Specified as follows:		
Construction contracts in progress (assets)	19	15
Construction contracts in progress (liabilities)	(73)	(17)
	(54)	**(2)**

All receivables relating to construction contracts in progress are expected to be received within 12 months.

2.5 Other receivables

Group 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
Judgement 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 certain circumstance.

mEUR	2016	2015
Prepayments	30	16
Supplier claims	4	10
VAT[1)]	130	161
Derivative financial instruments	51	103
Other receivables	162	191
	377	**481**
Specified as follows:		
0–1 years	322	442
> 1 year	55	39
	377	**481**

1) Include write-downs of VAT receivables of EUR 100m at 31 December 2016 (2015: EUR 70m).

2.6 Other liabilities

Group accounting policies
Other liabilities are measured at amortised cost.

Obligations relating to defined contribution plans, where the Group 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	2016	2015
Staff costs	252	209
Taxes and duties	202	203
Derivative financial instruments	139	56
Other liabilities	61	41
	654	**509**
Specified as follows:		
0–1 year	564	499
> 1 year	90	10
	654	**509**

3. Other operating assets and liabilities

3.1 Intangible assets

Group accounting policies

Goodwill

Goodwill is initially recognised in the balance sheet as described under consolidated financial statements and business combinations, ref. note 7.1. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's operating segments; projects 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 that are clearly defined, identifiable, and for which technical feasibility, sufficient resources and a potential future market or application in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. 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 the Group's 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.

3.1 Intangible assets (continued)

2016 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost at 1 January	354	1,239	221	20	93	1,927
Reclassification	-	-	-	8	(3)	5
Exchange rate adjustments	2	4	1	-	-	7
Additions	-	-	11	-	191	202
Additions from business combination	56	-	-	37	-	93
Transfers	-	167	30	(1)	(196)	-
Cost at 31 December	**412**	**1,410**	**263**	**64**	**85**	**2,234**
Amortisation and impairment losses at 1 January	102	978	160	-	-	1,240
Exchange rate adjustments	1	2	1	-	-	4
Amortisation for the year	-	130	22	10	-	162
Amortisation and impairment losses at 31 December	**103**	**1,110**	**183**	**10**	**-**	**1,406**
Carrying amount at 31 December	**309**	**300**	**80**	**54**	**85**	**828**
Internally generated assets included above	-	300	55	-	85	440
Amortisation period		3–5 years	3–5 years	3–7 years		

2015 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Projects in progress	Total
Cost at 1 January	317	1,092	177	-	137	1,723
Exchange rate adjustments	-	1	-	-	-	1
Additions	-	-	46	-	102	148
Additions from business combination	37	-	-	20	-	57
Disposals	-	-	(2)	-	-	(2)
Transfers	-	146	-	-	(146)	-
Cost at 31 December	**354**	**1,239**	**221**	**20**	**93**	**1,927**
Amortisation and impairment losses at 1 January	102	818	145	-	-	1,065
Exchange rate adjustments	-	3	-	-	-	3
Amortisation for the year	-	154	17	-	-	171
Reversal of depreciation of disposals in the year	-	-	(2)	-	-	(2)
Impairment losses for the year	-	3	-	-	-	3
Amortisation and impairment losses at 31 December	**102**	**978**	**160**	**-**	**-**	**1,240**
Carrying amount at 31 December	**252**	**261**	**61**	**20**	**93**	**687**
Internally generated assets included above	-	261	52	-	93	406
Amortisation period		3–5 years	3–5 years	3–7 years		

Included in software are IT projects in progress amounting to EUR 29m at 31 December 2015.

3.2 Property, plant and equipment

Group 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 the Group. 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	20–40 years
Building installations	15–25 years
Plant and machinery	3–10 years
Power-operated tools of own construction and newly manufactured test and exhibition turbines	3–5 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)

2016 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January	1,200	699	933	106	2,938
Reclassification	(8)	-	3	-	(5)
Exchange rate adjustments	(5)	(1)	9	6	9
Additions	69	35	93	107	304
Additions from business combination	-	-	3	-	3
Disposals	(42)	(12)	(27)	(14)	(95)
Transfers	23	44	30	(97)	-
Transfers to assets held for sale	(8)	-	-	-	(8)
Cost at 31 December	**1,229**	**765**	**1,044**	**108**	**3,146**
Depreciation and impairment losses at 1 January	437	480	742	-	1,659
Exchange rate adjustments	(2)	5	7	-	10
Depreciation for the year	54	70	91	-	215
Impairment losses for the year	8	18	2	-	28
Reversal of depreciation of disposals in the year	(40)	(12)	(27)	-	(79)
Transfers	21	(29)	8	-	-
Transfers to assets held for sale	(16)	-	-	-	(16)
Depreciation and impairment losses at 31 December	**462**	**532**	**823**	**-**	**1,817**
Carrying amount at 31 December	**767**	**233**	**221**	**108**	**1,329**
Depreciation period	15–40 years	3–10 years	3–5 years		

2015 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January	1,116	622	821	58	2,617
Exchange rate adjustments	61	22	32	1	116
Additions	9	47	81	83	220
Additions from business combination	-	4	-	-	4
Disposals	-	(9)	(10)	-	(19)
Transfers	14	13	9	(36)	-
Cost at 31 December	**1,200**	**699**	**933**	**106**	**2,938**
Depreciation and impairment losses at 1 January	421	411	653	-	1,485
Exchange rate adjustments	17	19	23	-	59
Depreciation for the year	41	57	80	-	178
Reversal of depreciation of disposals in the year	-	(7)	(9)	-	(16)
Reversal of impairment losses[1)]	(42)	-	(5)	-	(47)
Depreciation and impairment losses at 31 December	**437**	**480**	**742**	**-**	**1,659**
Carrying amount at 31 December	**763**	**219**	**191**	**106**	**1,279**
Depreciation period	15–40 years	3–10 years	3–5 years		

1) Reversal of impairment losses is recognised as special item in the income statement.

3.3 Impairment

Valuation of goodwill
At 31 December 2016, Management performed the annual impairment test of the carrying amount of goodwill. No basis for impairment was found for 2016 (2015: EUR 0m). In the impairment tests, the carrying amount of the assets is compared to the discounted value of future cash flows.

At the annual test of goodwill, impairment was based on the two operating segments: Project and Service, these being the lowest level of cash-generating unit as defined by Management.

The main part of the carrying amount of goodwill in the Group arose in connection with the acquisition of NEG Micon A/S in 2004, and the goodwill is allocated to the Group's two operating segments Projects (EUR 180m) and Service (EUR 35m). In relation to the acquisition of UpWind Solutions, Inc. in 2015, the Group has recognised goodwill of EUR 37m, which is allocated to the Service segment.

With the acquisition of Availon GmbH in 2016, the Group has recognised goodwill of EUR 56m, which is allocated to the Service segment, ref. note 6.5.

Key accounting estimates

Assumptions underpinning impairment test of goodwill
Budgets and business plans for the next three years are based on the Group's investments in progress and contracted investments, and the risks relating to the key parameters have been assessed and recognised 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, hence EBIT and capital expenditure:

Project	Service
Order backlog - project as at 31 December 2016	Order backlog - service as at 31 December 2016
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 and Availon
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:

	2016			2015		
	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)
Projects	9.2	2	180	11.3	2	180
Service	9.2	2	129	11.3	2	72

3.4 Investments in associates and joint ventures

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

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

The amounts recognised in the balance sheet are as follows:

mEUR	2016	2015
Investments in joint ventures	199	224
Investments associates	2	1
Carrying amount at 31 December	**201**	**225**

The amounts recognised in the income statement are as follows:

mEUR	2016	2015
Joint ventures	(101)	34
	(101)	**34**

Investments in joint ventures

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.

mEUR	2016	2015
Cost at 1 January	202	202
Additions	65	-
Cost at 31 December	**267**	**202**
Value adjustments at 1 January	22	(15)
Other adjustments	(2)	1
Share of profit/(loss)	(101)	34
Share of other comprehensive income	13	2
Value adjustments at 31 December	**(68)**	**22**
Carrying amount at 31 December	**199**	**224**

The joint ventures listed below have share capital consisting solely of ordinary shares, which is held directly by the Group.

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

3.4 Investments in associates and joint ventures (continued)

MHI Vestas Offshore Wind A/S
In the Group's share of profit from the joint venture, income resulting from the sale of wind turbines to the joint venture is recognised in the Group's financial statements only to the extent that the joint venture has sold wind turbines to unrelated parties. The share of loss from the joint venture on a standalone basis amounts to EUR 69m (2015: EUR 1m).

MHI Vestas Offshore Wind is a private company and there is no quoted market prices available for its shares.

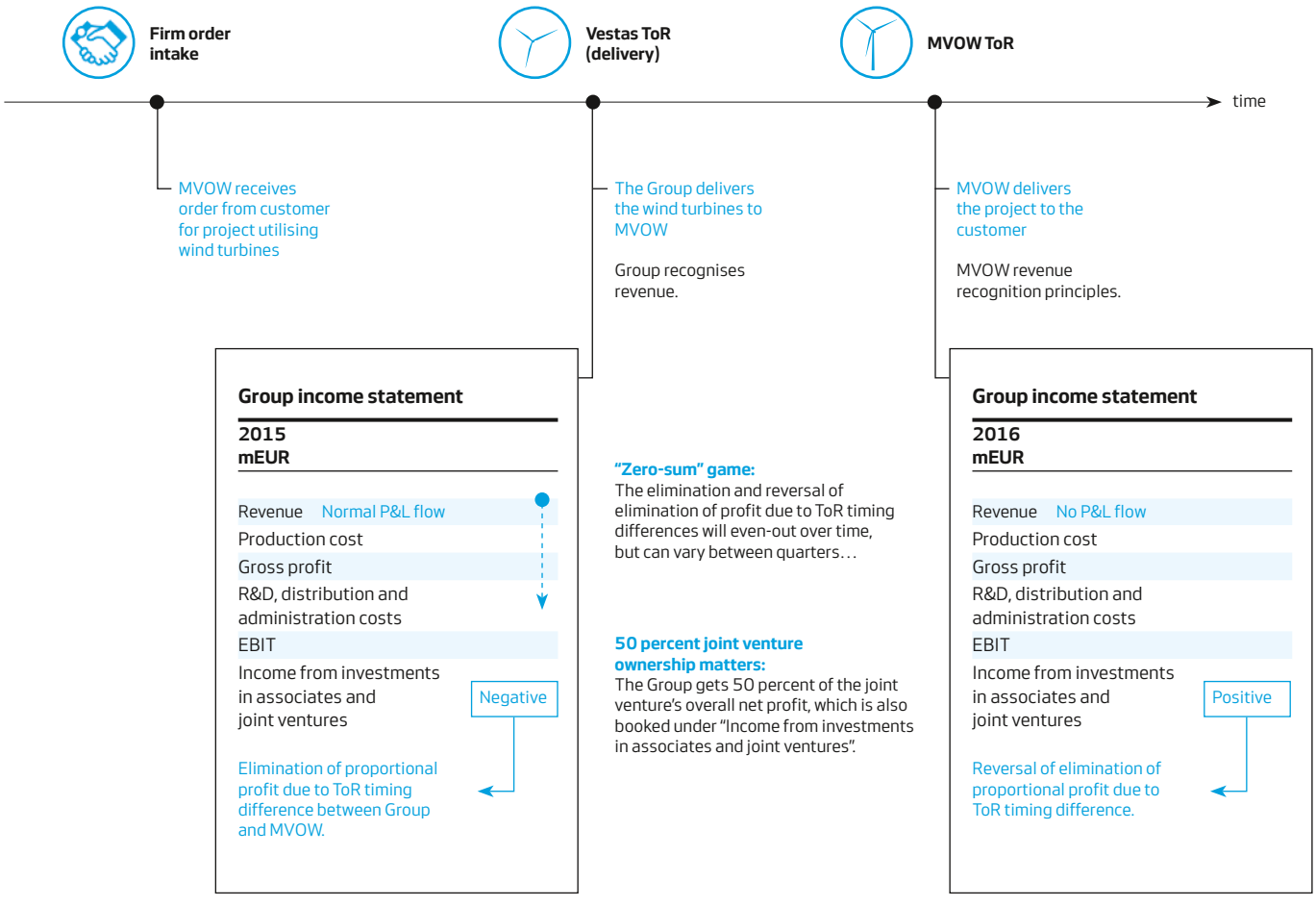
Roaring Fork Wind, LLC
With effect from 22 December 2016, the Group has through its wholly owned subsidiary Steelhead Wind 1, LLC entered into a strategic co-development partnership with RES Americas Developments Inc. (RES) forming the equally shared ownership in Roaring Fork Wind, LLC. The purpose of the partnership is development of wind power plants.

Based on the terms of the agreement between the shareholders, it has been determined that the investment in Roaring Fork Wind shall be classified as a joint venture.

In connection with the establishment of the joint venture, the Group has transferred EUR 65m in cash as capital. Additionally, the Group has to contribute approx EUR 22m as development investment conditional to certain future events. The joint venture had no operations in 2016. Roaring Fork Wind is a private company and there is no quoted market prices available for its shares.

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

Transfer of risk (ToR) timing differences between the Group 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 associates and joint ventures (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 the Group's interest in the joint ventures.

Summarised financial information for joint ventures
Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

Summarised balance sheet 31 December

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
CURRENT						
Cash and cash equivalents	4	-	113	103	117	103
Other current assets (excluding cash)	3	-	831	282	834	282
Total current assets	7	-	944	385	951	385
Other current liabilities (including trade and other payables and provisions)	(2)	-	(1,054)	(347)	(1,056)	(347)
Total current liabilities	(2)	-	(1,054)	(347)	(1,056)	(347)
NON-CURRENT						
Assets	85	-	457	424	542	424
Financial liabilities	-	-	-	(2)	-	(2)
Total non-current liabilities	-	-	-	(2)	-	(2)
Net assets	**90**	**-**	**347**	**460**	**437**	**460**

Summarised statement of comprehensive income 1 January - 31 December

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	-	-	141	668	141	668
Depreciation and amortisation	-	-	(78)	(31)	(78)	(31)
Interest income	-	-	-	0	-	0
Interest expense	-	-	0	(2)	0	(2)
Pre-tax profit from continuing operations	-	-	(138)	(2)	(138)	(2)
Income tax expense	-	-	(1)	0	(1)	0
Post-tax profit from continuing operations	-	-	(139)	(2)	(139)	(2)
Other comprehensive income	-	-	26	2	26	2
Total comprehensive income	**-**	**-**	**(113)**	**0**	**(113)**	**0**

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts).

3.4 Investments in associates and joint ventures (continued)

Reconciliation of summarised financial information 1 January - 31 December
Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures.

	Roaring Fork Wind		MHI Vestas Offshore		Total	
mEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Opening net assets 1 January	-	-	460	360	460	360
Capital increase	90	-	-	100	90	100
Loss for the period	-	-	(139)	(2)	(139)	(2)
Other comprehensive income	-	-	26	2	26	2
Closing net assets	**90**	**-**	**347**	**460**	**437**	**460**
Interest in joint venture	45	-	174	230	219	230
Elimination of internal profit on sale of wind turbines	-	-	(36)	-	(36)	-
Identifiable assets and other adjustments	20	-	(4)	(6)	16	(6)
Carrying value	**65**	**-**	**134**	**224**	**199**	**224**

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts).

3.5 Provisions

Group accounting policies
Provisions are recognised when as a consequence of a past event the Group has a legal or constructive obligation and it is probable that there will be an outflow of the group's 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.

The Group 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 the Group from the contract are lower than the unavoidable costs of meeting obligations under the contract. Expected losses on 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, the Group 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 delivery 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 type faults, etc. Such provisions will also include wind turbines sold in prior years, but where type faults, etc. are identified later. Moreover, it should be emphasised that the complexity of some of the type faults, 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 5-10 percent of the warranty provisions made for the year relate to adjustments of previous years' estimates of provisions for serial faults, 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 228m have been made in 2016 (2015: EUR 160m), corresponding to 2.2 percent (2015: 1.9 percent) of the Group's revenue.

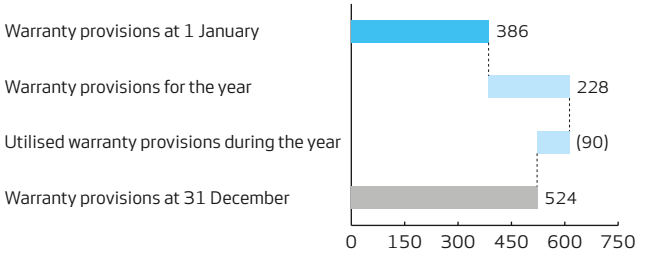
Management assesses the likely outcome of pending and future negotiations with sub-suppliers for compensation. Compensation from sub-suppliers may be recognised only when it is virtually certain that we will receive compensation from the sub-suppliers.

The carrying amount of warranty provisions at 31 December 2016 was EUR 524m (2015: EUR 386m).

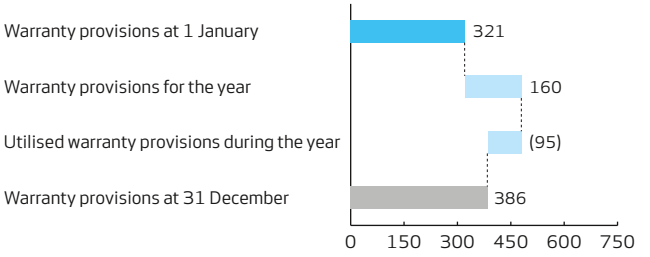
3.5 Provisions (continued)

mEUR	2016	2015
NON-CURRENT PROVISIONS		
Warranty provisions	414	283
Other provisions	43	31
	457	**314**
CURRENT PROVISIONS		
Warranty provisions	110	103
Other provisions	21	21
	131	**124**
Total provisions	**588**	**438**

Warranty provisions 2016
mEUR



Warranty provisions 2015
mEUR



3.5 Provisions (continued)

mEUR	2016	2015
The warranty provisions are expected to be consumed as follows:		
0–1 year	110	103
>1 year	414	283
	524	**386**

In line with accounting policies, potential product warranties are recognised as warranty provisions when revenue from 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. 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.

OTHER PROVISIONS		
Other provisions at 1 January	52	52
Exchange rate adjustments	0	(1)
Other provisions for the year	22	14
Utilised other provisions during the year	(10)	(13)
Other provisions at 31 December	**64**	**52**

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

Other provisions are expected to be payable as follows:		
0–1 year	21	21
> 1 year	43	31
	64	**52**

3.6 Contingent assets and liabilities

mEUR	2016	2015
The Group provides performance and payment guarantees issued by banks and insurance companies to customers and other beneficiaries to secure the Groups obligations	525	343
The Group provides guarantees and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	309	167

In addition, the Group provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries and joint ventures, and their warranty obligations to customers.

Contingent liabilities
The Group is involved in some 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
The Group 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 the Group, except for supplier claims accounted for as other receivables, ref. note 2.5.

The consideration for the sale of the Group's machining and castings units in 2013 included an earn-out set at a maximum of currently EUR 15m (2015: EUR 20m). The Group judges the occurrence of the events triggering a pay-out to be highly uncertain and as a consequence the earn-out has not been recognised as at 31 December 2016.

4. Capital structure and financing items

4.1 Share capital

Group 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 2016, Vestas Wind Systems A/S proposes to distribute a dividend of DKK 9.71 (EUR 1.31) per share corresponding to total EUR 289m. Dividends of EUR 201m, net of treasury shares, have been paid in 2016 relating to the financial year 2015.

Share capital

	2016	2015
The share capital comprises 221,544,727 shares of DKK 1.00	221,544,727	224,074,513
Number of shares at 1 January	224,074,513	224,074,513
Cancellation	(2,529,786)	-
Number of shares at 31 December	**221,544,727**	**224,074,513**
Shares outstanding	213,773,839	218,903,925
Treasury shares	7,770,888	5,170,588
Number of shares at 31 December	**221,544,727**	**224,074,513**

The share capital was increased by 20,370,410 shares of DKK 1.00 in 2014. 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. Except for these two transactions, the share capital has not changed in the period 2012–2016.

All shares rank equally.

Treasury shares

	2016	2015	2016	2015
	Number of shares / Nominal value (DKK)	Number of shares / Nominal value (DKK)	% of share capital	% of share capital
Treasury shares at 1 January	5,170,588	3,309,850	2.3	1.5
Purchases	6,347,780	3,079,786	2.9	1.3
Cancellation	(2,529,786)	-	(0.6)	-
Sale of treasury shares	(1,217,694)	(1,219,048)	(1.1)	(0.5)
Treasury shares at 31 December	**7,770,888**	**5,170,588**	**3.5**	**2.3**

Pursuant to authorization granted to the Board of Directors by the Annual General Meeting on 30 March 2016 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 18 August 2016. It was completed on 30 December 2016.

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

At Vestas Annual General Meeting on 6 April 2017, 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:

	2016	2015
Nominal value, purchases (kDKK)	6,325	3,080
Nominal value, sales (kDKK)	(3,747)	(1,219)
Average share price, purchases (DKK)	491	427
Average share price, sales (DKK)	455	248
Purchase amount (mEUR)	419	176
Sales amount (mEUR)	(11)	(40)

Treasury shares are acquired to cover grants/issues of shares under the Group's incentive programmes or as part of its capital structure strategy.

The share capital has been fully paid.

Net proposed cash distribution to shareholders

	2016	2015
Dividend[1]	279	200

1) Dividend excluding treasury shares.

4.2 Earnings per share

	2016	2015
Profit for the year (mEUR)	**965**	**685**
Weighted average number of ordinary shares	222,360,341	224,074,513
Weighted average number of treasury shares	(3,849,409)	(3,141,169)
Weighted average number of ordinary shares outstanding	218,510,932	220,933,344
Dilutive effect of outstanding options and restricted performance shares	1,072,694	1,962,778
Average number of shares outstanding including dilutive effect of options and restricted performance shares	**219,583,626**	**222,896,122**
Earnings per share (EPS)	4.41	3.10
Earnings per shares, diluted (EPS-D)	4.39	3.07

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

4.3 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	2016	2015
Interest income	25	14
Foreign exchange gains	-	13
Hedging instruments	29	34
Other financial income	2	0
	56	**61**

Financial costs

mEUR	2016	2015
Interest costs	26	19
Foreign exchange losses	48	43
Other financial costs	15	14
	89	**76**

4.4 Cash and cash equivalents

Cash and cash equivalents
Cash and cash equivalents included in the Group's 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, EUR 335m (2015: EUR 196m), are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents.

4.5 Financial risks

The Group's policy for managing financial risks
Financial risks are an inherent part of the Group's operating activities and the Group is exposed to a number of financial risks. Financial risks are managed centrally and the overall objectives and policies for the Group's financial risk management are outlined in the Treasury Policy. The Treasury Policy is approved by the Board of Directors, and revised on a continuous basis to adapt to the changing financial risks and market situation. The Treasury Policy sets the limits for the various financial risks and includes policies for managing liquidity risks, credit risks, foreign currency risks, interest rate risks, and commodity risks.

It is the Group's policy only to hedge commercial exposures and do not enter into any speculative transactions.

Information on financial and capital structure strategy, ref. page 016.

Liquidity risks
The Group manages the liquidity risks according to the Treasury Policy. The Group ensures to have sufficient financial resources to service its financial obligations. The Group's financial resources are managed through a combination 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.

The Group's main credit facility consists of a EUR 1,050m revolving credit facility. The facility has a sublimit of EUR 500m for cash drawings, while the total of EUR 1,050m is available for guarantees. In 2016, the final maturity of the revolving credit facility has been extended to expire in June 2021. The revolving credit facility is subject to a change of control clause resulting in repayment of the credit facility in the event of change of control. The revolving credit facility is subject to covenants and no breaches has been encountered throughout the year.

In 2015 Vestas issued a green corporate eurobond with a nominal value of EUR 500m at a fixed interest rate of 2.75 percent. The green corporate eurobond will mature in 2022.

Considering the Group's strong liquidity position and available credit facilities the Group's liquidity risk is assessed to be low. The available financial resources of the Group are shown below.

mEUR	2016	2015
Main credit facility	500	500
Other credit facilities	10	-
Marketable securities	201	-
Cash and cash equivalents	3,550	2,765
Total available financial resources	**4,261**	**3,265**

4.5 Financial risks (continued)

Financial assets by maturity and category

2016 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	41	41	41	36	5	-
Hedging instruments assets (hedge accounting)	**41**	**41**	**41**	**36**	**5**	**-**
Fair value hedges	10	10	10	10	-	-
Marketable securities	201	201	262	13	61	188
Fair value through profit or loss	**211**	**211**	**272**	**23**	**61**	**188**
Trade receivables	1,038	1,038	1,038	1,038	-	-
Construction contracts in progress	19	19	19	19	-	-
Other receivables	296	296	296	246	15	35
Cash and cash equivalents	3,550	3,550	3,550	3,550	-	-
Loans and receivables	**4,903**	**4,903**	**4,903**	**4,853**	**15**	**35**
Total financial assets	**5,155**	**5,155**	**5,216**	**4,912**	**81**	**223**

2015 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	96	96	96	89	7	-
Hedging instruments assets (hedge accounting)	**96**	**96**	**96**	**89**	**7**	**-**
Fair value hedges	7	7	7	7	-	-
Fair value through profit or loss	**7**	**7**	**7**	**7**	**-**	**-**
Trade receivables	795	795	795	795	-	-
Construction contracts in progress	15	15	15	15	-	-
Other receivables	362	362	362	330	17	15
Cash and cash equivalents	2,765	2,765	2,765	2,765	-	-
Loans and receivables	**3,937**	**3,937**	**3,937**	**3,905**	**17**	**15**
Total financial assets	**4,040**	**4,040**	**4,040**	**4,001**	**24**	**15**

4.5 Financial risks (continued)

Financial liabilities by maturity and category

2016 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	120	120	120	41	25	54
Hedging instruments liabilities (hedge accounting)	**120**	**120**	**120**	**41**	**25**	**54**
Fair value hedges	19	19	19	19	-	-
Fair value through profit or loss	**19**	**19**	**19**	**19**	**-**	**-**
Green corporate eurobond	496	526	583	14	14	555
Trade payables	1,666	1,666	1,666	1,666	-	-
Other liabilities	515	515	515	504	5	6
Financial guarantee contracts*	-	834	-	-	-	-
Financial liabilities measured at amortised cost	**2,677**	**3,541**	**2,764**	**2,184**	**19**	**561**
Total financial liabilities	**2,816**	**3,680**	**2,903**	**2,244**	**44**	**615**

2015 mEUR	Carrying amount	Fair value	Total cash flow, including interests	0-1 year	1-2 years	>2 years
Cash flow hedges	46	46	46	45	1	-
Hedging instruments liabilities (hedge accounting)	**46**	**46**	**46**	**45**	**1**	**-**
Fair value hedges	10	10	10	10	-	-
Fair value through profit or loss	**10**	**10**	**10**	**10**	**-**	**-**
Green corporate eurobond	495	497	596	14	14	568
Trade payables	1,760	1,760	1,760	1,760	-	-
Other liabilities	453	453	453	444	9	-
Financial guarantee contracts*	-	513	-	-	-	-
Financial liabilities measured at amortised cost	**2,708**	**3,223**	**2,809**	**2,218**	**23**	**568**
Total financial liabilities	**2,764**	**3,279**	**2,865**	**2,273**	**24**	**568**

*For additional information regarding issued financial guarantee contracts, ref. note 3.6.

4.5 Financial risks (continued)

Credit risks
The Group ensures that the credit risks are managed according to the Treasury Policy. The Group is exposed to credit risks arising from especially 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 credit rating for financial institution counterparties and mitigating actions for other counterparties.

Vestas has entered into netting agreements with all financial institution counterparties used for trading of derivative financial instruments, which mean that the Group's credit risk is limited to the net assets per counterparty.

Other counterparties mainly consists of companies within the energy sector. The credit risk is among other things dependent on the development within this sector.

In 2016, the Group has invested in marketable securities that comprise highly liquid, mainly AAA-rated (minimum AA-rated) Danish mortgage and sovereign bonds.

At 31 December 2016, the Group considers the maximum credit risk to financial institution counterparties to be EUR 3,759m (2015: EUR 2,792m). The total credit risk is considered to be EUR 5,112m (2015: 4,040m).

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December was mitigated by the EUR 427m (2015: EUR 187m) received as security, ref. note 2.3. Historically, the Group has not incurred significant losses on trade receivables.

Considering the Group's management of credit risk exposure, the total credit risks are assessed to be low.

The overview below shows the Group's risk exposure for financial institutions based on the credit rating.

Percent	2016	2015
AAA	18	-
AA	18	42
A	56	52
BBB	6	4
BB	0	-
Other/Non-rated	2	2

4.5 Financial risks (continued)

Foreign currency risks
The international business activities of the Group involve foreign currency risks, meaning that the Group's income statement, other comprehensive income, balance sheet and cash flows is exposed to foreign currency risks. The foreign currency exposure arises primarily from purchase, and sale of goods and services outside the eurozone. The foreign currency risks are reduced by balancing the different currencies to the largest extent possible and by hedging the net exposure in each individual currency according to the Treasury Policy. Foreign currency risks are primarily hedged through foreign currency forward contracts.

The Group objective on managing foreign currency risks is to reduce the short-term fluctuations in the income statement and to increase the predictability of the financial results. Foreign currency risks related to long-term investments are not hedged based on an overall risk, liquidity, and cost perspective.

The Group is to a large extent exposed to USD, due to the significant business activities in this region. 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 the group has activity. Considering the international business activities and the Group's management of foreign currency risks exposure, the total foreign currency risk is assessed to be medium.

The sensitivity analysis 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. The below analysis is based on the assumption that all other variables, interest rates in particular, remain constant.

2016 **mEUR**	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(74)	29
SEK	10%	(6)	(38)
NOK	10%	(6)	(87)
GBP	10%	(4)	(29)
CAD	10%	14	(13)

2015 **mEUR**	Change	Net profit/ (loss) for the year	Other comprehensive income
USD	10%	(22)	(43)
SEK	10%	(1)	(24)
GBP	10%	(8)	(19)
CLP	10%	0	(19)
BRL	10%	(3)	(8)

4.5 Financial risks (continued)

Interest rate risk
The Group ensures that the interest rate risk is managed according to the Treasury Policy. The Group is exposed to inverse interest rate risks on cash flows from interest-bearing short-term investments in cash and cash equivalents as well as from marketable securities with floating interest. The Group is also exposed to inverse interest rate risks on fair value of investments in marketable securities with fixed interest.

The Group has no outstanding interest-bearing debt with floating interest. The interest coupon on the Group's EUR 500m green corporate eurobond is fixed until maturity in 2022.

It is assessed that the Group's interest rate risk is low.

2016	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	496	Fixed	2.75	2.88	2022
Total credit facilities					

2015	Carrying amount	Interest rate	Nominal interest rate %	Effective interest rate %	Expiry of current interest terms
Main credit facilities	0	Floating	-	-	-
Other credit facilities	0	Floating	-	-	-
Green corporate eurobond	495	Fixed	2.75	2.88	2022
Total credit facilities					

4.6 Derivative financial instruments

Group accounting policies
On initial recognition derivative financial instruments are recognised in the balance sheet at fair value and subsequently re-measured at fair value.

Fair value changes of derivative financial instruments are recognised in the balance sheet. In case of changes in fair values of derivative financial instruments designated as a cash flow hedge the effective part of any gain or loss is 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 transferred from the equity hedging reserve into the income statement in the same item as the hedged item.

Any changes in the fair values of derivative financial instruments designated as fair value hedges are recognised in the income statement as financial items.

Fair values of derivative financial instruments are calculated using valuation techniques which use observable market data such as exchange rates, interest rates, credit risks, and volatilities. Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, Vestas does not presently have a legally enforceable right of set-off.

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.

			Expected recognition		
2016 **mEUR**	Contract amount	Net fair value	2017	2018	After
Cash flow hedges	1,882	(79)	(5)	(20)	(54)
Fair value hedges	360	(9)	(9)	-	-
Total derivative financial instruments	**2,242**	**(88)**	**(14)**	**(20)**	**(54)**

			Expected recognition		
2015 **mEUR**	Contract amount	Net fair value	2016	2017	After
Cash flow hedges	1,211	50	44	6	-
Fair value hedges	(381)	(3)	(3)	-	-
Total derivative financial instruments	**830**	**47**	**41**	**6**	**-**

Fair value adjustment recognised as follows:	**2016**	**2015**
Income statement, gains/(losses)	(7)	(3)
Other comprehensive income, gains/(losses)	(81)	50
Other receivables, current	46	96
Other receivables, non-current	5	7
Other liabilities, current	60	55
Other liabilities, non-current	79	1

4.6 Derivative financial instruments (continued)

Cash flow hedges
The following net outstanding forward exchange contracts and embedded derivatives of the Group at 31 December are used and qualify as cash flow hedges:

2016 mEUR	Contract amount	Fair value
USD	(293)	(7)
SEK	381	(1)
NOK	875	(79)
GBP	294	11
BRL	125	(8)
Other	500	5
Total cash flow hedges	**1,882**	**(79)**

2015 mEUR	Contract amount	Fair value
USD	433	9
SEK	244	(4)
GBP	191	(2)
CLP	195	20
BRL	78	12
Other	70	15
Total cash flow hedges	**1,211**	**50**

mEUR	2016	2015
Cash flow hedge ineffectiveness recognised in the income statement, gains ref. note 4.3	29	34

Positive contract amounts represents a net sale of the respective currency.

The Group's cash flow hedges relate primarily to net cash flows outside euro-based countries, primarily in above currencies with equivalents in DKK and EUR.

No hedging contracts are subject to set-off agreements.

4.6 Derivative financial instruments (continued)

Fair value hedges
The following net outstanding forward exchange contracts of the group at 31 December are used as fair value hedging of assets and liabilities included in the balance sheet. All changes in fair values are recognised in the income statement.

2016 **mEUR**	Contract amount	Fair value adjustment
USD	969	(8)
GBP	40	(2)
CNH	(203)	(1)
CAD	(145)	1
AUD	(104)	(2)
Other	(197)	3
Total fair value hedges	**360**	**(9)**

2015 **mEUR**	Contract amount	Fair value adjustment
USD	(10)	2
CAD	(109)	(7)
GBP	(42)	(0)
CNY	(42)	2
SEK	(107)	1
Other	(71)	(1)
Total fair value hedges	**(381)**	**(3)**

mEUR	**2016**	**2015**
Gains/(losses) on fair value hedges recognised in the income statement	(46)	106

The Group's fair value hedges relate to monetary items in foreign currency. The changes in fair value of the hedged items are negative EUR 2m (2015: EUR 149m).

4.7 Fair value hierarchy

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.

2016 mEUR	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	51	-	51
Marketable securities	201	-	-	201
Financial assets	**201**	**51**	**0**	**252**
Green corporate eurobond	523	-	-	523
Derivative financial instruments	-	139	-	139
Financial liabilities	**523**	**139**	**-**	**662**

2015 mEUR	Level 1	Level 2	Level 3	Total
Renewable energy certificates (RECs)	-	-	0	0
Derivative financial instruments	-	103	-	103
Financial assets	**-**	**103**	**0**	**103**
Green corporate eurobond	497	-	-	497
Derivative financial instruments	-	56	-	56
Financial liabilities	**497**	**56**	**-**	**553**

Fair value of marketable securities and corporate euro bond are measured as level 1, as the fair value is set from the price observed in an active market.

Fair value of the derivative financial instruments is measured as level 2, as the fair value can be established directly based on exchange rates published and forward interest rates and prices specified at the balance sheet date.

Fair value of non-current assets held for sale are measured as level 3, as the fair value less cost to sell is based on market indicators on fair values of properties held for sale. Movement in fair values recognised in profit and loss are disclosed in note 6.7 - Non-current assets held for sale.

The Group has a commitment in the US to purchase Renewable Energy Certificates (RECs) in 2023 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 48m (2015: EUR 46m). Currently RECs are trading at a higher price than the Group's 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 18/MWh (2015: EUR 22/MWh) in average, the contract would have had a positive value of EUR 30m (2015: EUR 51m) as of 31 December 2016. Had the estimated market price of the RECs been EUR 0 (2015: EUR 0), the contract would have had a negative value of EUR 35m (2015: EUR 37m) as of 31 December 2016.

There have been no changes in fair values of recurring assets and there has been no transfers between levels in 2016.

5. Tax

5.1 Income tax

Group 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.

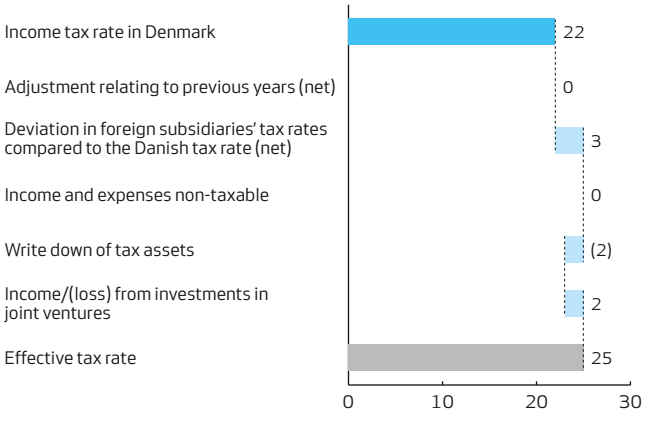
Key accounting estimate - Income taxes
The Group continuously wants to be a compliant corporate tax citizen in collaboration with our operations and stakeholders and to support shareholder interest and our reputation. To ensure compliance, national and international tax laws as well as the OECD Guidelines are acknowledged and followed throughout the world.

The Group is subject to income taxes around the world and therefore recognise 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.

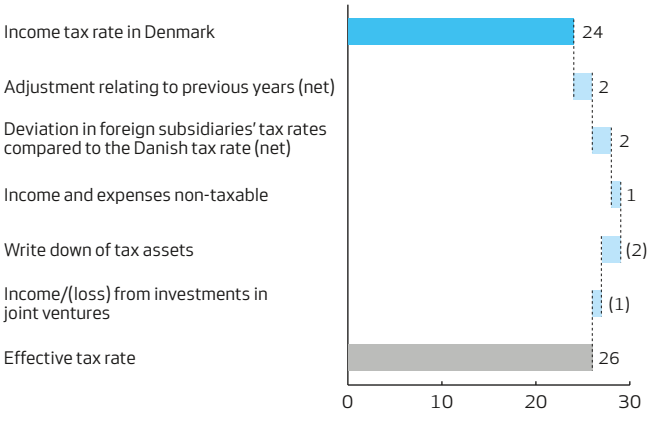
The global business implies that the Group may be subject to disputes on allocation of profits between different jurisdictions. Management judgement is applied to assess the expected outcome of such tax disputes which is provided for in provision for uncertain tax positions. Management believes that 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	2016	2015
Current tax on profit for the year	371	191
Deferred tax on profit for the year	(44)	34
Tax on profit for the year	327	225
Change in income tax rate	1	3
Adjustments relating to previous years (net)	(6)	12
Income tax for the year recognised in the income statement, expense	**322**	**240**
Deferred tax on other comprehensive income for the year	(33)	8
Tax recognised in other comprehensive income, expense/(income)	**(33)**	**8**
Total income taxes for the year, expense	**289**	**248**

Computation of effective tax rate 2016
percent



Computation of effective tax rate 2015
percent



5.1 Income tax (continued)

mEUR	2016	2015
Income tax at 1 January, net assets	(22)	24
Exchange rate adjustments	2	(3)
Income tax for the year	(371)	(191)
Adjustments relating to previous years	40	14
Non-current income tax	(15)	(50)
Income tax paid in the year	212	184
Income tax at 31 December, net assets/(liabilities)	**(154)**	**(22)**
Receivables specified as follows:		
0-1 year	25	60
> 1 year	49	109
Income tax receivables	**74**	**169**
Liabilities specified as follows:		
0-1 year	(191)	(147)
> 1 year	(37)	(44)
Income tax liabilities	**(228)**	**(191)**

5.2 Deferred tax

Group 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 estimate - Valuation of deferred tax assets
The Group 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.

The assessment in 2016 resulted in the reversal of write-down of deferred tax assets by EUR 22m (2015: EUR 76m writedown) primarily due to the fact that the tax losses are expected to be utilised in the foreseeable future.

At 31 December 2016, the value of recognised deferred tax assets amounted to EUR 208m (2015: EUR 149m), of which EUR 76m (2015: EUR 124m) relates to tax loss carry-forwards. Of the total tax loss carry-forwards, EUR 43m (2015: EUR 50m) is expected to be realised within 12 months, and EUR 33m (2015: EUR 74m) is expected to be realised later than 12 months after the balance sheet date. The value of provisions for uncertain tax positions recognised in deferred tax assets and non-recognised tax assets totals EUR 250m (2015: EUR 292m), of which EUR 135m (2015: EUR 162m) relating to write-downs are not expected to be utilised in the foreseeable future.

5.2 Deferred tax (continued)

mEUR	2016	2015
Deferred tax at 1 January, net assets	129	153
Exchange rate adjustments	-	6
Deferred tax on profit for the year	44	(34)
Adjustment relating to previous years	(34)	(26)
Changes in income tax rate	(1)	(3)
Transferred to non-current tax receivables/payables	15	50
Acquisitions as part of business combinations, ref. to note 6.5	(12)	(9)
Tax on other comprehensive income	33	(8)
Deferred tax at 31 December, net assets	**174**	**129**
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	76	124
Intangible assets	(96)	(63)
Property, plant and equipment	77	61
Current assets	268	216
Provisions	134	107
Uncertain tax position	(115)	(130)
Write-down of tax assets	(135)	(162)
Other	(1)	(4)
Deferred tax assets	**208**	**149**
Deferred tax provisions specified as follows:		
Intangible assets	19	9
Property, plant and equipment	11	9
Current assets	4	2
Deferred tax provisions	**34**	**20**

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

Deferred tax recognised on tax losses is mainly in jurisdictions where there are no expiry limits. Out of total tax losses recognised EUR 9m (2015: EUR 13m) are subject to expiry limits of which EUR 0m (2015: EUR 0m) is recognised in jurisdictions with subsequent losses. Following the Group 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 (2015: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 0m (2015: EUR 43m).

As many other multinational businesses, the Group recognises the increased focus on the transfer pricing and the consequent allocation of profits to the relevant countries. Even though the Group's subsidiaries pay corporate tax in the countries in which they operate, the group is still part of a number of tax audits on different locations. Some of these disputes concern significant amounts and uncertainties. The Group 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	2016	2015
Audit:		
PricewaterhouseCoopers	3	3
Total audit	**3**	**3**
Non-audit services: [1]		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	2	2
Other services	1	1
Total non-audit services	**3**	**3**
Total	**6**	**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 70 percent (2015: 56 percent). Excluding significant one-time capital structure events is 41 percent (2015: 50 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 the Group does not impair the auditors' independence or objectivity. The Audit Committee is responsible for the development and maintenance of this policy and monitors compliance.

6.2 Management's incentive programmes

Group accounting policies
The Group operates a number of share-based compensation schemes (share options and restricted share programmes) under which it awards Vestas shares and share options 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 granting of options and issuance of shares is measured at the fair value of the options/shares.

Equity settled share options granted and 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 share options/restricted shares, the number of options/shares expected to vest is estimated. Subsequently, the estimate is revised so that the total expense recognised is based on the actual number of options granted and shares vested.

The fair value of the options granted is estimated using an option pricing model (Black-Scholes). In determining fair value, the terms and conditions relating to the share options granted are taken into account. 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).

Share option programme
A share option programme was established in 2006 and has since been expanded with new options granted year on year until 2012. Since 2012 there have not been awarded new share option programmes.

The members may exercise their options in specified periods and choose to purchase the company's shares at the determined strike price according to the terms of the programme. Exercise of the options can only occur in the periods during which executives are allowed to trade shares in accordance with the Group's internal rules, being within the four weeks following the company's announcement of the annual report and interim financial reports. The members of the scheme lose the right to the options if they terminate their employment before the end of the vesting period.

Options are allotted to members when the Board of Directors approves the final annual report relating to the year of grant.

For 2010 onwards, only the Executive Management, Presidents (former), and Group Senior Vice Presidents reporting directly to the Executive Management must for a period of three years after exercise of the options, hold shares in the company corresponding to 50 percent of the gains, after tax, they have earned on the options.

6.2 Management's incentive programmes (continued)

The share options were exercisable three years after the issue date and will expire after five years.

Options granted in 2009 (expansion of 2007 programme) and 2010 can be exercised in 2015 and options granted in 2011 and 2012 can be exercised in 2015-2016 and 2016-2017, respectively.

The options are valued on the date of grant, based on the Black-Scholes valuation model. The share prices and the exercise prices are based on the closing share prices obtained from Bloomberg Financial Markets on the day the options were granted. The risk free interest rate is estimated as the effective interest rate on a Danish government bond with the same economic life, in this case two, five, six, and seven-year bonds. The future volatility, which means fluctuations in the shares' total yield, is calculated based on historic weekly closing share prices for a period corresponding to time to maturity of the options.

Number of share option programs	Executive Management pcs	Other executives pcs	Total pcs	Weighted average exercise price per option DKK
Outstanding at 1 January 2016	**85,159**	**1,070,029**	**1,155,188**	**90**
Exercised	(85,159)	(801,016)	(886,175)	92
Expired	-	(50,866)	(50,866)	181
Cancelled	-	(1,557)	(1,557)	58
Outstanding at 31 December 2016	**-**	**216,590**	**216,590**	**58**
Number of exercisable options at 31 December 2016	-	216,590	216,590	58
Outstanding at 1 January 2015	**110,010**	**2,538,863**	**2,648,873**	**192**
Exercised	(15,475)	(1,203,573)	(1,219,048)	247
Expired	(9,376)	(248,507)	(257,883)	363
Cancelled	-	(16,754)	(16,754)	125
Outstanding at 31 December 2015	**85,159**	**1,070,029**	**1,155,188**	**90**
Number of exercisable options at 31 December 2015	17,023	285,613	302,636	181

The exercise price for the outstanding options are DKK 58 for the 2012 programme. The weighted average remaining life of the options outstanding at 31 December 2016 was one year (2015: two years). Average share price for the exercised share options in 2016 was DKK 455 (2015: DKK 363).

During 2016, 246,092 share options were exercised at an exercise price of DKK 181 and 640,083 shares were exercised at an exercise price of DKK 58.

A member of the Board of Directors had 0 options outstanding as at 31 December 2016 (2015: 1,106).

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 the Vestas Group, adjustment, replacement of the programme and/or settlement in cash of the programme entirely or partly may also take place.

In April 2016, the Board of Directors launched a new restricted performance shares programme. The share based incentive programme follows the structures of the previous programme from 2015 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 the Vestas Group's market share as defined by the Board of Directors.

6.2 Management's incentive programmes (continued)

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

- Only participants employed by the Group 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 range between 0 percent and 150 percent of the target level and is determined by Vestas' performance in the financial year.

	2016	2015	2014	2013
Year awarded:	April 2016	April 2015	March 2014	March 2013
Performance year: [1]	2016-2018	2015-2017	2014	2013
Vesting conditions (KPIs):	EPS, ROIC, Market share	EPS, ROIC, Market share	EBIT margin, Free cash flow, Business area specific KPIs	EBIT margin, Free cash flow, Business area specific KPIs
Vesting years:	2019/2021	2018/2020	2017/2019	2016/2018

1) Performance years defined as the Group's financial year.

in 2016, the total number of performance shares granted amounts to 334,075 shares (out of which 97,467 are performance shares to the Executive Management). With the total fair value calculated on the basis of the market share price at measurement date and no dividend, the value of the grant amounts to EUR 20m (value at close of Nasdaq Copenhagen on 28 April 2016).

Number of restricted performance shares	Executive Management pcs	Other executives pcs	Total pcs
Outstanding at 1 January 2016	**454,060**	**1,030,705**	**1,484,765**
Adjusted [1]	19,015	49,209	68,224
Awards issued	97,467	236,608	334,075
Exercised	(82,068)	(249,451)	(331,519)
Cancelled	-	(19,234)	(19,234)
Outstanding at 31 December 2016	**488,474**	**1,047,837**	**1,536,311**
Outstanding at 1 January 2015	**313,917**	**748,127**	**1,062,044**
Adjusted [1]	4,143	25,059	29,202
Awards issued	136,000	275,491	411,491
Cancelled	-	(17,972)	(17,972)
Outstanding at 31 December 2015	**454,060**	**1,030,705**	**1,484,765**

1) Adjustments due to final calculation of entitlement based on performance in prior year. Allocation of performance shares for the 2015-2017 and 2016-2018 performance programmes will be adjusted based on the level of target achievement in the measurement period.

An employee elected member of the Board of Directors, had 130 restricted shares outstanding as at 31 December 2016 (2015: 2,498).

Ref. note 1.3 for the total expense recognised in the income statement for share options and restricted performance shares granted to Executive Management and other executives.

6.3 Contractual obligations

mEUR	2016	2015
The minimum lease obligations relating to operating leases fall due:		
0–1 year	51	55
1–5 years	101	97
> 5 years	36	101
Total	**188**	**253**

Operating leases primarily comprise irrevocable operating leases regarding land, buildings, and vehicles. The main obligations relate to buildings and run for up to 11 years after the balance sheet date.

Costs recognised in the income statement relating to operating leases amount to EUR 40m in 2016 (2015: EUR 39m).

The Group has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2017 and future periods at a value of EUR 59m (2015: EUR 66m).

6.4 Related party transactions

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

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

Transactions with the Board of Directors and Executive Management
Transactions with the Executive Management only consist of normal management remuneration, see note 1.3 to the consolidated financial statements, and the transactions mentioned below.

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

Anders Vedel has full and partly ownerships of wind turbines for which he has a service contract with the Group. These transactions take place at arm's length and in total amounted to EUR 0.1m in 2016 (2015: EUR 0.1m). The outstanding amount of purchases at 31 December 2016 amounted to EUR 0.0m. (2015 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 the Group in 2016.

Transactions with joint venture
The Group has had the following material transaction with joint ventures:

mEUR	2016	2015
MHI Vestas Offshore Wind A/S		
Revenue	353	310
Receivable at 31 December	82	24
Roaring Fork Wind, LLC		
Prepayments received	80	-

Transactions with associates
Related parties also include associates over whom Vestas Wind Systems A/S has significant influence. No material transactions with associates have occurred.

6.5 Business combinations

Group 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 the Group 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 the Group's 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 Availon Holding GmbH
On 1 March 2016, the Group acquired 100 percent of the share capital of Availon Holding GmbH ("Availon"). The acquisition is the next step in accelerating the Group's corporate strategy in the service business.

As a result of the acquisition, the Group is expected to further accelerate its corporate strategy to help the Group to capture the full potential of the service business.

The goodwill of EUR 56m arising from the acquisition is attributable to synergies expected from combining the operations of the Group and Availon. None of the goodwill recognised is expected to be deductible for income tax purpose.

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

Consideration

2016 mEUR	Availon
Cash	84
Total consideration	**84**

The acquisition price for Availon is EUR 88m on a debt and cash free basis. The consideration has been paid in cash from readily available sources.

6.5 Business combinations (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

2016 mEUR	Availon
Know-how (included in intangible assets)	9
Customer relationship (included in intangible assets)	26
Trademark (included in intangible assets)	1
Other intangible assets (included in intangible assets)	1
Property, plant and equipment	3
Inventory	8
Trade receivables	9
Other receivables	3
Cash	1
Deferred tax asset	1
Deferred tax liability	(12)
Bank debt	(4)
Trade payables	(5)
Other liabilities	(13)
Total identifiable net assets	**28**
Goodwill	56
Total	**84**

The valuation techniques used for measuring the fair value of customer relationships and know-how acquired were as follows:

Assets acquired	Valuation technique
Intangible assets	Relief-from-royalty method and multi-period excess earnings method: The relief from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

The fair value of the acquired identifiable asset of EUR 28m including allocations is provisional pending final valuations for those assets.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

The revenue included in the consolidated income statement since 1 March 2016 contributed by Availon was EUR 52m. Availon also contributed profit after tax of EUR 0m over the same period.

Had Availon been consolidated from 1 January 2016, the consolidated income statement would have been impacted with revenue of approx EUR 63m and profit after tax of approx EUR 0m.

6.6 Non-cash transactions

mEUR	2016	2015
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	405	305
Share of (profit)/loss from investments in associates and joint ventures	101	(34)
Warranty provisions in the year (net)	138	65
Other provisions in the year	12	0
Exchange rate adjustment	76	4
Financial income	(56)	(61)
Financial expenses	89	76
Income tax for the year	322	240
Cost of share-based payments	12	8
Gains from property, plant and equipment	(13)	-
	1,086	**603**

6.7 Non-current assets held for sale

Group accounting policies
Non-current assets (or disposal groups) are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are presented separately on the balance sheet. Immediately before the initial classification of the assets as held for sale, the carrying amounts of the assets are measured in accordance with their applicable accounting policy. Non-current assets held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are not depreciated.

Key accounting judgement and estimate

Valuation and classification

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Market indications on fair value are used as basis for valuation of properties held for sale. As there is no liquid market for the sale of this type of properties these valuations are subject to measurement uncertainty. The assets are expected to be sold within one year from the reporting date.

Properties

During 2016, the properties have ceased to be classified as held for sale and declassified to property, plant and equipment, due to significant uncertainty about whether the properties would be sold within one year from the reporting date. This declassification has impacted Administration costs with EUR 12m, due to catch-up depreciation and impairment.

After the reporting period, the Group has entered into negotiations on selling the properties to a third party. Management has, therefore, assessed that it is highly likely that the properties are sold within one year from the reporting date. Consequently, the properties have been classified as held for sale. Ref. note 6.8 for subsequent events.

Management has assessed that the carrying amount including capitalisations during the year is representative of the fair value less cost to sell. Consequently, the classification to asset held for sale has no impact to the income statement.

mEUR	2016	2015
Non-current assets classified as held for sale:		
Property, plant and equipment	95	103

6.8 Subsequent events

In February 2017, the Group announced the sale of certain building facilities. The balance sheet item were reclassified to Assets held for sale. The sales price is approximately equal to the carrying amount in the balance sheet as of 31 December 2016. As such, the sale does not affect the income statement or the statement of cash flow for 2016. Besides this, no other events have occurred after the reporting period of importance to the consolidated financial statements.

6.9 Legal entities[1)]

Name	Place of registered office	Votes and ownership (%)
Parent company		
Vestas Wind Systems A/S	Aarhus, Denmark	-
Production units		
Vestas Nacelles America Inc.	Brighton (CO), USA	100
Vestas Towers America Inc.	Pueblo (CO), USA	100
Vestas Blades America Inc.	Windsor(CO), USA	100
Vestas Manufacturing A/S	Aarhus, Denmark	100
Vestas Blades Deutschland GmbH	Lauchhammer, Germany	100
Vestas Blades Italia S.r.l.	Taranto, Italy	100
Vestas Wind Technology (China) Co. Ltd.	Tianjin, China	100
Vestas Manufacturing Spain S.L.U	Daimiel, Spain	100
Vestas Control Systems Spain S.L.U.	Olvega, Spain	100
Vestas Nacelles Deutschland GmbH	Lübeck, Germany	100
Sales and service units		
Vestas Americas A/S	Aarhus, Denmark	100
Vestas America Holding, Inc.	Portland (OR), USA	100
Vestas - Wind 50, LLC	Portland (OR), USA	100
Vestas - American Wind Technology Inc.	Portland (OR), USA	100
Vestas - Canadian Wind Technology Inc.	Portland (OR), USA	100
Vestas - Portland HQ LLC	Portland (OR), USA	100
Vestas Upwind Solutions Inc.	San Diego (CA), USA	100
Availon Inc.	Delaware (DE), USA	100
Steelhead Americas, LLC	Portland (OR), USA	100
Steelhead Wind 1 LLC	Portland (OR), USA	100
Steelhead Wind 2 LLC	Portland (OR), USA	100
Steelhead Wind 2a LLC	Portland (OR), USA	100
Vestas Asia Pacific A/S	Aarhus, Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd.	Singapore, Singapore	100
Vestas - Australian Wind Technology Pty. Ltd.	Melbourne, Australia	100
Vestas Korea Wind Technology Ltd.	Seoul, South Korea	100
Vestas New Zealand Wind Technology Ltd.	Wellington, New Zealand	100
Vestas Taiwan Ltd.	Taipei City, Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd.	Beijing, China	100
Vestas Wind Technology India Pvt Limited	Chennai, India	100
Vestas Wind Technology Japan Co. Ltd.	Tokyo, Japan	100
Vestas Wind Technology Pakistan (Private) Limited	Lahore, Pakistan	100
Vestas Wind Technology (Thailand) Ltd.	Bangkok, Thailand	100
Vestas Wind Technology Vietnam LLC	Hanoi, Vietnam	100
Vestas Mongolia LLC	Ulan Bator, Mongolia	100

1) Companies of immaterial significance have been left out of the overview.

6.9 Legal entities (continued)

Name	Place of registered office	Votes and ownership (%)
Vestas Central Europe A/S	Aarhus, Denmark	100
Vestas Deutschland GmbH	Husum, Germany	100
Vestas Services GmbH	Husum, Germany	100
Vestas Benelux B.V.	Arnhem, The Netherlands	100
Vestas Österreich GmbH	Vienna, Austria	100
Vestas Czechia Republic S.R.O.	Prague, Czech Republic	100
Vestas Hungary Kft.	Budapest, Hungary	100
Vestas Bulgaria EOOD	Sofia, Bulgaria	100
Vestas CEU Romania S.R.L	Bucharest, Romania	100
Vestas Central Europe-Zagreb d.o.o	Zagreb, Croatia	100
Vestas Slovakia spol S.r.o.	Bratislava, Slovakia	100
Vestas RUS LLC	Moscow, Russia	100
Vestas Eastern Africa Ltd.	Nairobi, Kenya	100
Vestas Southern Africa Pty. Ltd.	Sunninghill, South Africa	100
Vestas Ukraine LLC	Kiev, Ukraine	100
Vestas Central Europe d.o.o. Beograd	Belgrade, Serbia	100
Vestas Belgium SA	Brussels, Belgium	100
Vestas Georgia LLC	Tbilisi, Georgia	100
Availon Holding GMBH	Rheine, Germany	100
Availon GMBH	Rheine, Germany	100
Vestas Mediterranean A/S	Aarhus, Denmark	100
Vestas Italia S.r.l.	Rome, Italy	100
Vestas Hellas Wind Technology S.A.	Athens, Greece	100
Vestas Eólica SAU	Madrid, Spain	100
Vestas France SAS	Perols, France	100
Vestas (Portugal) - Serviços de Tecnología Eólica Lda.	Lisbon, Portugal	100
Vestas WTG Mexico S.A. de C.V.	Mexico City, Mexico	100
Vestas Mexicana del Viento S.A. de C.V.	Mexico City, Mexico	100
Vestas do Brasil Energia Eolica Ltda.	Sao Paolo, Brazil	100
Vestas Argentina S.A.	Buenos Aires, Argentina	100
Vestas Chile Turbinas Eólica Limitada	Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi	Istanbul, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A.	Montevideo, Uruguay	100
Vestas MED (Cyprus) Ltd.	Nicosia, Cyprus	100
Vestas Nicaragua SA	Managua, Nicaragua	100
Vestas CV Limitada	Cidade de Praia, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L.	Santo Domingo, The Dominican Republic	100
Vestas Peru S.A.C.	Lima, Peru	100
Vestas Middle East S.L.U.	Madrid, Spain	100
Vestas Costa Rica S.A.	San José, Costa Rica	100
Vestas Moroc SARLAV	Casablanca Morocco	100
Vestas Jamaica Wind Technology Ltd.	Kingston, Jamaica	100
Vestas Guatemala	Guatemala city, Guatemala	100
Availon LDA Portugal	Loures, Portugal	100
Availon SRL	Rome, Italy	100
Availon Iberia S.L.	Madrid, Spain	100

6.9 Legal entities (continued)

Name	Place of registered office	Votes and ownership (%)
Vestas Northern Europe A/S	Aarhus, Denmark	100
Vestas - Celtic Wind Technology Ltd.	Edinburgh, UK	100
Vestas Northern Europe AB	Malmö, Sweden	100
Vestas Poland Sp.z.o.o.	Szczecin, Poland	100
Vestas Ireland Ltd.	Dublin, Ireland	100
Vestas Norway AS	Oslo, Norway	100
Vestas Finland Oy	Helsinki, Finland	100
Availon sp. z o. o.	Posen, Poland	100
Other subsidiaries and associates		
Vestas Wind Systems (China) Co. Ltd.	Hohhot, China	100
Vestas Switzerland AG	Zürich, Switzerland	100
Vestas Services Philippines Inc.	Makai City, Philippines	100
Vestas India Holding A/S	Aarhus, Denmark	100
Wind Power Invest A/S	Aarhus, Denmark	100
Vestas Technology (UK) Limited	Isle of Wight, England	100
Vestas Technology R&D Singapore Pte. Ltd.	Singapore, Singapore	100
Vestas Technology R&D Chennai Pte. Ltd.	Chennai, India	100
Vestas Technology R&D (Beijing) Co. Ltd	Beijing, China	100
Vestas Shared Service (Spain), S.L.U.	Madrid, Spain	100
Vestas Middle East A/S	Aarhus, Denmark	100
GREP Svenska AB	Falkenberg, Sweden	100
Vestas BCP Philippines Inc.	Makai City, Philippines	100
Vestas Shared Service A/S	Aarhus, Denmark	100
Vestas Shared Service A/S Philippines ROHQ	Manilla, Philippines	100
Wind 30 ApS	Aarhus, Denmark	100
Wind 31 ApS	Aarhus, Denmark	100
Joint ventures		
MHI Vestas Offshore Wind A/S	Aarhus, Denmark	50
Roaring Fork Wind , LLC	Delaware (DE), USA	50

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 European Union and the additional Danish disclosure requirements for listed companies, cf. 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, 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 2015.

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, the Group 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 the Group's 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 and business combinations
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. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An overview of Group legal entities is provided on pages 107-109.

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 the Group.

Translation policies
Functional currency and presentation currency
Assets, liabilities and transactions of each of the reporting entities of the Group 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 the Group's 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 EUR 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 Group entities
On recognition in the consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency of the Group, 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 the Group, 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.

7.1 General accounting policies (continued)

Marketable securities
On initial recognition marketable securities are recognised in the balance sheet at fair value and subsequently re-measured at fair value through profit or loss. Any changes in the fair values of the marketable securities are 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 the Group (EUR).

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 the Group's 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 the Group's 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 and 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, purchase of marketable securities, 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 the Group's 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 the Group, management makes a number of accounting estimates and assumptions which form the basis of recognition and measurement of the Group's assets and liabilities. The Group's 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. Key risks of the Group have been described on pages 39-40 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.

Group accounting policies	Critical accounting judgements and estimates	Note	Page
Revenue	Recognition of contract elements	1.2	064
Special items	Judgement regarding classification in the income statement	1.6	067
Intangible assets	Assumptions underpinning impairment test of goodwill	3.3	077
Provisions	Estimates for warranty provisions	3.5	081
Income tax	Assumptions included in income tax assessment	5.1	097
Deferred tax	Estimate of deferred tax assets valuation	5.2	098
Non-current assets held for sale	Assumptions underpinning valuation and judgement of classification in the balance sheet	6.7	106
Inventories	Estimates of net realisable value	2.2	069
Other receivables	Judgement of allowance for doubtful VAT receivables	2.5	072

7.3 Changes in accounting policies and disclosures

Impact of new accounting standards
The Group has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2016 financial year, including:

- Annual Improvements to IFRSs 2012-2014 (effective date 1 January 2016)
- Amendments to IAS 1: Disclosure Initiative (effective date 1 January 2016)

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

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 2016. The Group expects to implement the following new or amended accounting standards and interpretations when they become mandatory:

- IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- Clarifications to IFRS 15, Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 9, Financial Instruments (effective date 1 January 2018)
- IFRS 16, Leases (effective date 1 January 2019)

The following new or amended accounting standards and interpretations, not yet adopted, are expected to have most significant impact on recognition, measurement and disclosures for the Group:

IFRS 15, Revenue from Contracts with Customers and Clarifications to IFRS 15
The standard will establish a single, comprehensive framework for revenue recognition and includes a new control-based model for recognition of revenue from contracts with customers. Revenue is recognised at a point in time or over time depending on how the performance obligations are determined to be satisfied.

The Group is in the process of preparing for the implementation in 2018 and now completed an assessment of the impact of the standard regarding recognition and measurement. Supply & Installation contracts comprise a contract type for which judgement is required to determine the appropriate accounting treatment under IFRS 15. For other contract types, determination of the appropriate accounting treatment is less judgemental. Based on the assessment the Group expects no significant impact on revenue recognition accounting policies. The Group is assessing the impact of the disclosure requirements.

IFRS 9, Financial Instruments
A new impairment model is introduced based on expected losses. The Group expects to apply the simplified model as the Group in all material respects only has trade receivables without any material credit elements. Credit losses are recognised at the time of sale and classified as a cost and not as a reduction of revenue. Moreover, a new hedge accounting model is introduced which is expected to be more closely aligned with the way that the Group undertakes risk management activities when hedging financial and non-financial risk exposures. The Group is assessing the impact, and the implementation of IFRS 9 is not expected to have a significant effect on the consolidated financial statements.

IFRS 16, Leases
The IASB has issued a new standard on accounting for leases. As a Lessee, the Group is required to recognise all lease contracts on the Balance sheet. The Group will not be required to recognise lease contracts with a term of less than 12 months on the balance sheet. The Group is assessing the impact of IFRS 16.

7.4 Financial definitions

FINANCIAL RATIOS

EBIT margin: Profit/loss before income from associates, financial income and expenses and tax as a percentage of revenue.

EBITDA margin: Profit/loss before depreciation and amortisation, income from associates, financial income and expenses and tax as a percentage of revenue.

Gearing (%): Interest-bearing liabilities at year-end divided by equity at year-end.

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

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.

Net interest-bearing debt/EBITDA: Net interest-bearing debt divided by profit/loss before financial income and expenses, depreciation and amortisation.

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

Return on invested capital (ROIC) (%): Operating profit/loss (EBIT) before special items after tax (effective tax rate) as a percentage of average assets (excluding investments accounted for using the equity method and assets held for sale) less non-interest bearing debt including provisions.

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

SHARE RATIOS

Book value per share: Equity at year-end divided by the number of shares at year-end.

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.

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

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

P/E ratio: The official closing price on the Nasdaq Copenhagen divided by earnings per share for the year.

Price/book value: The official closing price on the Nasdaq Copenhagen divided by year-end book value per share.

OTHER DEFINITIONS

FTE: Employees on the Group's 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

Management's statement

The Executive Management and Board of Directors have today considered and adopted the annual report of Vestas Wind Systems A/S for the financial year 2016.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of Vestas Wind Systems A/S have been prepared in accordance with the Danish Financial Statements Act. The management report is also prepared in accordance with the Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the financial position at 31 December 2016 of the Group and the company and of the results of the Group and company's operations and consolidated cash flows for the financial year 1 January – 31 December 2016.

In our opinion, the management report includes a true and fair account of the development in the operations and financial circumstances of the Group and the company, of the results for the year and of the financial position of the Group and the company as well as a description of the most significant risks and elements of uncertainty facing the Group and the company.

In our opinion, the Group has prepared the social and environmental statements in accordance with the accounting policies applied. They give a true and fair account of the Group's social and environment performance.

We recommend that the annual report be approved at the Annual General Meeting.

Aarhus, 8 February 2017

Executive Management

Anders Runevad
Group President & CEO

Marika Fredriksson
Executive Vice President & CFO

Anders Vedel
Executive Vice President & CTO

Jean-Marc Lechêne
Executive Vice President & COO

Juan Araluce
Executive Vice President & CSO

Board of Directors

Bert Nordberg
Chairman

Lars Josefsson
Deputy chairman

Carsten Bjerg

Eija Pitkänen

Henrik Andersen

Henry Sténson

Torben Ballegaard Sørensen

Lykke Friis

Kim Hvid Thomsen

Michael Abildgaard Lisbjerg

Sussie Dvinge Agerbo

Peter Lindholst

The independent auditor's report

To the Shareholders of Vestas Wind Systems A/S

Our opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Statements Act.

What we have audited
Vestas Wind Systems A/S' Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January to 31 December 2016, pages 053-117 and pages 119-133, comprise income statement, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "financial statements".

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Recognition of the Group's revenue is complex due to several types of customer contracts utilised, including sale of wind turbines and power plants (supply-only, supply-and-installation and turnkey), service contracts and sale of spare parts. We focused on this area as recognition of revenue involves significant judgement made by Management including; whether contracts contain deliverables which should be separated for revenue recognition purposes and the most appropriate revenue recognition methodology for each of those elements; determining the allocation of consideration on a fair value basis between components of multi-element contracts as noted above; assessing when transfer of risk has occurred regarding sale of wind turbines (supply-only and supply-and-installation) and sale of spare parts; and assessing the degree of completion of project and service contracts which are accounted for on a "percentage of completion" basis. Refer to Note 1.2 and Note 2.4.	We tested the relevant controls used to ensure the completeness, accuracy and timing of revenue recognised, including controls over the degree of completion of turnkey and service contracts at year-end. We read a sample of both project and service contracts to assess whether the revenue recognition methodology was relevant and consistent with accounting standards, and had been applied consistently. We focused on contract classification, allocation of income and cost to the individual parts of the contracts and timing of transfer of risk. Where a contract contained multiple elements, we considered Management's judgements as to whether there were elements that should be accounted for separately, and, in such cases, challenged the judgements made in the allocation of the consideration to each element. We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy to a sample of specific contracts and separable elements of contracts, and we obtained evidence to support them, including details of contractual agreements, delivery records, cash receipts and project plans. For the contracts selected, we inspected original signed contracts and agreed the revenue recognised to the underlying accounting records. We obtained a sample of Management's calculations of the degree of completion of turnkey and service contracts at year-end. We matched a sample of source data used in Management's calculation to supporting evidence, and evaluated the judgements applied. We also considered the historical outturns of judgements used in prior periods. We applied Computer Assisted Audit Techniques to establish, whether any revenue had been recognised where no corresponding accounts receivable or cash item had been recorded in the general ledger.

Key Audit Matter	How our audit addressed the Key Audit Matter
Tax risks The Group operates in a complex multinational tax environment and the Group is part in tax cases with domestic and foreign tax authorities. We focused on this area as the amounts involved are material and as the valuation of the provision and deferred tax assets is associated with a high degree of judgement. At 31 December 2016, the Group has recognised provisions in respect of uncertain tax positions. Furthermore, the Group has recognised write-downs on deferred tax assets. Refer to Note 5.1 and 5.2.	We evaluated relevant controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the provision for uncertain tax provisions and write-down of deferred tax assets. In understanding and evaluating Management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current estimates and developments in the tax environment. In addition, we used internal local and international tax specialists to evaluate and challenge the adequacy of Management's key assumptions and read correspondence with tax authorities to assess Management's estimates. We evaluated the Group's model for valuation of deferred tax assets, including the forecasts used to estimate the expected future taxable income.
Warranty provisions The Group's product warranties primarily cover expected costs to repair or replace components with defects or functional errors and financial losses suffered by the Group's customers in connection with unplanned suspension of operations. Warranties are usually granted for a two-year period from delivery of the turbine, however, in certain cases, a warranty of up to five years is granted. Additionally, provisions are also made for turbines sold with serial errors. We focused on this area as the completeness and valuation of the expected outcome of warranty provisions requires a high degree of Management judgement and the use of estimates giving rise to inherent uncertainty in the amounts recorded in the financial statements. Refer to Note 3.5.	We tested the relevant controls regarding completeness of warranty provisions and how Management assesses valuation of provisions. We challenged the assumptions underlying the valuation of provisions by checking and verifying the inputs used to calculate the provisions, including interviewing project managers, cost controllers and Management regarding individual cases. We assessed specific warranty provisions held for individual cases to evaluate whether the warranty provisions were sufficient to cover expected costs at year-end. Further, we assessed the level of historical warranty claims to assess whether the total warranty provisions held at year-end were sufficient to cover expected costs in light of known and expected cases and standard warranty periods provided.
Inventory valuation The valuation of inventory across the Group is dependent on establishing appropriate valuation controls. We focused on this area as Management judgement is applied to estimate the appropriate write-down for obsolete inventories and the indirect production costs manually capitalised as inventory. These judgements are key elements in the valuation of inventories. Refer to Note 2.2.	We tested relevant internal controls that the Group uses to ensure proper valuation of inventory, including the procedures for write-down of obsolete inventory and the indirect production costs manually capitalised as inventory. We tested the adequacy of write-downs for excess and/or obsolete inventory by verifying future demand data, historical usage, historical accuracy of write-downs and Management's plans to utilise the inventory. We evaluated and challenged the significant judgements and estimates made by Management in applying Vestas' accounting policy in relation to indirect production costs.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether the Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and Parent Company Financial Statements and has been prepared in accordance with the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 8 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 33771231

Kim Füchsel
State Authorised
Public Accountant

Kim Tromholt
State Authorised
Public Accountant

The independent auditor's limited assurance report

To the Stakeholders of Vestas Wind Systems A/S

We have undertaken a limited assurance engagement of the consolidated social and environmental key figures and indicators in the annual report of Vestas Wind Systems A/S for the financial year 2016, as included on page 7 in the annual report for 2016. A multidisciplinary team including assurance practitioners, engineers and other experts conducted this engagement.

Management's responsibility
Management is responsible for preparation of the consolidated social and environmental key figures and indicators in accordance with Group accounting policies as expressed on page 52. This responsibility includes design, implementation and maintenance of internal control relevant to the preparation of the social and environmental key figures and indicators ensuring that data are free from material misstatement, whether due to fraud or error.

Vestas Wind Systems A/S' accounting policies for the consolidated social and environmental key figures and indicators contain Management's reasoning for the selection of topics and indicators as well as defined reporting scope for each data type.

Our Independence and Quality Control
We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

PwC applies International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility
Our responsibility is to express a limited assurance conclusion on the consolidated social and environmental key figures and indicators stated on page 7 based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform this engagement to obtain limited assurance about whether the consolidated social and environmental key figures and indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of Vestas Wind Systems A/S' use of stated accounting policies as the basis for the preparation of the consolidated social and environmental key figures and indicators. Furthermore, it involves assessing the risks of material misstatement, whether due to fraud or error, responding to the assessed risks as necessary in the circumstances and evaluating the overall presentation of the consolidated social and environmental key figures and indicators. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:
- Through inquiries, obtained an understanding of Vestas Wind Systems A/S' control environment and information systems relevant to quantification and reporting of social and environmental data;
- Made site visits in Denmark, Germany and Brazil to assess the completeness of social and environmental data sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their size and sites selected in prior periods. Our procedures included testing to underlying documentation as well as input data controls performed at these sites;
- Planned and conducted interviews and show-me meetings with Group functions to assess consolidation processes, use of company-wide systems and controls performed at group level as well as test of social and environmental data prepared at Group level to underlying documentation.

Limited Assurance Conclusion
Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the consolidated social and environmental key figures and indicators presented on page 7 in the annual report of Vestas Wind Systems A/S for the financial year 2016 is not free of material misstatements and is not prepared, in all material respects, in accordance with the stated accounting policies as included on page 52.

Hellerup, 8 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Company Reg. No.: 33771231

Kim Füchsel
State Authorised
Public Accountant

Kim Tromholt
State Authorised
Public Accountant

Financial statements for Vestas Wind Systems A/S

Income statement 1 January – 31 December

mEUR	Note	2016	2015
Revenue	1.1	1,929	1,537
Production costs	1.2	(496)	(592)
Gross profit		**1,433**	**945**
Administration costs	1.2	(211)	(278)
Operating profit (EBIT)		**1,222**	**667**
Income/loss from investments in subsidiaries	3.3	73	2
Income/loss from investments in joint venture	3.3	(101)	34
Financial income	4.1	95	72
Financial costs	4.1	(58)	(46)
Profit before tax		**1,231**	**729**
Income tax	5.1	(276)	(68)
Profit for the year		**955**	**661**
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		(28)	(80)
Retained earnings		694	540
Proposed dividends		289	201
Profit for the year		**955**	**661**

Balance sheet 31 December - Assets

mEUR	Note	2016	2015
Intangible assets	3.1	479	422
Property, plant and equipment	3.2	233	257
Investments accounted for using the equity method	3.3	2,307	2,160
Investments in associates		1	-
Marketable securities		190	-
Other investments		2	2
Tax receivables		59	114
Deferred tax	5.2	20	73
Total financial fixed assets		**2,579**	**2,349**
Total non-current assets		**3,291**	**3,028**
Inventories	2.1	89	93
Receivables from subsidiaries		4,341	2,651
Receivable from joint venture		4	18
Other receivables		71	41
Prepayments	3.4	4	4
Joint tax contribution		4	0
Tax receivables		-	43
Total receivables		**4,424**	**2,757**
Marketable securities		11	-
Cash and cash equivalents		3,333	2,307
Total current assets		**7,857**	**5,157**
Total assets		**11,148**	**8,185**

Balance sheet 31 December - Equity and liabilities

mEUR	Note	2016	2015
Share capital		30	30
Reserve for net revaluation under the equity method		125	212
Reserve for capitalised development cost		187	0
Dividend		289	201
Retained earnings		2,400	2,311
Total equity		**3,031**	**2,754**
Warranty provisions	3.5	521	381
Other provisions		0	2
Total non-current provisions		**521**	**383**
Financial debt	4.3	496	495
Total non-current debt		**496**	**495**
Total non-current liabilities		**1,017**	**878**
Trade payables		105	112
Payables to subsidiaries		6,759	4,401
Other liabilities		162	40
Tax payables		74	0
Total current liabilities		**7,100**	**4,553**
Total liabilities		**8,117**	**5,431**
Total equity and liabilities		**11,148**	**8,185**
Contingent assets and liabilities	3.6		
Financial risks	4.2		
Contractual obligations	6.2		
Related party transactions	6.3		
Subsequent events	6.4		
Ownership	6.5		
General accounting policies	7.1		

Statement of changes in equity 1 January – 31 December

2016 mEUR	Share capital	Reserve under the equity method	Reserve for capitalised development cost	Dividend	Retained earnings	Total
Equity at 1 January	**30**	**212**	**-**	**201**	**2,311**	**2,754**
Exchange rate adjustments relating to foreign entities	-	5	-	-	3	8
Valuation adjustment foreign entities	-	(1)	-	-	1	-
Fair value adjustments of derivative financial instruments	-	(66)	-	-	(50)	(116)
Fair value adjustments of derivative financial instruments, joint venture	-	15	-	-	-	15
Tax on changes in equity	-	-	-	-	12	12
Paid dividend	-	-	-	(205)	-	(205)
Paid dividend related to treasury stock	-	-	-	4	-	4
Proposed dividend	-	-	-	279	(279)	-
Proposed dividend related to treasury stock	-	-	-	10	(10)	-
Capitalised development cost	-	-	187	-	(187)	-
Acquisition of treasury shares	-	-	-	-	(419)	(419)
Sale of treasury shares	-	-	-	-	11	11
Share-based payments	-	(12)	-	-	24	12
Profit for the year	-	(28)	-	-	983	955
Equity at 31 December	**30**	**125**	**187**	**289**	**2,400**	**3,031**

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	2016	2015
Staff costs are specified as follows:		
Wages and salaries, etc.	235	212
Pension schemes	13	12
Other social security costs	1	3
	249	**227**
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	2,046	1,904

2. Working capital

2.1 Inventories

mEUR	2016	2015
Raw materials and consumables	87	92
Work in progress	2	1
	89	**93**

Inventories relate to the spare parts activity.

3. Other operating assets and liabilities

3.1 Intangible assets

2016 mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost at 1 January	19	1,235	212	-	91	1,557
Reclassification	-	-	2	8	(5)	5
Exchange rate adjustments	0	2	1	-	2	5
Additions	-	-	11	-	193	204
Transfers	-	167	29	-	(196)	-
Cost at 31 December	**19**	**1,404**	**255**	**8**	**85**	**1,771**
Amortisation at 1 January	11	972	152	-	-	1,135
Exchange rate adjustments	0	4	1	-	-	5
Amortisation for the year	1	128	22	1	-	152
Amortisation at 31 December	**12**	**1,104**	**175**	**1**	**-**	**1,292**
Carrying amount at 31 December	**7**	**300**	**80**	**7**	**85**	**479**
Amortisation period	5-20 years	3–5 years	3–5 years	3-7 years		

Included in software are internally completed IT projects amounting to EUR 55m at 31 December 2016 (2015: EUR 16m).
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

2016 mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January	402	74	101	7	584
Reclassification	(8)	0	3	0	(5)
Additions	3	8	14	6	31
Disposals	(1)	-	(1)	(2)	(4)
Transfers	4	1	1	(6)	-
Cost at 31 December	**400**	**83**	**118**	**5**	**606**
Depreciation at 1 January	201	40	86	-	327
Depreciation for the year	13	8	9	-	30
Impairment	7	9	-	-	16
Depreciation at 31 December	**221**	**57**	**95**	**-**	**373**
Carrying amount at 31 December	**179**	**26**	**23**	**5**	**233**
Depreciation period	15–40 years	3–10 years	3–5 years		

3.3 Investments accounted for using the equity method

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

On acquisition of subsidiaries and 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 joint venture are included in the item "Investments accounted for using the equity method". The item "Income/(loss) from investments accounted for using the equity method" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The item "Investments accounted for using the equity method" 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 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 joint venture is recognised as provisions.

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

3.3 Investments accounted for using the equity method (continued)

Investments accounted for using the equity method recognised in the balance sheet

mEUR	2016	2015
Subsidiaries	2,173	1,936
Joint ventures	134	224
Carrying amount at 31 December	**2,307**	**2,160**

Income/(loss) from investments accounted for using the equity method recognised in the income statement

mEUR	2016	2015
Subsidiaries	73	2
Joint ventures	(101)	34
	(28)	**36**

Income/(loss) from subsidiaries

mEUR	2016	2015
Share of profit/loss in subsidiaries after tax	89	16
Amortisation of goodwill	(16)	(14)
	73	**2**

Income/(loss) from joint ventures

mEUR	2016	2015
Share of profit/loss in joint ventures after tax	(101)	34
	(101)	**34**

3.3 Investments accounted for using the equity method (continued)

Investments in subsidiaries

mEUR	2016	2015
Cost at 1 January	1,746	1,749
Exchange rate adjustments	5	(3)
Additions	229	-
Disposals	0	-
Cost at 31 December	**1,980**	**1,746**
Value adjustments at 1 January	190	233
Exchange rate adjustments	8	74
Disposal	(1)	-
Share of profit/loss for the year after tax	89	16
Changes in equity	(77)	(25)
Dividend	0	(94)
Amortisation of goodwill	(16)	(14)
Value adjustments at 31 December	**193**	**190**
Carrying amount at 31 December	**2,173**	**1,936**
Remaining positive difference included in the above carrying amount at 31 December	142	65

Ref. note 6.9 to the consolidated financial statements for an overview of the legal entities within the Group.

Investments in joint ventures

mEUR	2016	2015
Cost at 1 January	202	202
Cost at 31 December	**202**	**202**
Value adjustments at 1 January	22	(15)
Other adjustments	(2)	1
Share of profit/loss for the year after tax	(101)	34
Changes in equity	13	2
Value adjustments at 31 December	**(68)**	**22**
Carrying amount at 31 December	**134**	**224**

Ref. note 6.9 to the consolidated financial statements for an overview of the legal entities within the Group.

3.4 Prepayments

Prepayments comprise of prepaid software license, insurance and rent.

3.5 Provisions

Warranty provisions

mEUR	2016	2015
Warranty provisions at 1 January	381	316
Warranty provisions for the year	228	158
Used warranty provisions for the year	(88)	(93)
Warranty provisions at 31 December	**521**	**381**
The warranty provisions are expected to be consumed as follows:		
0–1 year	110	103
> 1 year	411	278
	521	**381**

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

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

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

3.6 Contingent assets and liabilities

mEUR	2016	2015
The company provides performance and payment guarantees issued by banks and insurance companies to customers and other beneficiaries to secure the company's obligations	521	341
The company has provided guarantee and indemnity for bank and bonding facilities related to MHI Vestas Offshore Wind A/S	309	167

In addition, the company provides parent company guarantees and indemnities to third parties in connection with project supplies in subsidiaries and joint ventures, and their warranty obligations to customers.

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.

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.

4. Capital structure and financing items

4.1 Financial items

mEUR	2016	2015
Financial income		
Interest income	54	-
Interest income from subsidiaries	-	36
Financial instruments	17	34
Other financial income	24	2
	95	**72**
Financial costs		
Interest costs	21	19
Interest costs to subsidiaries	-	1
Exchange rate adjustments	29	15
Other financial costs	8	11
	58	**46**

4.2 Financial risks

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

4.3 Financial liabilities

Financial debts

mEUR	2016	2015
Green corporate eurobond	496	495
	496	**495**
Financial debts break down as follows:		
< 1 year	-	-
1–2 years	-	-
> 2 years	496	495
	496	**495**

5. Tax

5.1 Income tax

mEUR	2016	2015
Current tax on profit for the year	252	(117)
Deferred tax on profit for the year	25	271
Foreign taxes	(1)	5
Revaluation of tax assets	-	(91)
Adjustment related to previous years	0	-
Income tax for the year recognised in the income statement, (income)	**276**	**68**
Deferred tax on equity	(12)	11
Tax recognised in equity, expense/(income)	**(12)**	**11**
Total income taxes for the year, (income)	**264**	**79**

5.2 Deferred tax

mEUR	2016	2015
Deferred tax at 1 January, net assets	73	87
Deferred tax on profit for the year	(25)	(271)
Prepaid tax	(48)	(56)
Tax on entries in equity	12	(11)
Revaluation of tax assets	-	143
Deferred tax in joint taxation	-	181
Adjustment relating to previous years	8	-
Deferred tax at 31 December, net assets	**20**	**73**

6. Other disclosures

6.1 Audit fees

mEUR	2016	2015
Audit:		
PricewaterhouseCoopers	1	1
Total audit	**1**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagement	0	-
Tax assistance	1	1
Other services	1	1
Total non-audit services	**2**	**2**
Total	**3**	**3**

6.2 Contractual obligations

mEUR	2016	2015
The lease obligations relating to operating leases fall due:		
0–1 year	4	7
1–5 years	15	4
> 5 years	2	0

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.

The Company has entered into certain agreements with third party containing volume commitments for manufacturing of components over the next five year.

6.3 Related party transactions

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

6.4 Subsequent events

Ref. note 6.8 Subsequent events in the Consolidated financial statements.

6.5 Ownership

The company has no shareholders that are holding more than 5 percent of the voting share capital.

7. Basis of preparation

7.1 General accounting policies

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

Vestas Wind Systems A/S' functional currency is Danish kroner (DKK), but due to the international relations of the Group the financial statements are presented in euro (EUR).

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 of the DK GAAP.

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

The Company has corrected revenue in 2015 from royalty from subsidiaries. Effecting revenue with EUR 831m, shares in subsidiaries EUR (636m) and income tax EUR (195m). Net effect on profit for the year and equity is EUR 0m.

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 059.

Investments in associates
Investments in associates is recognised in the financial statements of the parent company at cost price.

Vestas Wind Systems A/S
Hedeager 42 . 8200 Aarhus N . Denmark
Tel: +45 9730 0000 . Fax: +45 9730 0001
vestas@vestas.com
vestas.com

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) customercreated 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 2016 (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.