Vestas®

# **Annual** report 2011

**Wind.** It means the world to us.™

# Prologue

Vestas' four most important stakeholders are its customers, shareholders, employees and the surrounding society. To be able to generate value for all stakeholders in the long run, Vestas must maintain close stakeholder relations and consistently become a more efficient supplier of wind power solutions measured in terms of financial performance, tonnes and megawatt hours.

This annual report incorporates Vestas' financial reporting and the measures it has taken to reduce consumption of Earth's scarce resources and the company's environmental footprint. Proper working conditions and generally accepted business ethics are two among a number of priority areas which in combination should demonstrate correct Vestas behaviour. Generally, the annual report aims to provide an insight into the values that Vestas generates for its stakeholders.

Combined with additional information about Vestas' sustainability initiatives at vestas.com, this annual report constitutes Vestas' "Communication on Progress" (COP) under the UN Global Compact. As a result of its endorsement of the UN Global Compact, Vestas has opted to apply the option stipulated in section 99a of the Danish Financial Statements Act concerning the duty of large enterprises to prepare a corporate social responsibility report by referring to the COP report. Vestas' reporting process meets the international guidelines from the Global Reporting Initiative, GRI G3.0.

# Annual report 2011


**004** A tough year – for the global economy, the climate and for Vestas
**006** Highlights for the Group
**008** Overview
**013** Management report
**035** Corporate governance
**053** Consolidated accounts
**111** Annual accounts for Vestas Wind Systems A/S
**122** GRI index
**123** Information about the company


This annual report is available on vestas.com/investor in Danish and English.
In case of doubt, the Danish version shall apply.

# A tough year – for the global economy, the climate and for Vestas

2011 was a tough year for Vestas. Not only did Vestas realise its first loss since 2005, but we also had to abandon our Triple15 targets, our share price dropped by 65 per cent and we had to prepare for another round of lay-offs that will affect more than 2,000 skilled and dedicated employees.

In particular, the latter part of the year, which led to two profit warnings due to commissioning problems at the generator factory in Travemünde, Germany, postponement of project deliveries corresponding to around EUR 1.2bn and higher industrialisation costs for the V112-3.0 MW turbine and the GridStreamer™ technology, among other things, was disappointing.

2011 was also a tough year for the climate. According to the International Energy Agency (IEA), the opportunity to cap global warming at two degrees Celsius will soon pass. Should that happen, the world can expect an average temperature increase of four degrees Celsius within this century. This would lead to dramatic climate change in the form of droughts, storms and flooding.

On the other hand, we were pleased to record a drop in the incidence of industrial injuries to 3.2 per one million working hours, which made 2011 the safest year ever for Vestas.

Furthermore, Vestas will reach an important milestone when the company will install its MW number 50,000 during the first quarter of 2012. The milestone is expected to be reached in connection with the handing over of six V112-3.0 MW turbines to E.ON Sverige AB's Örken project in Sweden, underlining the fact that the V112-3.0 MW turbine is off to a very good start. The combined V112 order intake of more than 2 GW bear witness to customer confidence in Vestas.

## The new Vestas

On 12 January 2012, Vestas announced a new organisation, which is designed to enable Vestas to better retain and exploit its global footprint, increase customer proximity and reduce costs.

The Vestas Government, which previously consisted of 16 persons, has now been abolished. Instead, the Executive Management has been enlarged to six members to allow greater focus on all key parts of the value chain and to drive a stronger performance management. The new organisation will result in shorter chains of command and a clearer segregation of responsibilities.

The new Vestas also allows for an expansion of the service business. Maintenance and optimisation of customers' wind farms have developed into a high-technology product with a great potential. Going forward, the service organisation is expected to attract a larger share of total investments, enabling an even faster introduction of new services and solutions to the benefit of customers and Vestas alike. By expanding the service business, which is characterised by stable and evenly distributed revenue over the course of the calendar year, Vestas believes it will become less exposed to the financial and seasonal fluctuations typical of the wind turbine industry.

Another focus area for the new organisation is offshore wind power. On 30 March 2011, Vestas announced the specifications of its new V164-7.0 MW offshore turbine, which will become the biggest development project in our company's history. The V164-7.0 MW turbine will make offshore wind power much cheaper than it is today, but will also create new requirements for Vestas, which, among other things, is open to entering into strategic partnerships on developing next-generation offshore wind turbines.

## Changed principles for announcing outlook

At Vestas, we believe in the value of open communications with the equity market and other stakeholders. Accordingly, the company has historically shared a large number of targets with customers, the financial markets, suppliers and employees.

Based on, among other things, input from a number of the company's large shareholders, Vestas has decided to reduce the number of outlook parameters it provides to the public. Furthermore, Vestas has decided to introduce guidance ranges for earnings (EBIT), revenue and free cash flow to take into account the heavy fluctuations characterising these items depending on timing of order intake, production, shipments and final deliveries to customers.

## Political winds of change

In many countries, the political attention to renewable energy is overshadowed by severe economic challenges. The USA has yet to draw up a national energy plan with ambitious climate targets. The lack of such a plan, combined with low gas prices makes for difficult market conditions. Consequently, Vestas is preparing for a significant slowdown in the US market in case the Production Tax Credit (PTC) scheme is not extended beyond 2012. If the PTC is not extended, this could result in the lay-off of approx 1,600 employees at the US factories.

Even though renewable energy may seem to be losing momentum, the EU is sticking to its green targets. In fact, Germany has decided to shut down all of its nuclear power plants over the next ten years. Outside the EU, Australia, the world's largest coal exporter, has introduced a fixed price on $CO_2$, and for the second time green growth was on the G20 agenda at the summit in Cannes, France, in 2011. Overall, renewable energy thus continues to gain ground, not least because wind power, globally, is becoming increasingly competitive relative to fossil fuels.

## En route to the next 50,000 MW

Following a 2011 that did not turn out as expected, we are now preparing for a challenging 2012 and a 2013, which may prove even more challenging.

However, there are also bright spots. In spite of fierce competition from some of the world's largest industrial conglomerates, Vestas has retained its market leadership position and expects to gain market shares. These expectations build on the benefits we enjoy from having globalised our production set-up and from the massive investment we have made in research and development over the past seven years. In addition, Vestas has improved turbine efficiency and reliability. The wind power plants covered by our extended service responsibility currently harvest an average of 98 per cent of the winds that pass the turbine. No other company in the wind turbine industry reports similar figures.

It took Vestas 33 years to install the first 50,000 MW of turbines. We will reach the next 50,000 MW considerably faster.

Bent Erik Carlsen
Chairman

Ditlev Engel
President and CEO

# Highlights for the Group

| mEUR | 2011 | 2010 | 2009[1] | 2008[1] | 2007[1] |
|---|---|---|---|---|---|
| **HIGHLIGHTS** | | | | | |
| **INCOME STATEMENT** | | | | | |
| Revenue | 5,836 | 6,920 | 5,079 | 5,904 | 3,828 |
| Gross profit | 725 | 1,175 | 836 | 1,125 | 584 |
| Profit before financial income and expenses, depreciation and amortisation (EBITDA) before special items | 305 | 747 | 469 | 749 | 338 |
| Operating profit/(loss) (EBIT) before special items | (38) | 468 | 251 | 614 | 202 |
| Profit before financial income and expenses, depreciation and amortisation (EBITDA) | 305 | 684 | 469 | 749 | 338 |
| Operating profit/(loss) (EBIT) | (60) | 310 | 251 | 614 | 202 |
| Profit/(loss) of financial items | (93) | (72) | (48) | 46 | 0 |
| Profit/(loss) before tax | (153) | 238 | 204 | 660 | 202 |
| Profit/(loss) for the year | (166) | 156 | 125 | 470 | 104 |
| **BALANCE SHEET** | | | | | |
| Balance sheet total | 7,689 | 7,066 | 7,959 | 6,327 | 5,298 |
| Equity | 2,576 | 2,754 | 2,542 | 1,587 | 1,188 |
| Provisions | 329 | 370 | 534 | 393 | 399 |
| Average interest-bearing position (net) | (990) | (593) | (55) | 395 | 179 |
| Net working capital | (71) | 672 | 317 | (73) | (411) |
| Investments in property, plant and equipment | 406 | 458 | 606 | 509 | 265 |
| **CASH FLOW STATEMENT** | | | | | |
| Cash flow from operating activities | 840 | 56 | (34) | 277 | 701 |
| Cash flow from investing activities | (761) | (789) | (808) | (680) | (317) |
| Free cash flow | 79 | (733) | (842) | (403) | 384 |
| Cash flow from financing activities | (13) | 568 | 1,075 | (91) | (54) |
| Change in cash at bank and in hand less current portion of bank debt | 66 | (165) | 233 | (494) | 330 |
| **RATIOS[2]** | | | | | |
| **FINANCIAL RATIOS** | | | | | |
| Gross margin (%) | 12.4 | 17.0 | 16.5 | 19.1 | 15.3 |
| EBITDA margin (%) before special items | 5.2 | 10.8 | 9.2 | 12.7 | 8.8 |
| EBIT margin (%) before special items | (0.7) | 6.8 | 4.9 | 10.4 | 5.3 |
| EBITDA margin (%) | 5.2 | 9.9 | 9.2 | 12.7 | 8.8 |
| EBIT margin (%) | (1.0) | 4.5 | 4.9 | 10.4 | 5.3 |
| Return on invested capital (ROIC) (%) before special items | (1.3) | 10.8 | 9.5 | 43.4 | 21.3 |
| Solvency ratio (%) | 33.5 | 39.0 | 31.9 | 25.1 | 22.4 |
| Net interest-bearing debt/EBITDA before special items | 1.8 | 0.8 | (0.3) | (0.1) | (1.8) |
| Return on equity (%) | (6.2) | 5.9 | 6.1 | 33.9 | 9.0 |
| Gearing (%) | 35.7 | 33.2 | 13.8 | 7.8 | 12.6 |
| **SHARE RATIOS** | | | | | |
| Earnings per share (EUR) | (0.8) | 0.8 | 0.6 | 2.5 | 0.6 |
| Book value per share (EUR) | 12.6 | 13.5 | 12.5 | 8.6 | 6.4 |
| Price / book value (EUR) | 0.7 | 1.7 | 3.4 | 4.7 | 11.5 |
| P / E-value (EUR) | (10.3) | 30.8 | 71.0 | 16.3 | 123.3 |
| Cash flow from operating activities per share (EUR) | 4.1 | 0.3 | (0.2) | 1.5 | 3.8 |
| Dividend per share (EUR) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payout ratio (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share price 31 December (EUR) | 8.3 | 23.6 | 42.6 | 40.7 | 74.0 |
| Average number of shares | 203,704,103 | 203,704,103 | 197,723,281 | 185,204,103 | 185,204,103 |
| Number of shares at the end of the year | 203,704,103 | 203,704,103 | 203,704,103 | 185,204,103 | 185,204,103 |

1) The comparative figures have been adjusted in accordance with the new accounting policies.
2) The ratios have been calculated in accordance with the guidelines from "Den Danske Finansanalytikerforening" (The Danish Society of Financial Analysts) (Recommendations and Financial ratios 2010), ref. note 1 to the consolidated accounts.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **NON-FINANCIAL KEY FIGURES[1)]** | | | | | |
| **OCCUPATIONAL HEALTH & SAFETY** | | | | | |
| Industrial injuries (number) | 132 | 201 | 306 | 534 | 534 |
| – of which fatal industrial injuries (number) | 1 | 0 | 0 | 0 | 0 |
| **PRODUCTS** | | | | | |
| MW produced and shipped | 5,054 | 4,057 | 6,131 | 6,160 | 4,974 |
| Number of turbines produced and shipped | 2,571 | 2,025 | 3,320 | 3,250 | 2,752 |
| **UTILISATION OF RESOURCES** | | | | | |
| Consumption of metals (tonnes) | 211,754 | 171,024 | 202,624 | 187,478 | 170,505 |
| Consumption of other raw materials, etc. (tonnes) | 105,031 | 107,485 | 126,600 | 129,207 | 111,541 |
| Consumption of energy (MWh) | 585,560 | 578,063 | 537,165 | 458,296 | 372,037 |
| – of which renewable energy (MWh) | 222,694 | 241,930 | 263,611 | 172,800 | 139,983 |
| – of which renewable electricity (MWh) | 207,534 | 209,351 | 238,462 | 167,311 | 138,035 |
| Consumption of fresh water ($m^3$) | 562,308 | 598,258 | 521,005 | 474,958 | 554,516 |
| **WASTE DISPOSAL** | | | | | |
| Volume of waste (tonnes) | 89,051 | 88,663 | 97,471 | 96,632 | 89,643 |
| - of which collected for recycling (tonnes) | 48,178 | 35,410 | 34,303 | 30,254 | 28,422 |
| **EMISSIONS** | | | | | |
| Direct emission of $CO_2$ (tonnes) | 58,444 | 56,547 | 50,532 | 41,832 | 32,798 |
| **LOCAL COMMUNITY** | | | | | |
| Environmental accidents (number) | 0 | 0 | 10 | 16 | 15 |
| Breaches of internal inspection conditions (number) | 3 | 3 | 3 | 5 | 5 |
| **EMPLOYEES** | | | | | |
| Average number of employees | 22,926 | 22,216 | 20,832 | 17,924 | 13,820 |
| Number of employees at the end of the year | 22,721 | 23,252 | 20,730 | 20,829 | 15,305 |
| **NON-FINANCIAL INDICATORS[1)]** | | | | | |
| **OCCUPATIONAL HEALTH & SAFETY** | | | | | |
| Incidence of industrial injuries per one million working hours | 3.2 | 5.0 | 8.1 | 15.6 | 20.8 |
| Absence due to illness among hourly-paid employees (%) | 2.3 | 2.6 | 2.8 | 3.3 | 3.6 |
| Absence due to illness among salaried employees (%) | 1.3 | 1.3 | 1.3 | 1.1 | 1.4 |
| **PRODUCTS** | | | | | |
| $CO_2$ savings over the life time on the MW produced and shipped (million tonnes of $CO_2$) | 133 | 108 | 163 | 164 | 143 |
| **UTILISATION OF RESOURCES** | | | | | |
| Renewable energy (%) | 38 | 42 | 49 | 38 | 37 |
| Renewable electricity for own activities (%) | 68 | 74 | 85 | 68 | 66 |
| **EMPLOYEES** | | | | | |
| Women at management level (%) | 18 | 19 | 19 | 17 | N/C[2)] |
| Non-Danes at management level (%) | 53 | 49 | 46 | 42 | N/C |
| **MANAGEMENT SYSTEM** | | | | | |
| OHSAS 18001 – occupational health & safety (%) | 97[3)] | 98 | 97 | 98 | 84 |
| ISO 14001 – environment (%) | 96[3)] | 98 | 97 | 100 | 80 |
| ISO 9001 – quality (%) | 94 | 98 | 98 | 98 | 98 |

1) Accounting policies for non-financial highlights for the Group, see page 32.
2) Not calculated (N/C) for the year.
3) The technology centres in Singapore and the USA as well as the sales and service organisations in Canada and Vestas Offshore, UK, have not yet been certified against OHSAS 18001 and ISO 14001. The production facilities in Xuzhou, China, have not yet been certified against ISO 14001. Vestas' aim is for all new units to be certified within six months after commencing operations.

# Overview

## Full year 2011

2011 was a very challenging year for the wind industry. The same applies to Vestas which had to issue two profit warnings and abandon its Triple15 targets. Vestas recorded revenue of EUR 5.8bn and an EBIT margin before special items of (0.7) per cent in 2011, slightly below the preliminary financial figures for 2011 announced on 3 January 2012 due to later-than-expected deliveries.

The results and revenue for the year are, however, substantially lower than the original expectations of an EBIT margin of 7 per cent and revenue of EUR 7bn which are disappointing. It should be emphasised, however, that the projects in question have not been cancelled but postponed and that they are expected to be handed over and recognised as income in 2012.

On the other hand, the intake of firm and unconditional orders of 7,397 MW with a value of EUR 7.3bn, was in line with expectations. In terms of MW, Europe and Africa accounted for 50 per cent, the Americas accounted for 34 per cent, and Asia Pacific accounted for 16 per cent of the order backlog. The backlog of orders at the end of 2011 was 9,552 MW corresponding to EUR 9.6bn, which is the highest level ever recorded.

In 2011, Vestas produced and shipped 2,571 wind turbines with an aggregate capacity of 5,054 MW, against 2,025 wind turbines and 4,057 MW in 2010.

Vestas generated revenue of EUR 5.8bn in 2011; EUR 1.2bn lower than the original forecast and 16 per cent lower than in 2010. Commissioning problems at the new generator factory in Travemünde, Germany, and poor weather towards the end of the year; for instance, in Germany, where wind speed in December was 30 to 45 per cent higher than the average for the past ten years, caused a postponement of delivery and, by extension, recognition of a number of projects.

Revenue in the service business rose by 13 per cent to EUR 705m. The service business EBIT margin stood at 16 per cent.

The gross profit amounted to EUR 725m, corresponding to a gross margin of 12.4 per cent. In 2010, the gross profit and gross margin amounted to EUR 1,175m and 17.0 per cent, respectively. The lower result was due to lower-than-expected deliveries and unforeseen high costs, primarily in connection with industrialisation of the V112-3.0 MW turbine and the GridStreamer™ technology for the 2 MW platform.

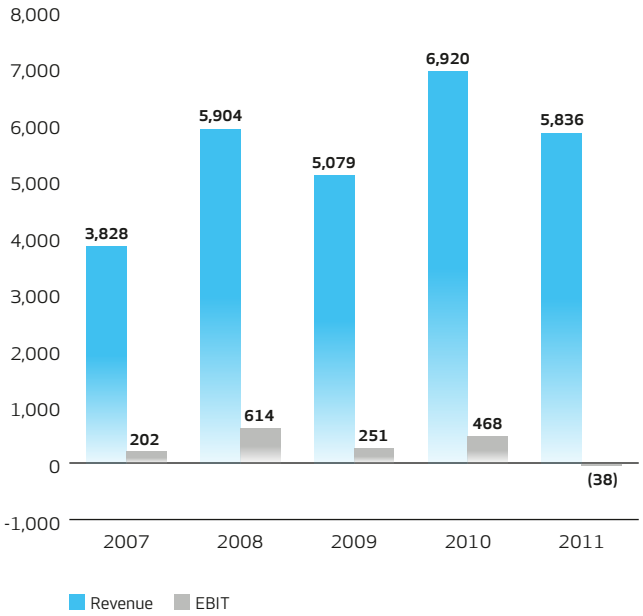
The operating loss, EBIT, before special items was EUR (38)m, corresponding to an EBIT margin of (0.7) per cent, as compared to the original forecast of an EBIT margin of 7 per cent.

Net working capital amounted to EUR (71)m, an improvement of EUR 743m since 2010. The improvement was attributable especially to the reduction of component inventories following a successful make-to-order implementation, higher pre-payments and trade payables.

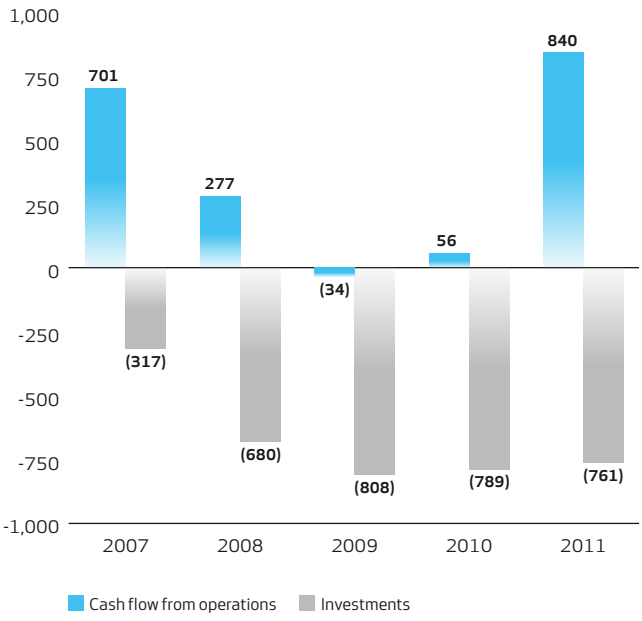
The free cash flow rose by EUR 812m to EUR 79m primarily as a result of the net working capital improvement. Vestas thus met the forecast to generate a positive free cash flow.

The Group achieved a return on invested capital before special items of (1.3) per cent, against 10.8 per cent in 2010. Other than the disappointing full-year financial performance, the decline was due to recent years' large-scale investments in new facilities and technology, not fully utilised in 2011.

**Revenue and EBIT (mEUR)**




**Cash flow from operations and investments (mEUR)**



## Non-financial issues

Personal safety is always given top priority at Vestas because its employees are entitled to it and its customers request it. Through increased focus, intensive training and the dedicated efforts of its employees, Vestas has managed to reduce the number of accidents year after year. Continuing its decline, the incidence of industrial injuries was 3.2 per one million working hours in 2011, which was much below the 5.0 target and a great improvement on 2007, when the incidence rate was 20.8.

The target is 0.5 industrial injuries per one million working hours in 2015, the ultimate goal being to avoid accidents altogether.

Vestas has defined a goal that all electricity must come from renewable energy sources, subject to availability. For 2011, the goal was for 40 per cent of Vestas' energy consumption to be green, while the share of renewable electricity should be at least 95 per cent. The goal was not reached because it was not possible to buy renewable electricity in sufficient volumes in China and in parts of the USA and India in 2011. Vestas therefore invested in wind power plants in Eastern Europe, some of which, however, are not expected to be fully commissioned until in 2012.

Vestas' share of renewable energy dropped to 38 per cent in 2011 from 42 per cent in 2010, and renewable electricity dropped to 68 per cent in 2011 from 74 per cent in 2010.

## Fourth quarter 2011

Vestas' fourth-quarter order intake was 3,186 MW with a total value of EUR 3.3bn.

Vestas produced and shipped 721 wind turbines with an aggregate capacity of 1,478 MW in the quarter, against 845 wind turbines and 1,626 MW in the fourth quarter of 2010. Fourth-quarter shipments were among other things adversely affected by commissioning problems at the new generator factory in Travemünde, Germany. During the quarter, a total of 1,956 MW was delivered to Vestas' customers, against 2,557 MW in the fourth quarter of 2010.

Fourth-quarter revenue amounted to EUR 2,038m in 2011, a decline of 35 per cent from EUR 3,123m in the fourth quarter of 2010. Europe and Africa accounted for 62 per cent of revenue, the Americas for 30 per cent and Asia Pacific for 8 per cent of revenue.

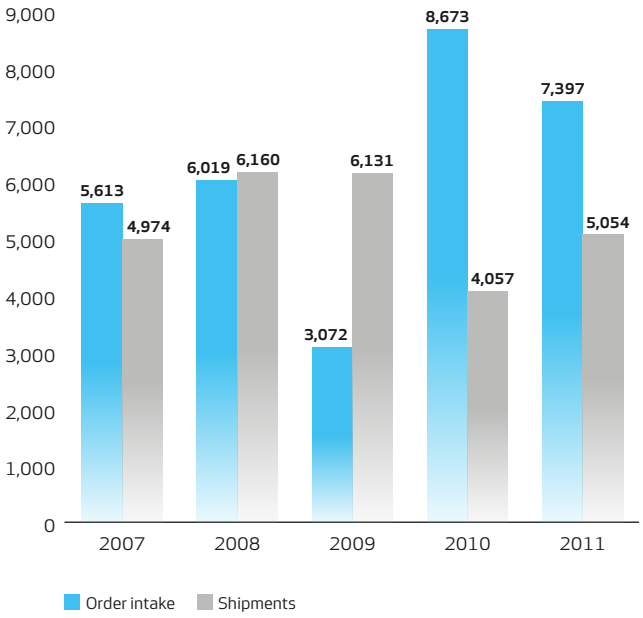
The gross profit was EUR 267m, or 13.1 per cent, against EUR 613m and 19.6 per cent, respectively, in the fourth quarter of 2010.

EBIT before special items of EUR 22m, relating, among other things, to the tower factory in Varde, Denmark, fell to EUR 46m from EUR 416m in the fourth quarter of 2010. The EBIT margin before special items fell to 2.3 per cent from 13.3 per cent in the fourth quarter of 2010.

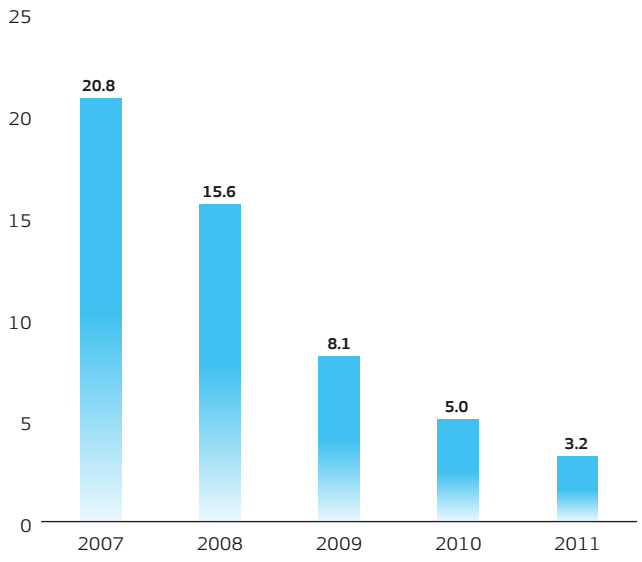
Warranty provisions in the quarter amounted to EUR 58m, equal to 2.8 per cent of revenue. In the fourth quarter of 2011, Vestas consumed warranty provisions totalling EUR 43m. The improved turbine performance is also reflected in the Lost Production Factor (LPF), which was reduced to just 2 per cent in the autumn of 2011. The LPF indicates the share of the wind not harvested by the turbines.

Cash flow from operating activities improved by EUR 173m to EUR 574m. Investments in the quarter amounted to EUR 277m, which was lower than planned due to a general reduction in the activities in the fourth quarter. The free cash flow rose to EUR 297m from EUR 145m in the fourth quarter of 2010, primarily as a result of the strong net working capital improvement in the quarter.

**Order intake and shipments (MW)**




**Incidence of industrial injuries (per one million working hours)**



## Outlook

Based on, among other things, input from a number of the company's large shareholders, Vestas has decided to reduce the number of outlook parameters it provides to the public. Furthermore, Vestas has decided to introduce guidance ranges for earnings (EBIT), revenue and the free cash flow to take into account the heavy fluctuations characterising these items depending on timing of order intake, production, shipments and final deliveries to the customers.

For 2012, Vestas expects to achieve an EBIT margin of between 0-4 per cent and revenue of EUR 6,500-8,000m, including service revenue, which is expected to rise to approx EUR 850m with an EBIT margin of around 14 per cent.

The EBIT margin will be adversely affected primarily by too high production costs for the V112-3.0 MW turbine and the GridStreamer™ technology, which will be reduced in the course of the year and by an expected increase in depreciation and amortisation charges of approx EUR 100m.

Total warranty and product provisions are expected to account for less than 3 per cent of the expected revenue for the year.

Shipments which are expected to increase to approx 7 GW with the present production plans will peak in the middle of the year, while deliveries may fluctuate heavily over the quarters. It should be emphasised that Vestas' accounting policies only allow it to recognise supply-only and supply-and-installation projects as income when the risk has finally passed to the customer, irrespective of whether Vestas has already produced, shipped and installed the 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 2012.

Total investments are expected to be EUR 550m, of which investments in intangible assets are expected to amount to EUR 350m, reflecting higher investments in the development of the V164-7.0 MW offshore turbine. Total research and development expenditure is expected to amount to EUR 450m in 2012.

Special items in 2012 relative to lay-off of approx 2,335 employees, which was announced on 12 January 2012, are expected to amount to approx EUR 50m with full cash effect. Vestas expects to reduce fixed costs by more than EUR 150m with full effect as from the end of 2012.

The free cash flow is expected to be positive in 2012.

Vestas is aiming to reduce the incidence of industrial injuries to no more than 3.0 industrial injuries per one million working hours.

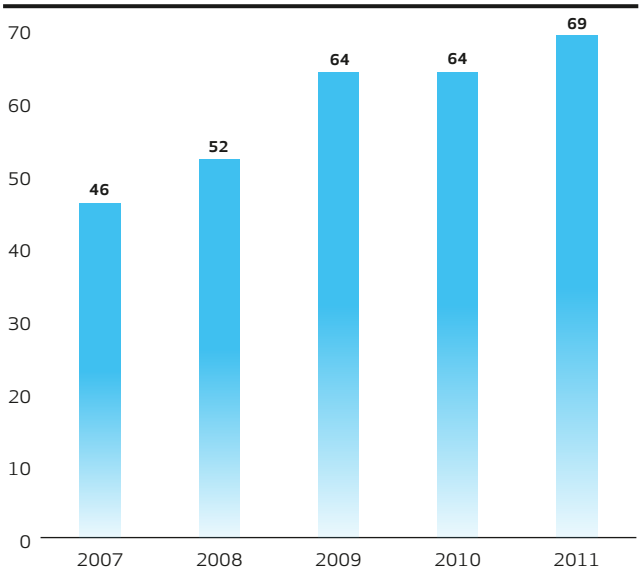
In the medium term, Vestas expects to achieve a high single-digit EBIT margin, subject to a normalised US market.

## Annual General Meeting 2012

Vestas Wind Systems A/S' Annual General Meeting will be held on 29 March 2012 at 2 p.m. at the Concert Hall (Musikhuset) in Aarhus, Denmark. The convening will be disclosed on 1 March 2012.

Distribution of dividend will always take place in due consideration of the Group's growth plans and liquidity requirements. The Board of Directors recommends to the company's Annual General Meeting that no dividend be paid for 2011.

**Customer loyalty index**




**Outlook for 2012 (mEUR)**

| | |
|---|---|
| Revenue | 6,500-8,000 |
| - of which service revenue | approx 850 |
| EBIT margin (%) | 0-4 |
| EBIT margin, service (%) | approx 14 |
| Investments, property, plant and equipment | 200 |
| Investments, intangible assets | 350 |
| Free cash flow | > 0 |
| Warranty provisions (%) | < 3 |
| Incidence of industrial injuries (per one million working hours) | ≤ 3.0 |

**Wind turbines delivered**[1)]

| | Quantity | Total MW |
|---|---|---|
| **Turbine type** | | |
| Others | 29,832 | 19,354 |
| V52-850 kW | 3,936 | 3,350 |
| V60-850 kW | 116 | 99 |
| V80-1.8 MW | 1,016 | 1,829 |
| V80-2.0 MW | 3,168 | 6,336 |
| V90-1.8 MW | 1,175 | 2,115 |
| V90-2.0 MW | 3,983 | 7,936 |
| V90-3.0 MW | 2,485 | 7,455 |
| V100-1.8 MW | 369 | 669 |
| V112-3.0 MW | 63 | 189 |
| **Total** | **46,143** | **49,332** |

**MW delivered offshore**[1)]

| | Accumulated |
|---|---|
| United Kingdom | 784 |
| Netherlands | 247 |
| Denmark | 197 |
| Belgium | 165 |
| Sweden | 13 |
| Japan | 1 |
| **Total** | **1,407** |

1) Delivered Vestas wind turbines as at 31 December 2011.

**MW delivered onshore and offshore**[1)]

| | Accumulated |
|---|---|
| **Europe and Africa** | |
| Germany | 7,795 |
| Spain | 3,749 |
| Denmark | 2,694 |
| Italy | 2,664 |
| United Kingdom | 1,781 |
| Netherlands | 1,548 |
| Sweden | 1,427 |
| France | 1,392 |
| Greece | 1,044 |
| Portugal | 664 |
| Ireland | 586 |
| Turkey | 556 |
| Poland | 495 |
| Romania | 488 |
| Austria | 433 |
| Bulgaria | 303 |
| Belgium | 295 |
| Hungary | 105 |
| Cyprus | 82 |
| Egypt | 79 |
| Czech Republic | 68 |
| Marocco | 50 |
| Croatia | 48 |
| Finland | 27 |
| Others | 110 |
| **Total** | **28,483** |
| **Americas** | |
| USA | 9,669 |
| Canada | 1,875 |
| Brazil | 204 |
| Chile | 117 |
| Mexico | 103 |
| Argentina | 87 |
| Costa Rica | 51 |
| Jamaica | 39 |
| Others | 92 |
| **Total** | **12,237** |
| **Asia Pacific** | |
| China | 3,465 |
| India | 2,711 |
| Australia | 1,261 |
| Japan | 510 |
| New Zealand | 346 |
| South Korea | 166 |
| Taiwan | 86 |
| Others | 67 |
| **Total** | **8,612** |
| **Total world** | **49,332** |

## Management report


**014** Disappointing results
**014** Financial performance
**017** Outlook
**017** Costs reduced through reorganisation
**018** Wind. It means the world to us.
**019** Vision
**020** Mission
**021** Employees
**022** Business development
**025** Environment
**027** Risk management
**030** Events after the balance sheet date
**032** Accounting policies for non-financial highlights
**033** The independent auditor's statement concerning non-financial highlights

# Management report

## Disappointing results

2011 was a very challenging year for the wind industry. The same applies to Vestas which had to issue two profit warnings and abandon its Triple15 targets. Vestas recorded revenue of EUR 5.8bn and an EBIT margin before special items of (0.7) per cent in 2011, slightly below the preliminary financial figures for 2011 announced on 3 January 2012 due to later-than-expected delivery. However, the revenue and EBIT margin deviate substantially from Vestas' original forecast of EUR 7bn and 7 per cent, respectively.

The principal reason for the deviations was deferred shipments due to the slower-than-expected commissioning of the new generator factory in Travemünde, Germany, and poor weather towards the end of the year; for instance, in Germany, where wind speed in December was 30 to 45 per cent higher than the average for the past ten years, which made turbine installations challenging. In addition, results for the year were affected by unforeseen high costs, primarily in connection with the industrialisation of the V112-3.0 MW turbine and the GridStreamer™ technology, cost out initiatives not achieved according to schedule and write-downs of individual projects at a total cost of EUR 149m.

The results for the year are disappointing. It should be emphasised, however, that the projects in question have not been cancelled but postponed and that they are expected to be handed over and recognised as income in 2012, however, at a lower contribution margin due to higher costs than originally anticipated.

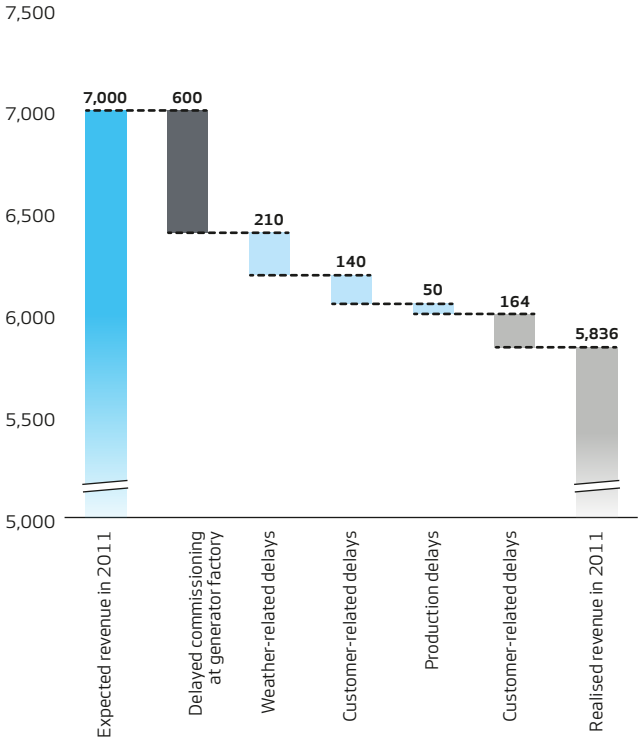
On the other hand, it was satisfactory that Vestas met its target of an order intake of 7,000-8,000 MW despite macroeconomic instability and financial turmoil, recording an intake totalling 7,397 MW at a value of EUR 7.3bn. Vestas has delivered a satisfactory free cash flow, which in spite of the deferred shipments and extra costs, amounted to EUR 79m, thus meeting the expectations about a positive free cash flow. Finally, it should be emphasised that safety at Vestas' workplaces was once more improved, as the company recorded an all-time low incidence of industrial injuries of 3.2 per one million working hours.

## Financial performance

### Level of activity

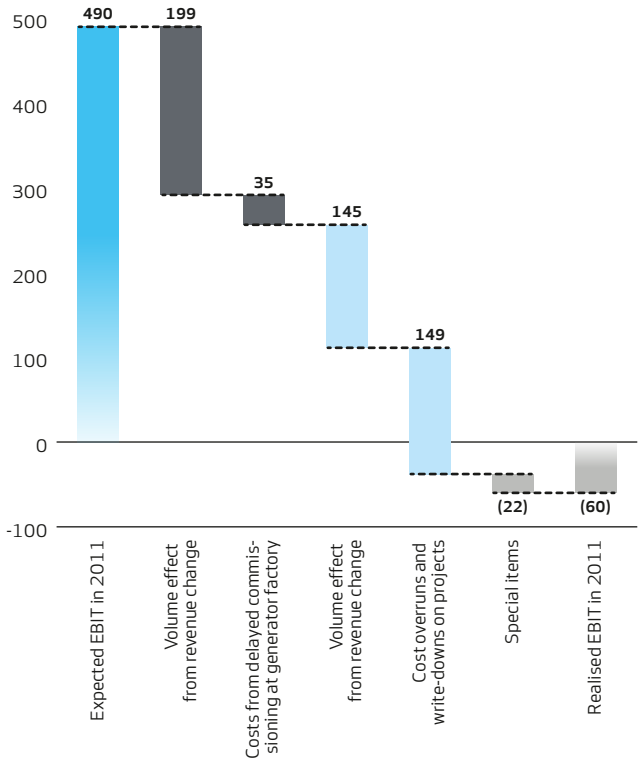
In 2011, Vestas produced and shipped 2,571 wind turbines with an aggregate capacity of 5,054 MW, against 2,025 wind turbines totalling 4,057 MW in 2010. A total of 5,217 MW was delivered to Vestas' customers, against 5,842 MW in 2010. At the end of 2011, Vestas had installed a total of 46,143 turbines with a total capacity of 49,332 MW.

**Reasons for revenue adjustments (mEUR)**




Ref. annual report 2010 disclosed on 9 February 2011
Ref. company announcement No. 44/2011 disclosed on 30 October 2011
Ref. company announcement No. 1/2012 disclosed on 3 January 2012

**Reasons for EBIT adjustments (mEUR)**




Ref. annual report 2010 disclosed on 9 February 2011
Ref. company announcement No. 44/2011 disclosed on 30 October 2011
Updated figures compared to company announcement No. 1/2012 disclosed on 3 January 2012

The order intake for the year was 7,397 MW (EUR 7.3bn) which was in line with the expectations. 62 per cent of the orders was announced publicly.

In terms of geography, Europe and Africa accounted for 50 per cent, the Americas for 34 per cent and Asia Pacific for 16 per cent of the 7,397 MW. In 2010, the order intake was 8,673 MW, and Vestas has thus for the second year running increased its order backlog, which at the end of 2011 amounted to 9,552 MW and EUR 9.6bn against 7,622 MW and EUR 7.7bn at the end of 2010.

This means that Vestas starts 2012 with the biggest order backlog ever. In terms of MW, Europe and Africa account for 60 per cent of the backlog of orders, the Americas for 25 per cent and Asia Pacific for 15 per cent.

**MW overview per region**

| | Europe and Africa | Americas | Asia Pacific | Total |
|---|---|---|---|---|
| MW under completion, 1 January 2011 | 1,246 | 291 | 447 | 1,984 |
| MW delivered to customers during 2011 | (2,351) | (1,847) | (1,019) | (5,217) |
| MW produced and shipped during 2011 | 2,237 | 1,916 | 901 | 5,054 |
| **MW under completion, 31 December 2011** | **1,132** | **360** | **329** | **1,821** |

At the end of the year, turbine projects with a total output of 1,821 MW were under completion. A large proportion of these are included in inventories and prepayments, as the bulk of the projects cannot be recognised until the turbines have been finally handed over to the customers.

**Income statement**

### Revenue

Revenue declined by 16 per cent to EUR 5,836m in 2011. Europe and Africa accounted for 52 per cent of annual revenue. The Americas and Asia Pacific accounted for 36 per cent and 12 per cent of annual revenue, respectively.

Revenue in the service business amounted to EUR 705m in 2011, an increase of 13 per cent relative to 2010. The service business EBIT margin was 16 per cent.

Measured on a quarterly basis, the bulk of Vestas' revenue typically derives from wind turbines produced and shipped in previous quarters. As a result, there may be large quarter-on-quarter fluctuations in the level of activity, revenue and earnings because each project is typically recognised once the turbines have been finally handed over. However, Vestas receives most of its payments before the projects are finally handed over to the customers and recognised as income.

**Distribution of revenue**

| (mEUR) | 2011 | 2010 |
|---|---|---|
| Europe and Africa | 3,053 | 4,162 |
| Americas | 2,068 | 1,626 |
| Asia Pacific | 715 | 1,132 |
| **Total** | **5,836** | **6,920** |
| - of which service revenue | 705 | 623 |

### Gross profit and EBITDA

Vestas' gross profit amounted to EUR 725m in 2011, equal to a gross margin of 12.4 per cent, a 4.6 percentage point decline relative to 2010. The lower margin reflects the lower-than-expected deliveries in 2011 and unforeseen expenses for industrialisation of the V112-3.0 MW turbine and the GridStreamer™ technology. EBITDA fell by 59 per cent to EUR 305m, which translates into an EBITDA margin of 5.2 per cent.

Depreciation, amortisation and write-downs amounted to EUR 365m. The increase in depreciation and amortisation was primarily due to the start of serial production of both the V112-3.0 MW turbine and the GridStreamer™ technology, which means that capitalised development costs are now amortised.

### Research and development costs

Completion of the development of the V112-3.0 MW turbine and the GridStreamer™ technology as well as the V164-7.0 MW offshore turbine were some of the large projects undertaken by the R&D department in 2011.

Research and development costs increased to EUR 203m from EUR 150m in 2010. Total research and development expenditure amounted to EUR 402m in 2011, against EUR 372m in 2010. Of this amount, EUR 302m was capitalised in 2011, against EUR 292m in 2010.

### Distribution expenses

Distribution expenses amounted to EUR 208m, which is on a par with 2010.

### Administrative expenses

In 2011, administrative expenses amounted to EUR 352m, which is on a par with 2010. The announced cost reductions are intended to reduce administrative expenses during 2012.

### Operating loss

The Group reported an operating loss (EBIT) before special items of EUR (38)m in 2011, a decline of EUR 506m relative to 2010. The EBIT margin before special items was (0.7) per cent in 2011 against 6.8 per cent in 2010, which is disappointing, emphasising that Vestas' cost base had not been aligned to the lower-than-expected level of activity.

Including special items, which in 2011, among other things, relates to the tower factory in Varde, Denmark, EBIT was EUR (60)m, corresponding to an EBIT margin of (1.0) per cent. The result deviates by 8 percentage points or EUR 550m from the originally disclosed outlook for the year. Part of this change is due to deferred projects and is thus not lost, but postponed to 2012, when they are expected to be recognised concurrently with the final delivery of the projects in question.

### Financial items and tax

In 2011, financial items represented a net expense of EUR 93m, which was higher than the expected level of EUR 60m, primarily as a result of higher adjustments related to hedging in the fourth quarter. Financial items in 2010 represented a net expense of EUR 72m.

In 2011, the tax rate was 8 per cent against 34 per cent in 2010. The adjustments from previous years and higher tax rates in overseas profitable subsidiaries resulted in positive paid taxes in 2011.

**Balance sheet**

Vestas' total assets rose to EUR 7,689m in 2011 from EUR 7,066m in 2010.

**MW delivered**

| | 2011 | 2010 |
|---|---|---|
| **Europe and Africa** | | |
| Germany | 390 | 261 |
| Sweden | 309 | 358 |
| France | 287 | 212 |
| Romania | 216 | 228 |
| Turkey | 180 | 96 |
| Italy | 178 | 248 |
| Spain | 161 | 179 |
| Denmark | 130 | 77 |
| United Kingdom | 106 | 533 |
| Greece | 100 | 155 |
| Poland | 72 | 87 |
| Austria | 46 | 6 |
| Netherlands | 41 | 6 |
| Portugal | 35 | 10 |
| Ireland | 30 | 118 |
| Cap Verde | 23 | 0 |
| Belgium | 20 | 183 |
| Bulgaria | 11 | 219 |
| Finland | 9 | 0 |
| Czech Republic | 4 | 14 |
| Ukraine | 3 | 0 |
| Cyprus | 0 | 82 |
| Hungary | 0 | 21 |
| Switzerland | 0 | 16 |
| South Africa | 0 | 2 |
| **Total** | **2,351** | **3,111** |
| | | |
| **Americas** | | |
| USA | 1,552 | 1,093 |
| Canada | 192 | 172 |
| Argentina | 76 | 0 |
| Dominican Republic | 25 | 0 |
| Uruguay | 2 | 20 |
| Mexico | 0 | 102 |
| Brazil | 0 | 74 |
| Jamaica | 0 | 18 |
| Chile | 0 | 3 |
| **Total** | **1,847** | **1,482** |
| | | |
| **Asia Pacific** | | |
| China | 501 | 857 |
| India | 276 | 242 |
| Australia | 200 | 150 |
| New Zealand | 36 | 0 |
| Vietnam | 6 | 0 |
| **Total** | **1,019** | **1,249** |
| | | |
| **Total world** | **5,217** | **5,842** |

### Non-current assets

Non-current assets amounted to EUR 3,522m at the end of 2011, an increase of EUR 531m since the end of 2010.

### Net working capital

At 31 December 2011, Vestas' net working capital amounted to EUR (71)m, which corresponds to (1.2) per cent of annual revenue and an improvement of EUR 743m relative to the end of 2010. The reduction of the net working capital is attributable to higher trade payables, lower inventories and higher prepayments, which also comprise progress payments.

### Inventories

Inventories amounted to EUR 2,546m at the end of 2011, a decline of EUR 189m relative to the end of 2010. A large part of Vestas' inventories consists of wind turbines that have been shipped but not yet handed over to the customers. Vestas is dedicated to reducing the part of its inventories that is included in the production and thereby release capital.

The growing professionalism among suppliers and in-house at Vestas has allowed Vestas to restructure its production to make-to-order, which structurally will entail a reduction of inventories.

### Trade receivables

Trade receivables amounted to EUR 663m at the end of 2011, an increase of EUR 39m relative to the end of 2010.

### Net debt

The average interest-bearing position was EUR (990)m in 2011, against EUR (593)m in 2010. At the end of 2011, the net interest-bearing debt was EUR 545m, which was 6 per cent lower than the net debt at the end of 2010.

The net debt/EBITDA ratio rose to 1.79 in 2011 from 0.77 in 2010.

### Other financial matters

Vestas expects to be able to finance its organic growth through cash flows from operations. On 1 July 2011, the company raised a five-year revolving credit facility for EUR 1.3bn with nine international banks, which supplements the five-year euro-denominated bond for EUR 600m issued in March 2010 and listed in Luxembourg. In addition, Vestas has a loan for EUR 250m with the European Investment Bank, a loan for EUR 55m with the Nordic Investment Bank and bilateral facilities. As per 31 December 2011, Vestas did not draw on its EUR 1.3bn revolving credit facility.

### Warranty provisions

In 2011, Vestas made total warranty provisions of EUR 148m. This equals 2.5 per cent of revenue, which is 0.3 percentage points lower than in 2010 when provisions represented 2.8 per cent of revenue. Vestas constantly improves the reliability of its turbines owing to increased investments in development, testing, monitoring and servicing of wind power plants. In 2011, Vestas consumed warranty provisions totalling EUR 179m.

Vestas makes provisions for all costs associated with turbine repairs within the warranty period, and any reimbursement is not offset unless a written agreement has been made with the supplier to that effect.

Vestas also makes provisions to cover anticipated expenses for major repairs and replacements in connection with the conclusion of long-term service contacts.

The typical warranty period is currently two years as opposed to previously, up to five years, and that reduces Vestas' risk exposure.

### Changes in equity

Vestas' equity amounted to EUR 2,576m at the end of 2011 compared with EUR 2,754m at 31 December 2010. At 31 December 2011, the solvency ratio was 34 per cent, against 39 per cent at the end of 2010.

### Cash flow and investments

In 2011, cash flows from operating activities were EUR 840m, an increase of EUR 784m relative to 2010 in spite of the lower operating results. The primary reason is the strong improvement of the net working capital. Cash flows for investments amounted to EUR 761m, of which EUR 344m in intangible assets. Total investments were thus lower than the originally projected EUR 850m, primarily due to lower investments in China and Vestas Nacelles' facilities. Total investments concerned especially the conversion of factories to the new platforms and turbine types as well as development projects.

The free cash flow rose by EUR 812m to EUR 79m. Vestas thus met the forecast to generate a positive free cash flow.

## Outlook

Based on, among other things, input from a number of the company's large shareholders, Vestas has decided to reduce the number of outlook parameters it provides to the public. Furthermore, Vestas has decided to introduce guidance ranges for earnings (EBIT), revenue and the free cash flow to take into account the heavy fluctuations characterising these items depending on timing of order intake, production, shipments and final deliveries to the customers.

For 2012, Vestas expects to achieve an EBIT margin of between 0-4 per cent and revenue of EUR 6,500-8,000m, including service revenue, which is expected to rise to approx EUR 850m with an EBIT margin of around 14 per cent.

The EBIT margin will be adversely affected primarily by too high production costs for the V112-3.0 MW turbine and the GridStreamer™ technology, which will be reduced in the course of the year and by an expected increase in depreciation and amortisation charges of approx EUR 100m.

Total warranty and product provisions are expected to account for less than 3 per cent of the expected revenue for the year.

Shipments which are expected to increase to approx 7 GW with the present production plans will peak in the middle of the year, while deliveries may fluctuate heavily over the quarters. It should be emphasised that Vestas' accounting policies only allow it to recognise supply-only and supply-and-installation projects as income when the risk has finally passed to the customer, irrespective of whether Vestas has already produced, shipped and installed the 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 2012.

Total investments are expected to be EUR 550m, of which investments in intangible assets are expected to amount to EUR 350m, which among other things, includes higher investments in the development of the V164-7.0 MW offshore turbine. Total research and development expenditure is now expected to amount to EUR 450m in 2012. The lower investments in intangible assets and R&D expenditure are caused by a more focused R&D organisation.

Special items in 2012 relative to lay-off of around 2,335 employees, which was announced on 12 January 2012, are expected to amount to approx EUR 50m with full cash effect. Vestas expects to reduce fixed costs by more than EUR 150m with full effect as from the end of 2012.

The free cash flow is expected to be positive in 2012.

Vestas is aiming to reduce the incidence of industrial injuries to no more than 3.0 industrial injuries per one million working hours.

In the medium term, Vestas expects to achieve a high single-digit EBIT margin, subject to a normalised US market.

## Costs reduced through reorganisation

**Globalisation implemented**

Vestas has globalised its production platform under the principle "In the region for the region". The globalisation will ensure lower production and transport costs, shorter distances to customers and markets, while at the same time reducing the environmental impact. Finally, Vestas has become more robust towards exchange rate fluctuations.

Vestas previously manufactured wind turbines in Europe to transport them to other regions such as North America. In 2011, however, 80-90 per cent of a Vestas turbine was typically manufactured regionally, including components from suppliers. In 2007, 21 per cent of Vestas' employees worked in non-European countries. By the end of 2011, this figure had risen to 38 per cent.

Until now, Vestas has handled most of its production in-house to ensure the necessary quality. This applies to components such as electronic control systems, blades, hubs for towers and the load-bearing nacelle constructions. Many of our suppliers have grown with our business and are currently able to deliver the required quality on time. This allows Vestas to increasingly manufacture to order and thereby reduce its inventories, while leaving a greater share of wind turbine production in the hands of selected local and international partners. Going forward, Vestas therefore will have a relatively lower need for investments, resulting in a leaner Vestas with relatively fewer employees who increasingly control and coordinate supplier relationships.

The new Vestas Due to an excessive cost base in relation to the current activity level and in order to allocate more resources to direct customer-oriented activities, in November 2011 Vestas announced an organisational restructuring of its business. Having received input from a number of the company's large shareholders, the Executive Management, on 12 January 2012, presented a new organisational structure designed to help secure future growth and earnings.

- Vestas needs to reduce its fixed costs by more than EUR 150m – with full effect as from the end of 2012 – primarily through streamlining of support functions and closing of factories to align capacity with market demand. A total of 2,335 employees are expected to be made redundant.
- The aim of the restructuring is to create an even more inclusive Vestas organisation that better meets the interests of the stakeholders i.e. customers, shareholders and employees. Going forward, the understanding and management of this will be an important leadership competency. The Executive Management has been enlarged to six members to allow greater focus on all key parts of the value chain and to drive a stronger performance management.
- A Global Solutions and Services unit will contribute to improving the performance of both existing and future wind power plants and will accelerate the development of the Solutions and Services business.
- Manufacturing has been consolidated to capture cost synergies and reduce the amount of investments required for future growth as well as to increase flexibility in the event of a prolonged industry slowdown.

**Improved quality, strengthened R&D efforts and regionalisation**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Order intake (bnEUR) | 7.3 | 8.6 | 3.2 | 6.4 | 5.5 |
| Order intake (MW) | 7,397 | 8,673 | 3,072 | 6,019 | 5,613 |
| Produced and shipped (MW) | 5,054 | 4,057 | 6,131 | 6,160 | 4,974 |
| Deliveries (MW) | 5,217 | 5,842 | 4,764 | 5,580 | 4,502 |
| Revenue (mEUR) | 5,836 | 6,920 | 5,079 | 5,904 | 3,828 |
| Gross margin (%) | 12.4 | 17.0 | 16.5 | 19.1 | 15.3 |
| Warranty provisions (%) | 2.5 | 2.8 | 5.8 | 4.5 | 6.6 |
| EBIT margin before special items (%) | (0.7) | 6.8 | 4.9 | 10.4 | 5.3 |
| Net working capital (%) | (1.2) | 9.7 | 6.2 | (1.2) | (10.7) |
| Return on invested capital before special items (%) | (1.3) | 10.8 | 9.5 | 43.4 | 21.3 |
| Investments (mEUR) | (761) | (789) | (808) | (680) | (317) |
| Free cash flow (mEUR) | 79 | (733) | (842) | (403) | 384 |
| Number of employees, year-end | 22,721 | 23,252 | 20,730 | 20,829 | 15,305 |
| - of which, outside Europe and Africa | 8,603 | 8,127 | 6,569 | 5,320 | 3,232 |
| Number of R&D employees, year-end | 2,037 | 2,277 | 1,490 | 1,345 | 650 |

- On top of the expected lay-off of 2,335 employees in 2012, Vestas is preparing for a potential reduction in the US market in the event case the current PTC subsidy scheme is not extended. This could result in the lay-off of an additional approx 1,600 employees at the US factories.

**Business priorities**

The new organisational structure is designed to maintain Vestas' global footprint and increase customer proximity, while at the same time reducing costs and the relative capital requirement. Vestas' business, financial, social and environmental priorities reflect the company's overall targets and define the framework for how to accomplish them.

By consistently prioritising its key stakeholders; customers, shareholders, employees and the surrounding society, respectively, Vestas aims to maintain and if possible to consolidate its market-leading position.

### Financial priorities

Vestas has the following financial priorities:

1. EBIT margin:
   Vestas has defined a goal of achieving a high single-digit EBIT margin in the medium term, subject to a normalised US market.
2. Free cash flow:
   Vestas expects to be able to finance its own growth and generally aims to generate a positive free cash flow in each financial year. Launching new platforms such as the V164-7.0 MW turbine, however, is an investment-intensive process. Accordingly, Vestas may experience a negative free cash flow in specific years.
3. Revenue:
   Vestas expects to be able to increase its market share, and the service business, which is more profitable than the sale of wind turbines, is expected to be the fastest growing segment.

### Social and environmental priorities

Vestas' standards and goals in respect of sustainability and social responsibility build on recognised conventions established by international organisations such as the UN, ILO and OECD. In 2009, Vestas joined the UN Global Compact initiative and the company supports the Compact's ten generally recognised principles in respect of human rights, labour rights, the environment and anti-corruption. In 2011, Vestas became one of 56 elite companies in the Global Compact LEAD undertaking to take the lead in respect of sustainability.

Based on its ongoing dialogue with customers, shareholders, employees, government entities, NGOs and suppliers, Vestas maps out the topics and the indicators that reflect the organisation's principal economic, environmental and social impacts. These efforts are a prerequisite for Vestas to accommodate stakeholder requests for increased sustainability in the ways in which the company acts and communicates.

This is reflected in Vestas' social and environmental priorities:

1. The lowest possible incidence of industrial injuries, the ultimate goal being to avoid accidents altogether;
2. During its lifetime, the wind turbine must be as $CO_2$-efficient as possible.
3. As much of the wind turbine as possible must be recycable when it has been decommissioned.

## Wind. It means the world to us.

For more than 30 years, Vestas has operated in the field of wind power. During the first quarter of 2012, Vestas expects to install MW number 50,000, thereby consolidating its position as the world's leading manufacturer of wind power solutions. Having installations in 69 countries, Vestas is by far the most global wind turbine manufacturer.

In the years ahead, when wind will come to represent a growing proportion of the combined energy supply, Vestas must consolidate its position as the leading brand in renewable energy in a market characterised by ever-growing competition. All the prerequisites for continuing growth are in place, because wind power is:

1. Financially competitive:
   The price of fossil fuels is expected to rise relative to the price of wind power in the future.
2. Predictable:
   Over time, the volume of wind is stable, and wind will always be free.
3. Independent:
   Wind power is generated and controlled locally.

4. Fast:
   Compared with coal, gas and nuclear power plants, wind power plants can be built over a short period of time.
5. Clean:
   Wind turbines generate power without emitting $CO_2$, $NO_X$ and $SO_X$ and without consuming any water.

**WindMade™**
Time is working for wind power. According to the survey Global Consumer Wind Study 2011, 90 per cent of the world's consumers would like to have more renewable energy. 79 per cent look more favourably upon goods manufactured using wind power, and 50 per cent are prepared to pay more for goods manufactured using wind power. Another survey, Corporate Renewable Energy Index 2011, shows that companies around the world increasingly acknowledge this consumer trend and therefore seek to increase their use of renewable energy.

Consequently, Vestas was a co-initiator of the WindMade™ eco label, which is to allow consumers to choose products manufactured using wind power. The participating companies – including Bloomberg, Deutsche Bank and Motorola Mobility – have signed a declaration of intent to the effect that wind power is to cover at least one-fourth of their power consumption.

Vestas itself is to be WindMade™. With the ambition of renewable energy accounting for 55 per cent of its total energy consumption by 2015, Vestas aims to show the world that large production companies can reduce their environmental footprint and pave the way for a "$CO_2$-free economy".

In the autumn of 2011, Vestas also launched a campaign targeting carbon conscious corporations. The campaign addresses businesses which have defined a green agenda. With this initiative, Vestas intends to boost interest in direct wind power investment. Pension funds have also taken an interest in wind power because a wind power plant is comparable to a 25-year green bond generating a predictable and often inflation-proof cash flow.

**Customers**
Vestas will never rely on a single market or a single customer. Comprising both large and small customers, partnerships provide Vestas with the most robust and flexible business platform in terms of geography, order types and payment conditions. Several types of customers with different motives enhance Vestas' opportunities in a market that, in the short term, will be marked by financial instability, limited growth and an expected reduction in the number of players.

In 2011, when energy and utility companies accounted for 43 per cent of revenue compared with 46 per cent in 2010 and 58 per cent in 2009, Vestas' revenue was distributed among 223 customers. The figures for 2010 and 2009 were 212 and 201, respectively. A total of 308 projects were delivered to Vestas' customers in 2011. The trend towards customers becoming larger and larger, places heavy and increasing technical demand on the Vestas organisation. The ten largest customers accounted for 33 per cent of revenue, against 26 per cent in 2010.

Of the total order intake of 7,397 MW in 2011, the average order was for 22 MW, the biggest one being the 267 MW order from E.ON Climate & Renewables GmbH. The smallest order was for 1 MW. The ten largest customers accounted for 21 per cent of the order intake in 2011.

### Key Account Management
Key Account Management is one of the customer-directed initiatives that helps build collaborations with large utilities with international operations as well as project developers and national power companies. Key Account Management systematises customer relations, it increases customer loyalty and improves Vestas' competitive strength in an increasingly challenging market by offering them direct and swift access to Vestas' organisation.

The global Key Account Management organisation was fully implemented in 2011, when Vestas appointed Key Account Managers for all of its key customers. In 2012, Vestas will draw on the positive experience when targeting a broader selection of its customers. Vestas reviews and adjusts the number of key accounts in an ongoing process.

In 2011, the positive Key Account Management experiences helped Vestas to win its largest-ever framework agreement for up to 2,000 MW with EDF Energies Nouvelles, which is part of the French EDF. In October 2011, Vestas received its first order for the offshore version of the new V112-3.0 MW turbine from another key account: E.ON Climate & Renewables GmbH ordered 89 turbines with a combined output of 267 MW. Consequently, Vestas has received more than 550 MW of orders from E.ON in 2011.

Vestas also signed an agreement with yet another key account. The Danish power company, DONG Energy, will become one of the first customers to test a prototype of the future V164-7.0 MW offshore turbine. The agreement is an example of how Vestas consolidates the partnership with its customers through Key Account Management and provides its customers with an opportunity early in the partnership to take part in the development and testing of new products.

### Customer satisfaction
All over the world, the performance of Vestas' turbines is constantly improving, and the cost per MWh produced is becoming increasingly competitive. Through a greater focus on customer needs and intensified engagement, Vestas aims to become a more flexible and knowledgeable business partner because significantly improved customer satisfaction is a prerequisite for Vestas to retain its leading position in a hugely competitive market expected to witness consolidation.

As in previous years, Vestas conducted a loyalty survey among its customers. A total of 1,002 persons from 353 customers in 43 countries participated in the survey, which was conducted from 20 December 2011 to 27 January 2012, against 986 persons from 348 customers in 2010.

With a loyalty index of 69, Vestas almost achieved its 2011 target index of 72. This was an improvement from 64 in 2010. The improvement was attributable especially to the constantly improving turbine performance as well as strengthened customer dialogue and a systematisation of follow-ups on any faults and customer enquiries.

Effective from 2011, Vestas has extended its customer satisfaction survey by adopting a more detailed methodology. The Customer Relationship Strength Indicator (CRSI) measures four parameters:

- Customer loyalty score
- Net promoter score
- Preferred partner score
- Reputation score

Vestas achieved a CRSI score of 77 in 2011, compared to 74 in 2010. The target for 2012 is an index of 81, which would match the level of some of the best brands in the world. Customer relations score will continue to be a component of Vestas' bonus scheme.

## Vision
In 2011, the world's population reached seven billion. The UN projects that the global population will have increased by another two billion

by 2050. This means that the Earth over the course of only a few years will experience population growth equal to the global population at around the time of World War I. At the same time, the populations of the developing countries have a legitimate wish to raise their standards of living. This will lead to higher energy consumption per capita.

If the world remains reliant on non-renewable sources of energy, the Earth will be further burdened by maintaining the population's energy consumption. The world's $CO_2$ emissions cause a greenhouse effect which is expected to raise the average temperature by four degrees Celsius in this century. This will lead to further climate changes in the form of more extreme weather conditions such as droughts, storms and flooding, and large areas will be flooded by sharply rising water levels.

Wind power and other renewable energy sources may contribute to sustainable economic growth for millions of people around the world. "Wind, Oil and Gas" is Vestas' vision, which expresses the ambition of making wind an energy source on a par with fossil fuels.

Vestas is confident that a robust price on $CO_2$ will pave the way for the necessary climate investments. Such measure would provide industrial and financial investors with a higher degree of predictability than the present quota system, which leads to large fluctuations in the price of $CO_2$. In November 2011, Australia paved the way by introducing a fixed price on $CO_2$.

The credit crisis and the economic slowdown in the OECD countries have made many countries reluctant to go through with climate investments. Continuing global concerns about the economy, tight fiscal policies and the very low gas prices in certain markets will represent a challenge to the wind power industry. The same applies to the historically low prices on $CO_2$ credits which reduce the cost of buying $CO_2$ reductions in e.g. developing countries.

However, a number of countries have now defined long-term national and local climate targets. China has tabled a five-year plan, which includes wind power, whilst the EU has taken the lead by defining a target that 20 per cent of the energy consumption must be covered by renewable energy sources already by 2020.

South America is experiencing high gas prices, and dry summers reduce the amount of hydropower. Consequently, ambitious plans have been proposed for increasing the use of wind power. According to EER, Brazil and Mexico are expected to increase their installed capacity by 3,500 MW and 1,000 MW, respectively, over the next four years, while Chile and Uruguay are also expected to witness strong growth in wind power during the same period and install 605 MW and 450 MW, respectively. For Vestas, total order intake from the Latin American markets in 2011 amounted to 742 MW – almost four times higher than the year before.

In the USA, an agreement on federal climate and energy targets which may underpin the green ambitions already defined by more than 30 states remains pending. Vestas is preparing for the non-renewal of the US Production Tax Credit (PTC) beyond 2012, which will have notable, adverse consequences for the US market, where the lower price of gas squeezes the power price and, by extension, the price of wind power. Vestas encourages the US decision-makers to extend the PTC in order to retain the positive developments in the US wind industry and thus secure many American jobs and a more independent energy supply.

**Cost of Energy**
Vestas must consistently develop, manufacture and service in a way that ensures more robust and reliable wind power plants, thereby reducing the price differential to newly built fossil fuel fired plants. Today, one onshore kWh from Vestas costs 4-7 eurocents.

The future expansion of wind power is underpinned by the fact that the price of fossil fuels is expected to rise measured at constant prices due to population growth and increased consumption per capita, especially in non-OECD countries. According to Bloomberg New Energy Finance, wind power costs measured per kWh has declined by on average 14 per cent every time installed capacity has doubled since the 1980's. Vestas expects that the price of wind power will continue to narrow the gap to the price of electricity produced by fossil fuels and that it will eventually drop below these prices in a number of markets. The greater the investment in wind power, the faster prices will fall. Vestas predicts a world in which the cleanest energy is also the cheapest.

Among renewable sources of energy, wind power is currently the most economically means of ensuring that the many national climate targets are reached. Vestas expects that, if the necessary political decisions on a national and international level to expand the power grid and appoint sites are made now, the share of wind power relative to the total electricity production can be increased from about 2 per cent globally today to more than 10 per cent over the course of ten years. Along the way, the wind power industry, including the many suppliers, will be able to create more than two million jobs worldwide. The key to realising the potential is having long-term, national mechanism that provide the industry with the necessary opportunities to plan and invest in employees, technology and production facilities.

**G20**
At the G20 summit in Cannes, France, Vestas and other companies maintained their 2010 proposals for the 20 heads of state and government, recommending how their countries can ensure strong and sustainable growth in the global economy in the years ahead.

- Make the price of $CO_2$ predictable and sufficiently high to cause people to change their behaviour and investment decisions.
- Permit free trade in environment-friendly goods and services.
- Increase initiatives in cleantech research and development.
- Phase out government subsidies for fossil fuels no later than in five years.

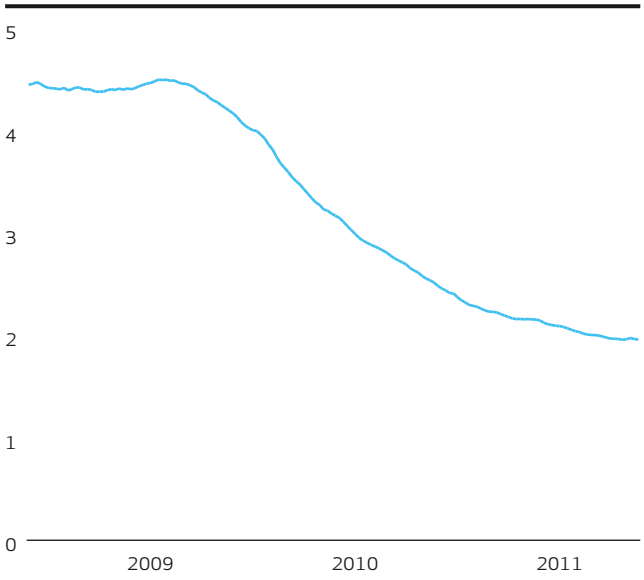
The Cannes summit was only the second time that green growth was on the G20 agenda. Vestas looks forward to the next G20 summit in Los Cabos, Mexico. The host country is a good example of a country that has already launched a number of initiatives to underpin a more sustainable development.

## Mission
Vestas' mission, Failure is not an option, expresses the organisation's commitment to constantly seeking improvements and to constantly following up on and rectifying errors in a structured manner.

A direct result of Vestas' mission is indicated by the so-called Lost Production Factor, which is the share of the wind not harvested by the turbines. In the autumn of 2011, Vestas reduced its Lost Production Factor to just 2 per cent for the first time. In 2012, Vestas expects the Lost Production Factor to drop below 2 per cent.

A low Lost Production Factor is to the benefit of customer earnings and Vestas' expenditure alike. Consequently, knowledge about the output and general condition of each turbine is the backbone of Vestas' future growth. The continuing fall in the Lost Production Factor is the result of the interaction between optimum landscape positioning of turbines, improved design, thoroughly tested quality, optimised service and spare parts logistics and ever-more intensive monitoring of the turbines. Vestas currently monitors more than 20,000 turbines, or 35,450 MW, round the clock, and this opens up for effective maintenance planning, higher uptime and performance for the turbines.

**Lost production factor (%)**




Another indication of Vestas' endeavours to achieve constant improvements is the ambition to attain a Six Sigma quality level throughout the value chain no later than by 2015.

## Employees

Since 2006, Vestas has recruited 10,412 employees, net. At the end of 2011, Vestas had 22,721 employees distributed on 37 countries.

In connection with the reorganisation announced on 12 January 2012, Vestas announced the lay-off of 2,335 employees. The planned redundancies will primarily be in Denmark and the rest of Europe and will take place during 2012. After the reorganisation, Vestas expects to employ a total of approx 20,400 employees. Vestas is also preparing for a potential slowdown in the US market in case the PTC is not extended. This could result in the lay-off of an additional approx 1,600 employees at the US factories.

**Vestas employees at 31 December 2011**

| | Europe and Africa | Americas | Asia Pacific | Total |
|---|---|---|---|---|
| Production units | 6,871 | 1,710 | 2,419 | 11,000 |
| Sales units | 4,450 | 1,472 | 1,759 | 7,681 |
| R&D | 1,283 | 211 | 543 | 2,037 |
| Others | 1,514 | 100 | 389 | 2,003 |
| **Total** | **14,118** | **3,493** | **5,110** | **22,721** |

Vestas seeks to promote a culture characterised by independent initiative and collaboration across professional, cultural and organisational boundaries and in which the dynamics and sense of responsibility that usually characterise a small company are retained. Vestas should always be a challenging, ambitious, exciting and attractive workplace – also in very challenging times with prospects of constant change and adjustment.

### Diversity

Vestas seeks to attract and retain the most skilled and committed employees, regardless of nationality, gender, professional groups or other differences. Vestas is keen to create a corporate culture in which all employees thrive and are able to create the best possible results for Vestas and themselves.

Vestas is facing new demands from the more and more differentiated customer base, increased globalisation and competition for talent as well as increasing demands for flexible, adaptable and broadly-composed leadership. In 2012, Vestas will embark on dialogue with and training of its top executives to ensure greater diversity at Vestas, so that the company will reflect its surrounding society to a much greater extent than it does today.

At the end of 2011, the Group's employees represented 87 nationalities. Non-Danish nationals held 53.4 per cent of the positions in the top management layers, and 18.4 per cent were women. Vestas aims to increase the number of nationalities at all locations without jeopardising the local roots. Going forward, the intention is for the proportion of women managers to rise and to increase the share of non-Danish nationals in management positions.

### Safety

Personal safety is always given top priority at Vestas because its employees are entitled to it and its customers request it. Through greater focus, intensive training and the dedicated effort of its employees, Vestas has managed to reduce the number of accidents year after year.

Continuing its decline, the incidence of industrial injuries was 3.2 per one million working hours in 2011, which was much below the 5.0 target and a great improvement on 2007, when the incidence rate was 20.8. One of our colleagues was killed in a tragic industrial accident in India on 25 January 2011.

The target is 0.5 industrial injuries per one million working hours in 2015, the ultimate goal being to avoid accidents altogether.

Vestas has a comprehensive safety training programme for its managers. The training programme is based on five safety principles that will guide the employees in their everyday work:

- Every hazard can be managed.
- All industrial injuries can be prevented.
- Management is accountable for safety.
- People are the most important component in a safety effort.
- Working safely is a condition of employment at Vestas

A key component of the training effort is "safety walks", in which the general management demonstrates visible involvement in safety aspects.

Reports on and measures to prevent injuries build on Vestas' OHSAS 18001 certification from 2000. At the end of 2011, 97 per cent of all Vestas' units had been certified.

### Employee protection

Venturing into new markets such as Kenya, Mexico and Pakistan, where the local infrastructure and stability may be inadequate, Vestas faces a new situation in terms of employee protection. Vestas has therefore established a security department consisting of a network of regional risk managers who will provide support across the organisation in order to ensure that all employees are consistently aware of the challenges they may come across. Vestas will regularly develop and adjust fixed procedures to identify and handle new security risks.

### Rights

In 2011, Vestas defined global policies concerning human rights, freedom of association and the right to collective bargaining. The policies summarise Vestas' obligations and cover all of the company's units, while also describing Vestas' approach to external business partners.

Vestas expects all of its business partners to respect human rights and that they actively work to promote responsible behaviour. The rules will be communicated to all relevant stakeholders. Potential complaints from business partners and employees about violations of rules may be submitted anonymously via Vestas' EthicsLine, see the section Corporate Governance.

In 2011, Vestas started to host webinars on human rights, freedom of association and the right to collective bargaining for selected in-house stakeholders, especially employees working with sustainability. In 2012, the webinars will be supplemented by e-learning programmes for relevant functions.

Vestas has also been working on a global Labour Standards Self-assessment project as part of an assessment of how the company supports global labour standards. The first step in this project was to map out markets with particularly high risk. 30 countries were selected, and the persons responsible for each of them were asked to assess whether Vestas complies with the global rules on labour. The resulting action plans will be implemented in 2012 and the following years.

### Satisfaction survey

Each year, Vestas conducts an employee satisfaction survey. The most recent survey was conducted in November 2011. The response rate was 94 per cent, against 92 per cent both in 2010 and 2009. The overall satisfaction and motivation index was 68 in 2011, against 67 in 2010 and 68 in 2009, and this is a highly satisfactory development in light of the announced and implemented redundancies in recent years.

## Business development

### New products and services

Knowledge of and the ability to plan, build, operate and service complete wind power plants for its customers is becoming increasingly important for Vestas as a supplement to developing new turbines. Customers are demanding individual solutions that provide maximum output and involve minimum risk: Vestas must deliver value to its customers, before, during and after the customer has invested in a wind power plant. As the service business comes to represent an ever-growing share of Vestas' combined revenue, its earnings will become more robust to short-term fluctuations in wind turbine sales.

As part of the reorganisation, on 1 February 2012 Vestas launched a Global Solutions and Services (GSS) unit for developing and supporting advanced pre-sales and after-market services, SCADA systems, wind & site services and spare parts. Also, Global Solutions and Services is to develop new solutions and offerings supporting further integration of wind power with the grid.

Services already form a significant part of Vestas' business. Based on recently signed 10 to 15-year service agreements with leading, global wind power operators, Vestas has taken a significant step to further consolidate the company's position in services.

#### Product range

On 30 March 2011, Vestas announced the specifications for its new V164-7.0 MW turbine. The V164-7.0 MW is the first dedicated offshore turbine in Vestas' product range and its largest single research and development investment ever.

**Onshore product portfolio**

| IEC wind classes | IEC I High wind | IEC II Medium wind | IEC III Low wind |
|---|---|---|---|
| **Kilowatt platform** | | | |
| V52-850 kW | X | X | |
| V60-850 kW | | X | X |
| **2 MW platform** | | | |
| V82-1.65 MW | | X | X |
| V90-1.8 MW | | X | |
| V90-1.8 MW GridStreamer™ | | X | |
| V100-1.8 MW | | | X |
| V100-1.8 MW GridStreamer™ | | | X |
| V80-2.0 MW | X | | |
| V80-2.0 MW GridStreamer™ | X | | |
| V90-2.0 MW | | | X |
| V90-2.0 MW GridStreamer™ | | | X |
| V90-2.0 MW GridStreamer™(IEC IA) | X | | |
| V100-2.0 MW GridStreamer™(IEC IIA) | | X | X |
| **3 MW platform** | | | |
| V100-2.6 MW | | X | X |
| V90-3.0 MW | X | X | |
| V112-3.0 MW | | X | X |

**Offshore product portfolio**

| IEC wind classes | IEC I High wind | IEC II Medium wind | IEC III Low wind |
|---|---|---|---|
| V90-3.0 MW offshore | X | X | |
| V112-3.0 MW offshore | X | X | |
| V164-7.0 MW | X | X | |

Designed for delivering maximum output with the highest possible reliability for the customers, a V164-7.0 MW turbine is able to cover the annual power consumption of 6,500 European households. Given the average wind resources in the North Sea, 27,500 V164-7.0 MW turbines distributed on an area of 141x141 kilometres can generate enough power to supply all households in Europe. Similarly, 44,506 turbines distributed on 171x171 kilometres can cover the power requirements of all US households.

Selected customers have participated in the development process for the V164-7.0 MW turbine, thus gaining an early insight into the potential of the turbine and its low Cost of Energy. Once the required orders have been received, serial production will commence in 2015. For this purpose, Vestas has an option, which expires in 2013, for 70 hectares of land at the Port of Sheerness in Kent, UK. The first prototype of the V164-7.0 MW turbine will be built in 2013 at the Lindø shipyard in Denmark, apart from the blades which will be manufactured on the Isle of Wight, UK.

Combined with the V112-3.0 MW offshore turbine, the development of the new V164-7.0 MW turbine underpins Vestas' commitment to offshore operations. In collaboration with a number of business partners, Vestas is testing a floating platform, WindFloat, for large

wind turbines for ocean depths of 50 metres or more. These testing activities will continue throughout 2012, providing Vestas with new offshore wind power opportunities.

In the first half of 2011, Vestas launched its V100-2.6 MW turbine, which accommodates the growing demand for effective and reliable turbines in the 2.5 MW class for sites with low and medium winds. This applies particularly to Vestas' markets in Europe, South America and Asia. The V100-2.6 MW turbine exemplifies Vestas' ability to regularly optimise and improve its product portfolio by applying existing and thoroughly tested technology. Vestas has also updated its popular 2 MW platform – partly with the V100-2.0 MW turbine developed for low and medium-wind sites, partly with the GridStreamer™ variant, which optimises compatibility with different grids. Vestas thus has a 2 MW turbine for all types of wind and market conditions in its product range, which in recent years has been expanded to also include the V112-3.0 MW, V100-1.8 MW and V60-850 kW turbines.

With their large rotor diameter relative to the size of the generator, the V112 and the V100 turbines are designed to ensure optimum output from sites with low and medium winds, which account for about 75 per cent of the world's wind resources.

Production of the new V112-3.0 MW commenced in 2011. Vestas is to deliver 140 turbines for the Australian Macarthur project alone, on orders from Vestas' key accounts AGL of Australia and Meridian of New Zealand. All towers are being manufactured locally by two Australian sub-contractors.

In total, more than 30 customers ordered so many V112-3.0 MW turbines that the combined orders exceeded 1,000 MW as of 30 September 2011 – a year after the turbine was launched for sale. At the end of 2011, Vestas had a backlog of orders for V112-3.0 MW turbines equal to more than 2 GW.

In 2011, the factory at Lauchhammer, Germany, was redesigned to manufacture 55-metre blades for the V112-3.0 MW turbine. Vestas thus manufactures 55-metre blades for the European market in Lauchhammer and in Lem, Denmark, whilst the new blade factory in Brighton, Colorado, USA, is to manufacture for the North American market.

Based on the wind turbine industry's largest test facilities, the V112-3.0 MW turbine is among the most thoroughly tested turbines Vestas has ever launched. The V112-3.0 MW turbine is extensively based on well-known but improved components.

### Wind turbine components

Together with a German collaboration partner, Vestas has developed its first hybrid tower. The tower consists of an 80-metre high concrete tower with a 60-metre steel tower on top. The 140-metre hub height enhances turbine productivity, especially in forestry areas with low winds. In Germany alone, 19 per cent of all turbine towers are 121 metres or higher, and demand for these towers is growing. The hybrid towers also cushion the impact of high steel prices, benefiting customers and Vestas alike.

Vestas has made new advances with the so-called stealth technology, the purpose of which is to make the turbines invisible to radar. In 2011, Vestas and its technology partner QinetiQ performed a number of successful tests. In addition, from Norwegian radar specialist OCAS AS, Vestas acquired the rights to a system that makes it possible to keep the turbines' warning lights turned off until an aircraft approaches. In this way, Vestas accommodates local concerns over light pollution. Combined with the stealth technology, this opens up for new potential wind turbine sites, for example close to airports.

### Power Plant Solutions

One of the new services launched in 2011 was Power Plant Solutions, which is a collective term for Vestas' services in the area of planning, projecting, operations, servicing and the constant optimisation of complete wind power plants. In its Power Plant Solutions initiative, Vestas transforms many years of experience in monitoring wind turbines into services that expand customer partnerships and directly increase the profitability of customers' investments, also after the wind power plants have been installed.

The range of Power Plant Solutions products include:

- SiteHunt®:
  Based on input from 35,000 meteorological stations and a comprehensive wind data library, wind resources around the globe are mapped out and the best sites are selected.
- SiteDesign®:
  Once the site has been selected, Vestas helps its customers identify the most suitable turbines and the best on-site position.
- Electrical Pre-Design:
  Vestas ensures that electricity generated by the wind power plant constantly delivers the maximum output, meeting the requirements and grid codes of the local power grid.
- AOM®:
  Active Output Management are service concepts tailored to suit desired customer risk profiles. Vestas' customer base spans from customers seeking active involvement in the maintenance of their wind power plant to customers leaving all maintenance and optimisation efforts to Vestas.
- Power Plant Controller:
  Real-time wind power plant control enhances production and increases the level of reliability. This allows a customer to control production and to meet the requirements of the local power grid.
- Vestas Performance Manager:
  Online or via a smartphone application, the customer gains an overview of how the turbines are performing and when they are scheduled for service.

In order to make power generation forecasts for specific sites with different turbine types even more precise, Vestas began using the "Firestorm" super computer in the summer of 2011. At that time, "Firestorm" was the world's third-fastest commercially-owned computer.

## Service and partnerships

Focusing on maximum output and return from the wind power plants through meticulously planned service inspections, Vestas' service organisation helps ensure more satisfied customers. This has contributed to making service Vestas' fastest growing business area.

At the end of 2011, Vestas had service contracts totalling 35,206 MW, corresponding to just under three-fourths of the total number of MW installed by Vestas. Compared with total service revenue of EUR 298m in 2007, service revenue climbed to EUR 705m in 2011.

Going forward, as part of its service growth strategy, Vestas aims – on a limited scale – to render service on non-Vestas turbines for key account customers requesting it.

Partnering is pivotal to Vestas' operations, and with the AOM service concept Vestas has formalised customers' demand for a trustworthy partnership. The trend towards increased partnering is underlined by the fact that more or less every MW sold and announced in connection with orders concluded in 2011 was accompanied by a service contract. Vestas now offers servicing of the wind turbine throughout its lifetime.

Under the AOM5000 service concept, Vestas guarantees minimum exploitation of the available wind. Using detailed weather forecasts, Vestas plans and performs service on days with no or little wind, thus optimising the customer's power production and ensuring the lowest possible Lost Production Factor. Vestas is pioneering this service concept, which relocates service and maintenance of the customer's wind power plant from time-based uptime to capturing the wind; "from hour to power".

Vestas' service concepts:

- AOM 1000:
  Without charging a basic fee, Vestas offers the customer a range of services on a pay-as-you-go basis.
- AOM 2000:
  The wind turbine is regularly serviced, and the customer has an option to buy additional services.
- AOM 3000:
  A full service solution which includes spare parts and labour. Turbine reliability is maximised through both scheduled and unscheduled service.
- AOM 4000:
  A full service solution aimed at maximising output and uptime, including all required components and a guarantee of traditional time-based availability of up to 97 per cent. The service contract runs for up to ten years and may be extended by up to five years at a time.
- AOM 5000:
  A full service solution designed to minimise production loss. The service contract runs for up to ten years and may be extended by up to five years at a time.

**Suppliers**
Vestas works closely with its suppliers to improve the professional level of the supply chain, enabling the timely supply of components of the right quality at competitive prices. Against this background, in 2005, Vestas launched Six Sigma as the Group's key quality improvement tool. The system has been implemented at Vestas' own factories and at its suppliers in all regions. Having become a member of the Automotive Industry Action Group Forum, Vestas has gained access to well-established standards and processes that will improve quality assurance for Vestas and its suppliers.

Longer term, the ambition is to complement in-house production with deliveries from collaboration partners. Vestas must be able to take advantage of an industry supply chain which in recent years has improved significantly, in order for Vestas to reduce its inventories and its need for further investments. However, Vestas will continue to invest in new facilities, for example for manufacturing of the new V164-7.0 MW offshore turbine.

Using the Lean and Six Sigma productivity systems, Vestas ensures a uniform approach to production, including joint processes for improvement initiatives which facilitate the identification of synergies and exchange of best practice experience between factories and business units. The goal is to achieve world-class production and procurement functions, and the potential for improvement remains substantial.

In close cooperation with each supplier, Vestas identifies central specifications that are crucial for product reliability and performance. These parameters are monitored in an ongoing process with a view to launching improvement initiatives.

At the end of 2011, more than 1,100 employees had participated in improvement initiatives concerning Lean and Six Sigma.

**Efficiency improvements**
Optimised resource utilisation and greater productivity are prerequisites for Vestas to retain its competitive strength, minimise the environmental footprint of its own production and retain its market-leading position. Vestas must reduce its inventories without increasing the time from receipt of order to shipment and installation.

**Make-to-order**
Under the make-to-order headline, in 2011 Vestas intensified its efforts to reduce inventories. Furthermore, the time from the finished turbines are shipped until they are commissioned was reduced to between 11 and 17 weeks, compared to around 30 weeks in 2010, leading to an improvement of Vestas' cash flows.

Part of the make-to-order concept involves more precise sales forecasts and improved project management from the receipt of an order until the turbines are delivered to the customer. The transition to an order-driven supply chain is to the benefit of customers and Vestas alike. Make-to-order leads to shorter lead times, enhances flexibility and accelerates the final delivery of completed projects.

Vestas can currently accommodate demand for more than 8,500 MW a year, depending on turbine type, distribution of production over the course of the year and on the geographical location of the demand.

**IP/IPR strategy**
Protecting the large number of technologies and the know-how developed by Vestas is paramount for Vestas to retain its technology leadership position in the industry. Consequently, an IP/IPR strategy supporting the business strategy and protecting Vestas' intangible assets has been adopted. The systematic IP/IPR initiatives are to help ensure that Vestas can operate freely in all markets and at the same time, protect Vestas' know-how, products and investments in product development. The IP/IPR strategy is continuously improved. In 2011, Vestas filed 199 patent applications.

**Research and development**
Through investments in development and test facilities around the world, Vestas will seek to consolidate its leadership position within wind power. At the end of 2011, 9 per cent of Vestas' staff was employed in research and development, which is now organised in specialist centres around the world and managed from Aarhus, Denmark.

In 2011, Vestas spent a total amount of EUR 402m on wind power technology development. Going forward, Vestas will continue to invest the necessary funds in retaining its technology leadership position as the development of the V164-7.0 MW turbine marks the end of a major upgrade of Vestas' overall product range.

In addition to optimised design, which also facilitates the work of service technicians, improves safety, reduces weight and enhances the recyclability of all turbine components, Vestas is also investing considerable resources in optimising the position of each turbine in the landscape with a view to fully harnessing the wind. The target for Vestas' development activities is to have the lowest Cost of Energy measured as the price per MWh.

In recognition of the continuing development, at the beginning of 2011, Vestas was awarded The Zayed Future Energy Prize ahead of 391 contenders from 69 countries. The jury, headed by former Nobel Prize laureate Dr. R. K. Pachauri of India, selected Vestas for the company's innovation, leadership and long-term vision in the field of renewable energy and sustainability.

The extension of the blade technology centre on the Isle of Wight, UK, was completed in the autumn of 2011. The extension allows Vestas

to continue the development of its new V164-7.0 MW turbine with in-house tests of the 80-metre blades for the turbine. The facility is designed to test blades of up to 100 metres.

At the same time, Vestas initiated the extension of the existing test centre at the Port of Aarhus in Denmark. The test centre is extended from 5,500 to 7,800 $m^2$, and the 18 mega newton test bench will be among the world's biggest when the centre is completed in August 2012. Also in 2012, Vestas will inaugurate another R&D centre with test facilities in Marlborough, Massachusetts, USA.

Technology R&D Center China cooperates with reputable universities and Chinese power companies. In 2011, Vestas completed a collaboration project with China' power grid operator, China State Grid. Approved by Chinese Department of Energy, the project resulted in a specific proposal for how China could solve the bottleneck problems arising in relation to the connection of the large number of recently installed wind turbines to China's power grid.

Combined with the centres in Denmark, the UK, India, Singapore and the USA, the new R&D centre in Beijing, China, enables Vestas to attract skilled and dedicated employees in all principal markets.

In 2011, Vestas opened a new generator factory in Travemünde, Germany. Unfortunately, the commissioning of the factory did not progress as planned, resulting in a profit warning on 30 October 2011. The problems are under control and are not expected to adversely affect Vestas' operations in 2012.

## Environment

As the world's leading supplier of wind turbines, Vestas is by default perceived as a sustainable and environmentally friendly high-tech business. However, Vestas also operates in an industry consuming large volumes of steel and concrete and energy-intensive global logistics. A modern wind turbine thus weighs more than 350 tonnes, and it takes more than ten lorries plus pilot cars to transport the turbine to the site. To this should be added the foundation, cement mixers, cranes, trains, ships, etc. Vestas therefore has a special obligation to minimise its environmental impact and act in harmony with its surroundings. Sustainable behaviour is a prerequisite for Vestas' continued development.

### As green as it gets

Wind turbines generate power without emitting $CO_2$, $NO_X$ and $SO_X$ and without consuming any water. In 2008, Vestas resolved to scale up its environmental efforts. Under the "As green as it gets" principle, Vestas undertook to make its wind turbine production as green as possible. This will help lift its competitive strength, not least because it will lead to long-term cost reductions.

A consistent weight reduction of Vestas' wind turbines and relatively lower energy consumption are paramount for the development of Vestas' sustainability. Recycling in Vestas' production and recycling of components in decommissioned wind turbines is another aspect. Today, 80 per cent of a V112-3.0 MW turbine can be recycled; the target for 2015 is 85 per cent.

An example of these endeavours is Vestas' collaboration with US company Caterpillar, initiated in 2011. In addition to being the world's largest supplier of construction equipment, Caterpillar has expertise in renovating and recycling engines, valves, pumps, sensors and similar components. Over the next ten years, Caterpillar and Vestas will be renovating wind turbine components, resulting in cheaper turbine maintenance to the benefit of Vestas' customers and the environment.

Where possible, the transportation of ever-larger towers, blades and nacelles is moved from roads to alternative means of transport such as rail or river barges. In this way, Vestas reduces its $CO_2$ emissions, limits traffic nuisances and reduces costs. In 2011, Vestas increased its direct $CO_2$ emissions by 3 per cent, whilst the indirect $CO_2$ emissions rose by 36 per cent, as it was not possible to buy renewable electricity in sufficient volumes in China and in parts of the USA and India in 2011.

Vestas has defined a target for 2015 that the wind turbine, throughout its lifetime – production, installation and dismantling – must be at least 15 per cent more $CO_2$ efficient than it is today. Vestas currently contributes about 5 per cent of the total $CO_2$ emissions for a V112-3.0 MW turbine. 5-10 per cent is emitted during transport in connection with construction, dismantling and recycling of the turbine, whilst the remaining volume of $CO_2$ derives from suppliers of material and components. Vestas thus only accounts for a limited share of the turbine's environmental impact. Accordingly Vestas aims to select suppliers who are keen to reduce their $CO_2$ emissions.

**Activities during the life cycle of a wind power plant[1)]**

| | Energy consumption[2)] | $CO_2$ emission[3)] |
|---|---|---|
| Raw materials, resources and suppliers (%) | 80-90 | 85-95 |
| Vestas production (%) | 5-10 | 5 |
| Transport and installation (%) | 5-10 | 5-10 |
| Recycling (%) | (20)-(30) | (25)-(35) |

1) Calculated for V112-3.0 MW. The large share of renewable energy used in Vestas' production is reflected in the relatively lower $CO_2$ emission in relation to the energy consumption.
2) Energy consumption and savings (by recycling), respectively.
3) Emission of $CO_2$ and $CO_2$ equivalents and savings (by recycling), respectively.

### Life cycle assessment

For more than ten years, Vestas has systematically applied life cycle assessments to identify the environmental footprint of the wind turbines throughout their lifetime, from the extraction of raw materials and processing to manufacture, transport and dismantling of the turbines. The assessments identify, evaluate and focus on the potential environmental improvements. Over a turbine's lifetime, it only emits 5-10 grams of $CO_2$ per kWh produced, including the energy-intensive production of steel, which represents the biggest single raw material used in a wind turbine.

The relationship between consumption of materials for manufacturing a wind turbine and the energy subsequently generated by the turbine is pivotal for the environmental impact. Vestas' large-scale investments in research and development must lead to more "MWh per kilogram turbine" in order to reduce Vestas' impact on the environment, the climate, Earth's resources and its surroundings in general.

A V112-3.0 MW turbine is energy-neutral after approx eight months of operation. This means that, after eight months, the turbine has generated as much energy as the suppliers and Vestas spend on manufacturing, transporting, installing and dismantling the turbine after 20 years. After this period and during its remaining lifetime, a V112-3.0 MW turbine causes 200,000 tonnes fewer $CO_2$ emissions compared with average, coal-fired electricity production. To the $CO_2$ and $H_2O$ savings should be added reduced emissions of $NO_X$, $SO_X$ and other harmful substances.

One particular step which may reduce the environmental impact from the turbines is the recycling of the $SF_6$ gas, which the power supply industry uses to safeguard against fire and electrical discharges in the turbine's high-voltage system. One kilogram of $SF_6$ has the same greenhouse effect as 22,800 kilograms of $CO_2$. One Vestas wind

turbine contains about 7 kilograms $SF_6$, on average. If this amount is emitted to the atmosphere, it would correspond to 10 per cent of the $CO_2$ emitted in connection with manufacture, transport and dismantling of a turbine during its total lifetime. With a unique return system in place, Vestas has ensured that $SF_6$ is recycled or destroyed in a prudent manner. The aim is to completely phase out the use of $SF_6$ in the long term.

### Renewable energy in production

The use of renewable energy combined with lower energy consumption and relatively lighter turbines is the most effective way of reducing Vestas' climate impact.

Vestas' has defined a goal that all electricity must come from renewable energy sources, subject to availability. For 2011, the goal was for 40 per cent of Vestas' energy consumption to be green, whilst the share of renewable electricity should be at least 95 per cent. The goal was not reached because it was not possible to buy renewable electricity in sufficient volumes in China and in parts of the USA and India in 2011. Vestas therefore invested in wind power plants in Eastern Europe, some of which, however, are not expected to be fully commissioned until in 2012.

Vestas' share of renewable electricity fell to 68 per cent in 2011 from 74 per cent in 2010.

### Energy consumption

In 2011, Vestas' total energy consumption rose by 1 per cent. When index-linked to produced and shipped MW, Vestas' energy consumption decreased as the utilisation of the production facilities rose. A high capacity utilisation increases energy efficiency.

As part of its environment initiatives, Vestas not only pursues a green electricity policy, but has also defined a green car and a green building policy.

An important step in the efforts to reduce Vestas' environmental footprint is to make the Group's buildings as energy-efficient as possible. Vestas assesses its buildings using the LEED standard, which is the highest standard in sustainable construction. LEED specifies requirements for factors such as insulation, light, sound, energy types, rain water catchment and water recycling. In 2011, the development centres on the Isle of Wight, UK, and at Lem, Denmark, were extended according to the requirements of the new green building policy. The same applied to the offices in Singapore and Portland, USA, and the new corporate headquarters in Aarhus, Denmark.

The new headquarters in Aarhus were inaugurated on 9 November 2011 and are heated using one of Denmark's largest geothermal heating plants. Compared with traditional buildings of the same size, this contributes to significantly lower $CO_2$ emissions. The environment-friendly buildings are more expensive to build than standard construction, but they will help Vestas save expenses for increasingly expensive water, heat and electricity.

### Water consumption

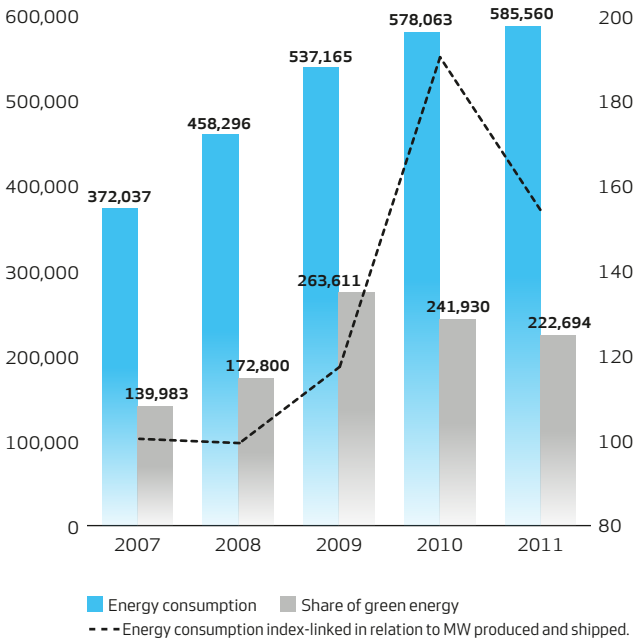
Vestas uses water in its production process, especially cooling water at the foundries. In 2011, water consumption decreased by 6 per cent from 598,258 $m^3$ to 562,308 $m^3$. Vestas' factory at Kristiansand, Norway, reduced its consumption of municipal water supply. Furthermore, factory closures in 2011 contributed to the decrease in water consumption.

### Waste disposal

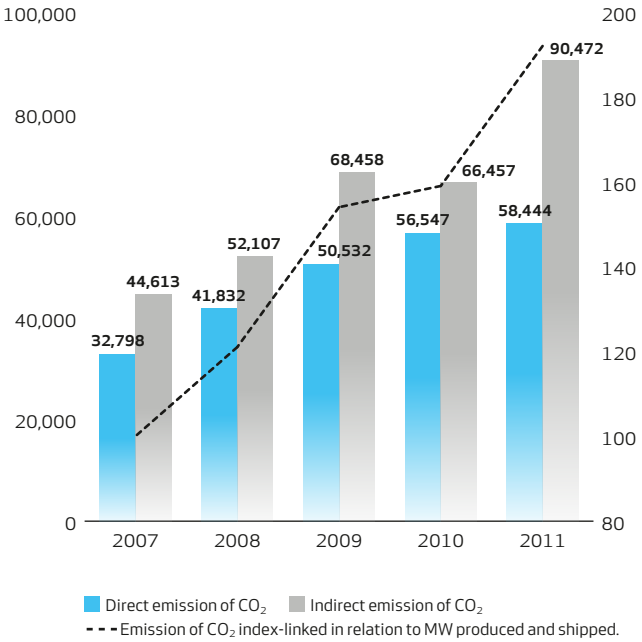
The volume of waste, including hazardous waste and the volume of waste sent to recycling, are key indicators of the efficiency of Vestas' sustainability efforts.

Vestas endeavours to generate as little waste as possible. In 2011, the total volume of waste was 89,051 tonnes, against 88,663 tonnes in 2010. In 2011, 54 per cent of the total volume of waste was recycled, against 40 per cent the year before. The volume of waste should

**Energy consumption (MWh) and share of green energy** **Index**




**Direct and indirect emission of $CO_2$ (tonnes)** **Index**



be viewed relative to the production and shipments of 5,054 MW in 2011 against 4,057 MW in 2010. The increase in total volumes of waste for recycling was primarily due to the recycling of a proportion of the casting sand for bricks at Vestas' foundry in China. To this should be added increased production and the resulting iron scrap at Vestas' tower factory in the USA.

The use of suppliers affects the volumes that Vestas controls itself. In addition, the infrastructure for recycling of Vestas' waste, which consists primarily of sand, metals, wood, paper, oil, plastic and composites, has not been developed to the same level in all countries in which Vestas operates.

Measured in tonnes, half of Vestas' waste is sand from the casting processes. The casting sand is recycled, and that reduces the volume of waste as 80-90 per cent of the casting sand is being recycled on site before the rest is disposed of as waste. The initiative reduces raw materials consumption, the total waste volume as well as transport costs.

### Environment management system

Vestas has systematically worked with environment and health & safety standards since 2000, when Vestas received its first ISO 14001 certification. At the end of 2011, 96 per cent of Vestas' employees worked at a facility certified to the ISO 14001 standard.

Vestas did not experience any environmental accidents in 2011.

## Risk management

### Commercial risks

The overall responsibility for the Group's risk management and internal control environment in relation to operational and financial risks rests with Vestas' Board of Directors and Executive Management,

The Board of Directors', the audit committee's and the Executive Management's position on good risk management and internal controls is regularly emphasised at Vestas. Risk management and the internal control environment are developed and enhanced in an ongoing process in order to consistently accommodating the needs of a company operating internationally and in many markets.

Vestas' risk management, including internal controls in relation to the financial reporting process, is designed with a view to effectively minimising the risk of errors and omissions.

The Executive Management is responsible for continuously identifying, assessing and addressing risks with a view to reducing the financial impact and/or probability of the risks materialising.

Vestas' risk committee works actively with anchoring risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks.

Enterprise Risk Management is integrated in all business units to ensure systematic identification and handling of all relevant risks throughout Vestas' value chain.

The increasingly standardised approach to risk management meant that a decline of 9 per cent in insurance premiums was achieved in 2011, whilst Vestas achieved significantly improved coverage and insurance conditions. As a consequence of Vestas' focus on security, the industrial injury insurance for 2012 was reduced by 13 per cent.

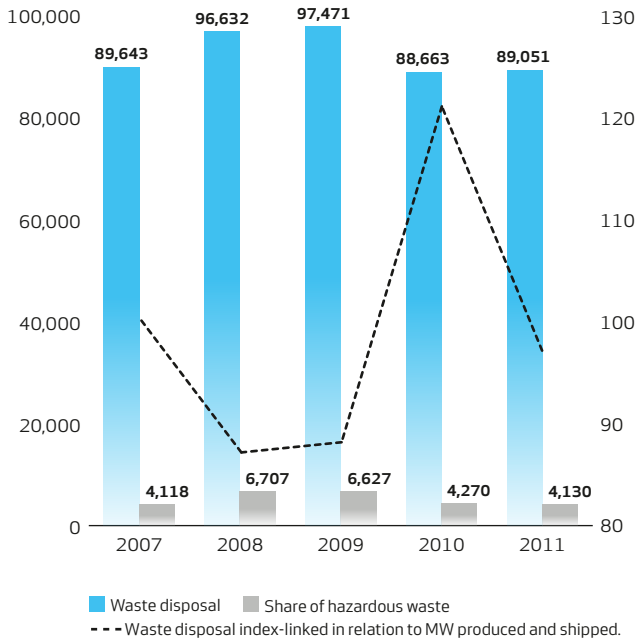
### Operational risks

Vestas is working continuously to improve its operations and to minimise risks that may disrupt operations.

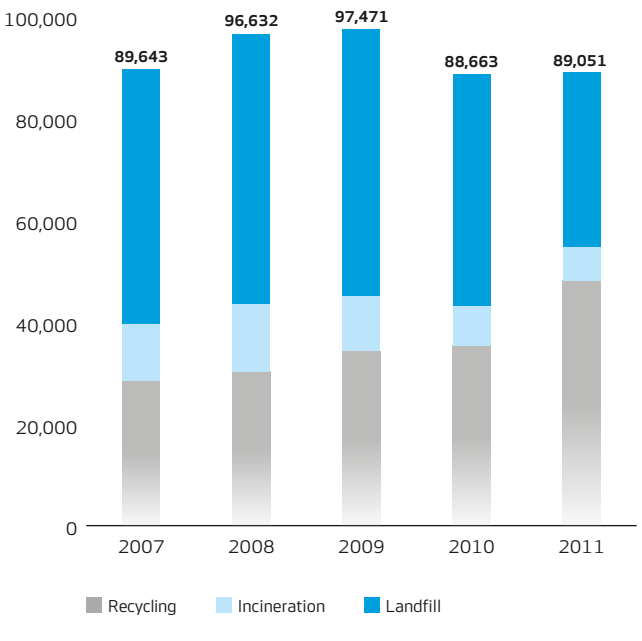
### Suppliers

Vestas continuously extends collaborations with its suppliers. The product development process has been improved to ensure integrated product development in liaison with customer, sales and production units as well as suppliers. By involving relevant stakeholders early in

**Waste disposal (tonnes) and share of hazardous waste** **Index**




**Waste disposal (tonnes)**



the process, Vestas is able to strengthen the entire value chain from a quality, value and risk perspectives.

Vestas thus intends to implement Key Supplier Management with the aim of expanding and accelerating collaborations with key component suppliers. The implementation of Key Supplier Management across all procurement functions will consolidate best practices to the benefit of customers, suppliers and Vestas. In 2012, Vestas will continue its efforts to reduce lead times and total costs.

Management teams with extensive experience with certain components are responsible for strategies and execution within their specific product areas. This enables Vestas to better manage critical risks in relation to component procurement. Limitations at suppliers have been resolved through gradual replacement of materials used in key turbine components and through continuing competence-building and risk management procedures at the suppliers. In addition, Vestas regularly follows up on the financial standing of existing and potential suppliers.

The slowdown in market growth has generally triggered component abundance and represents a financial challenge to a number of suppliers. Vestas aims to always have at least two suppliers of all components; in the majority of cases, this goal is currently accomplished.

A wind turbine consists of several thousands of components manufactured by many sub-suppliers. In connection with the reorganisation in 2012, Vestas has established two new functions: Global Sourcing and Global Supply Chain and Planning to strengthen collaborations with and handling of its approx 1,000 business partners.

Vestas screens all key suppliers to assess whether they meet the requirements for sustainability, human rights and rules for workers. In 2011, 140 suppliers in 26 countries were assessed, and 90 were approved.

Suppliers and customers must meet Vestas' safety rules, for example in connection with the installation of turbines.

### Products

As part of its product development efforts, in 2011 Vestas continued to improve its products and processes. In connection with the reorganisation announced on 12 January 2012, Vestas introduced two new business units: Turbines R&D and Global Solutions and Services.

All product platforms are now divided into separate units with built-in quality functions and a more distinct management structure. To facilitate the efforts, Vestas' R&D department has physically matched skills and resources for each project. The new product development framework is in place, and a comprehensive training programme has been launched to ensure successful implementation throughout the value chain. The intention is to extend the concept in 2012 to cover all parts of the value chain.

### Product quality

Quality and reliability are key competitive parameters for Vestas, and data reliability in all Vestas processes is a precondition for continuous quality improvements. The implementation of SAP helps ensure swift and uniform reporting across the units, facilitating effective management at all levels.

Vestas' Risk Management programme ensures that quarterly reviews of relevant risk assessments are carried out in accordance with the company's risk management process, including quality risks.

In 2011, Vestas developed a quality strategy that addresses all aspects of its products and services for the purpose of safeguarding Vestas' high quality and reliability ranking.

Throughout the value chain, focus areas have been addressed using targets, performance indicators and actions plans for product development, supplier quality levels, production processes and connected quality cycles that capture quality problems through field results.

In 2011, Vestas addressed improvements of its product development quality by incorporating a preventive quality, testing and validation strategy in its development processes.

Supplier quality risks are addressed by evaluating the quality maturity of suppliers and by developing supplier-customer partnerships, within the organisation as well as externally.

As part of its quality improvement initiatives, in 2011, Vestas sharpened its focus on enhancing the production process and control right from the factories and back upstream to suppliers and sub-suppliers.

Vestas also stepped up its ongoing improvement activities through closer cooperation between sites and all Vestas units, resulting in an improved quality culture, lower warranty costs and an all-time low Lost Production Factor. These activities will continue in 2012.

### Sales

To ensure continued commercial success, Vestas constantly focuses on customer needs. In 2011, Vestas fully implemented its Key Account Management programme, and experience from the programme will now be transferred onto its other key customers. At the same time, a customer integration programme was launched with the aim of bringing Vestas even closer to its customers and ensuring that the company can provide tailored quotations and services to the different customer segments in the market.

These initiatives form part of the ongoing effort to maintain a local presence in Vestas' principal markets – "In the region, for the region".

### Production

In recent years, Vestas has worked intensively on reducing risks and waste in production through its Lean and Six Sigma programmes. In 2011, these efforts focused on optimising and advancing the make-to-order concept in order to reduce tied-up capital and thereby release cash resources. This has resulted in improved integration of the flow from suppliers to production and through to the installation of the wind power plants.

Moreover, continuing efforts to harmonise processes ensure an efficient "start-to-finish" supply chain. This structure is the foundation for a complete integration of Enterprise Resource Planning and Business Intelligence systems, which will improve information to management, thereby reducing the risk of unilateral decisions.

Based on these initiatives and the former alignment process, Vestas has built the foundation for consolidating the function areas across the production units, reducing overhead costs. Finally, the streamlining has sharpened the focus on the rate of utilisation of Vestas' factories and the possibility of optimising the future production layout.

### Transport

Vestas collaborates regularly with selected transport suppliers, globally as well as regionally. In 2011, special attention was paid to improving global transport processes and the relevant IT solutions and to limiting potential damages in critical areas. Efforts are underway to achieve a higher degree of harmonisation across all business units.

In the autumn of 2011, Vestas successfully carried out a test rail transport of a V112 blade from Lauchhammer in Germany to Lem in Denmark. Vestas intends to increase its use of rail transportation in Europe as this type of transport has already proven to be a good solution in the USA. In addition to financial cost reductions, rail transport will also reduce $CO_2$ emissions.

### Social responsibility

The work to prevent industrial injuries is always at the top of Vestas' agenda. Socially and politically unacceptable behaviour could also cause comprehensive damage to Vestas' reputation and, by extension, to its growth and earnings. Minimum emissions and climate impact and anti-corruption are also important focus areas, which is underpinned by a number of initiatives:

- Development and implementation of a global supplier evaluation tool for production units, comprising the environment, health & safety, human rights and anti-corruption.
- All new employees must attend Code of Conduct e-learning as part of their introduction to Vestas. Selected employees attend special e-learning modules on business ethics.
- Signing of the World Economic Forum's partnership against corruption to further underline the zero-tolerance policy for bribery.
- EthicsLine comprises reports and questions from employees and Vestas' business partners.

### Legislation

Globally and locally, Vestas' dedicated efforts have improved the legislative stability that is a prerequisite for wind power to continue to grow and conquer market shares from other sources of energy.

The financial and economic crisis has added substantial pressure on a number of heavily indebted European countries, which are facing considerable demands for conducting a tight fiscal policy. Although only very few subsidy schemes for wind power represent a public expenditure, but are financed by the power consumers, short-term considerations may have an adverse impact on the expansion of renewable energy, including wind power.

A large number of subsidy schemes are being reconsidered. This involves a risk of a wait-and-see stance among some of Vestas' customers.

The movement towards protectionism in the cleantech industry increases the risk of a retaliation spiral at a time when the global economic recovery remains weak. In response, Vestas has, among other things, increased its focus on trade barriers, communicating its viewpoints in international trade organisations such as the EU and the WTO. Protectionism will make cleantech solutions more expensive, defer the necessary climate measures and thereby increase the overall costs associated with climate change for everyone.

Vestas supports the EU's efforts to advance renewable energy, not merely because it helps combat climate change and reduces reliance on imported energy, but because it provides economic stimuli at a time of crisis. Vestas believes that economic growth and the advancement of renewable energy are two sides of the same coin, provided the necessary political framework is in place.

A stable financial and legislative framework is a prerequisite for giving investors the trust necessary to safeguard the long-term development of the wind turbine industry. To achieve this framework, it is paramount that existing EU legislation, not least the combined Climate and Energy package and the resulting national actions plans for renewable energy are implemented. Other priorities include an upgrade of member state power grids with unambiguous targets and time schedules beyond 2020.

The presence of local Government Relations departments in its sales units has provided Vestas with improved conditions and understanding of wind power in a number of markets. The lobbyists advise the authorities in connection with drawing up the legislation required to further proliferate wind power. Vestas has also stepped up its focus on markets extensively using subsidy schemes. In this context, reference is made to the debates on future tax credit schemes in the USA and the 2020 climate targets in the EU.

### Reputation

A strong reputation leads to greater loyalty, more recommendations, easier recruitment and ultimately higher sales and earnings. Consequently, a good reputation is of major strategic importance to Vestas, in particular, and to the wind power industry in general.

Annual measurements of the quality and strength of Vestas' reputation among its principal stakeholders are made to ensure that Vestas develops its position in the right direction and builds goodwill in society in general.

Since Vestas started systematically to measure its reputation in 2009 pursuant to the Global Rep Track™, the indicator has improved to 79 in 2011 from 77 in 2010 and 75 in 2009 among Vestas' customers. Among Vestas' other commercial stakeholders such as bankers, advisors and potential customers the tendency has been the same with a score of 79 in 2011 compared to 77 the year before.

As a consequence of two profit warnings within the last five months, the analysts' evaluation of Vestas did, however, result in a lower score than last year – the analysts' trust thus fell to 41 in 2011 from 54 in 2010. The survey of Vestas' reputation takes place once a year. The next survey will be conducted in January 2013.

## Financial risks and internal control environment

### Financial risks

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

Finance works actively with anchoring risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks

As part of the risk assessment, Vestas' Board of Directors and Executive Management twice 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.

### Control activities

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 reporting.

### Information and communication

Vestas' internal rules, 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 with due consideration to the confidentiality required in a listed company.

**Other financial risks**

Currency

The business activities of Vestas involve exchange rate risks linked to the purchase and sale of goods and services outside the euro zone. Vestas pursues a policy of hedging exchange rate risks as soon as a commitment in foreign currency is agreed. However, this applies only to net exposure in each individual currency. Exchange rate risks are primarily hedged through foreign exchange forward contracts.

Exchange rate adjustment of investments in subsidiaries and associated companies abroad is taken directly to equity. Vestas believes that continuous exchange rate hedging of such long-term investments is not a favourable solution with regard to balancing total risk against total cost.

In combination with a higher degree of sourcing from countries whose currencies are not linked to the EUR, the investments in the USA and China ensure an improved currency mix between income and expenses, making Vestas less sensitive to fluctuations in currencies such as the USD relative to EUR.

Interest rate and liquidity risks

Vestas' Treasury department is in charge of ensuring that substantial capital resources are in place at all times through a combination of liquidity management, non-committed and committed credit facilities and other debt instruments. Vestas manages its liquidity risk through cash pool systems in various currencies and by using short-term overdraft facilities in a number of financial institutions.

Vestas' primary interest rate risk consists of interest rate fluctuations, which may influence the Group's debt and lease obligations. Managing the interest risks involves the monitoring of duration and maximum interest rate risk on Vestas' net debts. Vestas uses hedging instruments to limit interest rate risks.

Vestas' ambition is to have a net interest-bearing debt/EBITDA which does not exceed 2:1 at the end of each financial year. The company aims to maintain a robust balance sheet and to ensure a clear investment grade profile.

Tax risks

Vestas pursues an active, but not an aggressive, tax policy. Based on its broad, international production and sales platforms, Vestas maintains a well-documented transfer pricing system that gives a true and fair view, ref. international rules based on the OECD guidelines and local legislation. However, transfer pricing may always be challenged due to the interpretation of international guidelines adopted by local authorities.

Credit risks

The financial crisis has sharpened Vestas' focus on customers' ability to pay. In addition, Vestas is exposed to credit risks in connection with delivering products to customers in certain countries. Developments in the customer portfolio towards a greater proportion of large, international enterprises will to some extent reduce this risk. In general, Vestas aims to hedge receivables by payment guarantees. At 31 December 2011, Vestas' due receivables amounted to EUR 105m.

The use of financial instruments involves a risk that the counterparty may not be able to meet his obligations at maturity. Vestas minimises this risk by only using financial institutions with high credit ratings. The banks must have a long-term credit rating from Standard & Poor's (A), Moody's (A2) or Fitch (A). However, the financial crisis has downgraded two members of the Vestas banking group and as such, not all of them are complying with the desired rating. Vestas has decided to retain the cooperation, but is monitoring the development of the banks closely and will act accordingly. Finally, Vestas has in-house limits as to the size of the Group's balance with a single bank.

Commodity risks

To minimise the potential impact and reduce risks in connection with fluctuations in prices of commodities such as copper and nickel, Vestas has entered into long-term agreements with fixed prices covering parts of Vestas' needs. In general, however, Vestas seeks to incorporate commodity price developments into its sales contracts. The final project price typically depends on developments in a number of key parameters, especially commodity prices. Where a customer seeks full certainty for the final project price, this is reflected in a premium. This means that Vestas' earnings on contracts is relatively robust towards fluctuating input prices.

An increase in the price of steel, in particular, may, however, have an adverse impact on project earnings.

Demand for and prices of so-called earth metals have surged. Earth metals are widely used for example in certain direct drive turbines. This is one of the reasons why Vestas does not have a direct drive turbine in its product range but exclusively uses turbines with conventional gear boxes. Vestas uses limited amounts of earth metals in its modern generators with permanent magnets and seeks to reduce its dependence on materials that are costly and hard to access.

## Events after the balance sheet date

**Preliminary financial highlights**

On 3 January 2012, Vestas disclosed, based on preliminary accounting figures, that it expected an order intake of 7.4 GW for 2011, revenue of approx EUR 6bn, an EBIT margin of approx 0 per cent and a positive free cash flow, ref. company announcement No. 1/2012.

**Organisational changes**

On 12 January 2012, Vestas disclosed a new organisational structure aimed at increasing customer focus and earnings and reducing costs by more than EUR 150m by the end of 2012, ref. company announcement No. 3/2012.

**Orders**

In 2012, Vestas has announced two orders for Finland and China, respectively, with a total capacity of 79 MW.

A complete overview of announced orders is available at Vestas' website. Vestas only announces firm and unconditional orders and in relation to company announcements, the order value must exceed EUR 66m.

**Major shareholder announcement**

In February 2012, Vestas received information from Capital Research and Management Company, USA, that they had reduced their holding of Vestas shares to 10,143,805 shares (4.98 per cent), ref. company announcement No. 5/2012.

**Change in the Executive Management of Vestas**

The Board of Directors of Vestas Wind Systems A/S has received a thorough briefing on the conditions which during the last months have

led to profit warnings. As a consequence of this, CFO and Deputy CEO, Henrik Nørremark resigns, ref. company announcement No. 6/2012.

**Election of members to the Board of Directors of Vestas Wind Systems A/S**

At Vestas Wind Systems A/S' board meeting discussing the annual report for 2011, the chairmanship, Bent Erik Carlsen and Torsten Erik Rasmussen, informed the Board that they will not stand for re-election for the Board of Directors at the Annual General Meeting on 29 March 2012.

Furthermore, board member, Freddy Frandsen, informed the Board that he will not stand for re-election.

The remaining board members elected by the annual general meeting have all informed the Board that they will stand for re-election, ref. company announcement No. 7/2012.

## Accounting policies for non-financial highlights

Vestas will base its materiality assessment on analysis of significant economic, environmental and social impacts of the company's activities. For 2011, the analysis is based on internal priorities as well as experience from dialogue with customers, investors, policy makers, employees and media. For 2012 ,Vestas will involve stakeholders directly in the materiality assessment. The result of the first analysis is incorporated in Vestas' annual report with additional information at vestas.com. Vestas has previously selected a number of non-financial key figures and indicators that are relevant for the understanding of Vestas' development, results and financial position. These key figures have been maintained after this first materiality assessment except water quality that is no longer considered material. The status of the key figures is monitored closely and for relevant key indicators specific targets have been defined.

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' operational control. Companies are excluded from the reporting from the time when the company leaves Vestas' operational control. The same measurement and calculation methods are applied at all Vestas sites. No information provided in earlier reports has been re-stated. There have been no significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.

**Safety and health**
Occupational health & safety is measured for all activities under the organisational structure. Industrial injuries of all employees are stated on the basis of registration of incidents that have caused more than one day's absence.

From 2009, injuries and working hours for external supervised employees are also included. The incidence of injuries is defined as the number of injuries with at least one work day of absence after the day of the injury 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 is defined as hours absent due to illness, exclusive of absence caused by industrial injuries, maternity leave and child's first day of illness. Absence due to illness is measured by means of registrations in the payroll system based on daily time cards (hourly-paid employees) and absence records (salaried employees), respectively.

**Management systems**
Percentages of Vestas certified according to ISO 9001, ISO 14001 and OHSAS 18001, respectively, is stated on the basis of the number of employees in the certified departments.

**Consumption of resources**
Metals and other raw materials are stated on the basis of consumption from inventories to manufacturing in the first phase of production and to servicing of wind turbines, respectively, as recorded in the company's ordinary registration systems. Metals include only the amount of metal that is processed at Vestas.

Consumables are stated on the basis of decentralised lists of quantities delivered per site in the financial year. Relevance has mainly been determined on the basis of Vestas' sector assessment of material environmental impacts, followed by a selection in relation to quantities consumed compared with the activities carried out at the sites.

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 and emissions**
Waste is stated on the basis of weight slips received from the waste recipients for deliveries effected 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.

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 Danish Energy Authority. 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 caused by production and sale to the grid from Vestas owned turbines.

**MW produced and shipped**
Produced and shipped MW is stated as the accumulated effect of wind turbines that were produced and shipped to the customers in the accounting period.

**$CO_2$ savings from the produced and shipped MW**
$CO_2$ savings 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 502 grams of $CO_2$ per kWh.

**Breaches of internal control conditions**
Breaches of internal inspection conditions are stated as the conditions for which measurements are required, and where measurements show breaches of stated conditions.

**Environmental accidents**
Accidental release of substance and chemicals that Vestas considers to have an irreversible impact on the environment.

**Employees and diversity**
The number of employees is calculated as the number of employees who have a direct contract with Vestas and permanent staff employed through third parties. Employee information is determined on the basis of extracts from the company's ordinary registration systems with specification of nationality, sex and IPE level (Mercers International Position Evaluation).

## The independent auditor's statement concerning non-financial highlights for 2011

We have made an assessment of Vestas Wind Systems A/S' non-financial key figures and indicators for 2011, stated on page 7, in the annual report for 2011.

**Criteria for the preparation of reporting on non-financial issues**

Page 32 of the annual report for 2011 includes the management's responsibility for choice of the non-financial highlights relevant for integration in the annual report page 7. The non-financial key figures and indicators have been included in the annual report for 2011 according to the accounting policies for non-financial highlights for the Group applied and described on page 32.

Furthermore, the index including Vestas Wind Systems A/S' self-evaluation on the company's website (vestas.com) discloses the management's choice of reporting indicators in accordance with the GRI G3.0 (Global Reporting Initiative) guidelines for sustainability reporting at an application level B.

The preparation of the reporting on GRI G3.0 indicators, of non-financial issues and of non-financial highlights is the responsibility of the company's management. Our responsibility is to express an opinion on the reporting on non-financial key figures and indicators based on our assessment, and to express an opinion on the application of GRI G3.0 indicators at a B-level.

**Basis of opinion**

Our work has been planned and performed in accordance with the International Standard on Assurance Engagements, ISAE 3000 (other assurance than audit or review of historical, financial information) to obtain reasonable assurance that the non-financial highlights stated on page 7 have been computed in accordance with the criteria for the preparation of reporting on non-financial highlights. Furthermore, we have planned and performed our work to obtain limited assurance that the reporting for 2011 is in accordance with the GRI G3.0 guidelines, hereunder whether it contains the required information regarding the company's profile and management approach and as a minimum 20 performance indicators with at least one indicator from each sector of indicators with respect to economics, environmental issues, human rights, work conditions, society and product responsibility.

Based on an assessment of materiality and risk, our work has comprised accounting technical analyses, inquiries and spot-checks of systems, data and underlying documentation, including test that the guidelines for measurement and statement of non-financial highlights have been followed. We have assessed the expediency of the internal recording and reporting system as basis for consistent recording and reporting on the non-financial environmental and occupational health & safety data. We have reviewed the GRI G3.0 indicators listed on the company's website, at random tested data and information to underlying documentation and evaluated if indicators are reported upon in accordance with the GRI G3.0 guidelines.

**Opinion**

In our opinion, the non-financial key figures and indicators included on page 7 of the annual report for 2011 have been stated in accordance with the criteria mentioned.

Nothing has come to our attention causing us not to believe that the GRI G3.0 indicators listed on the company's website have been stated and disclosed in accordance with the GRI G3.0 guidelines at an application level B+. We are thus able to state that nothing has come to our attention causing us to believe that Vestas Wind Systems A/S has not reported in a reasonable and balanced manner.

Copenhagen, 8 February 2012

**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab

**Lars Holtug**
State Authorised
Public Accountant

**Birgitte Mogensen**
State Authorised
Public Accountant


PETZL

# Corporate Governance


**036** Communication strategy
**036** Management structure
**040** Remuneration
**041** Code of Conduct
**042** Statutory report on corporate governance
**044** Competencies and fiduciary positions of the members of the Board of Directors
**049** Fiduciary positions of the members of the Executive Management

# Corporate governance

The Board of Directors and the Executive Management of Vestas Wind Systems A/S believe that corporate governance initiatives should be a constant process and address the principles of corporate governance in an ongoing process with due consideration to current legislation, practices and recommendations.

Such evaluation includes a review of the company's business concept, business processes, goals, organisation, capital position, stakeholder relations, risks and exercise of the necessary control.

The Board of Directors finds that clear guidelines on how to manage and communicate at Vestas help to provide a true and fair view of the Group to the world. A clear and well-considered management and communications strategy is of special importance in light of the challenges Vestas is facing in a market characterised by fierce competition, expected consolidation and ever-increasing quality requirements.

## Communications strategy

Vestas aims to safeguard the Group's – and by extension the shareholders' – long-term interests. That can only be achieved through a close dialogue and a positive collaboration with all of Vestas' stakeholders.

In order to ensure that all stakeholders are treated alike, no distinction is made between internal and external communication. All communication from Vestas must underpin the overall picture of the business, its goals and corporate culture, and all communication must be based on what serves Vestas' best interests.

Communication from Vestas is intended to ensure that information about and disclosed by Vestas is: timely (relevant from a time perspective); adequate (correct, relevant, clear and not misleading); simultaneous (equal treatment of all stakeholders); open; and easily accessible.

Information about Vestas which is considered to have a significant impact on the pricing of Vestas' shares is disclosed pursuant to applicable Danish legislation for listed companies. An overview of announcements disclosed in 2011 is available at vestas.com.

Stakeholders wishing to receive such announcements by email may register through Vestas' news service at vestas.com. Furthermore, it is possible to receive alerts regarding webcasts and share price information by email.

Vestas' communications strategy is available at vestas.com.

**Financial calendar 2012**

| | |
|---|---|
| 15 February | Deadline for submitting matters for inclusion in the agenda for the Annual General Meeting |
| 1 March | Convening for the Annual General Meeting |
| 22 March | Record date[1)] |
| 23 March | Deadline for requesting admission cards for the Annual General Meeting. |
| 29 March | Annual General Meeting |
| 4 April - 1 May | Closed period |
| 2 May | Disclosure of interim financial report, Q1 2012 |
| 24 July - 21 August | Closed period |
| 22 August | Disclosure of interim financial report, H1 2012 |
| 10 October - 6 November | Closed period |
| 7 November | Disclosure of interim financial report, Q3 2012 |

1) The right of a shareholder to attend a general meeting and to vote is determined relative to the shares held by the shareholder at the record date. The record date is one week before the general meeting, ref. Article 6(2) of the Articles of Association.

**"Closed periods"**

During a four-week period ahead of the disclosure of financial reports, communication with Vestas' stakeholders is subject to restrictions. During these "closed periods", no comments are made on the financial results, forecasts or market outlook.

## 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 memberships of both the Board of Directors and 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 law and regulations.

In order to retain and, if possible, extend its position as the leading player and pure-play spokesperson for wind power, it is essential that Vestas becomes more and more effective and customer-oriented. Accordingly, on 9 November 2011, the company announced that a number of organisational changes would be implemented in 2012. Additional information about the organisational changes is provided in "New organisation".

**Shareholders**

Vestas Wind Systems A/S' share capital amounts to DKK 203,704,103, and its shares are listed on NASDAQ OMX Copenhagen under the ticker symbol VWS. Vestas has one share class and a total of 203,704,103 shares, which are 100 per cent free float.

**Share capital distribution at 31 December 2011 (number of shares)**

| | |
|---|---|
| Capital, international shareholders | 96,342,447 |
| Capital, Danish shareholders | 92,320,318 |
| Capital, shareholders not registered by name | 15,041,338 |
| **Total** | **203,704,103** |

At the end of the year, the company had 171,880 shareholders registered by name, including custodian banks. The registered shareholders held 93 per cent of the company's share capital. At the end of 2011, approx 167,000 Danish shareholders owned more than 45 per cent of Vestas.

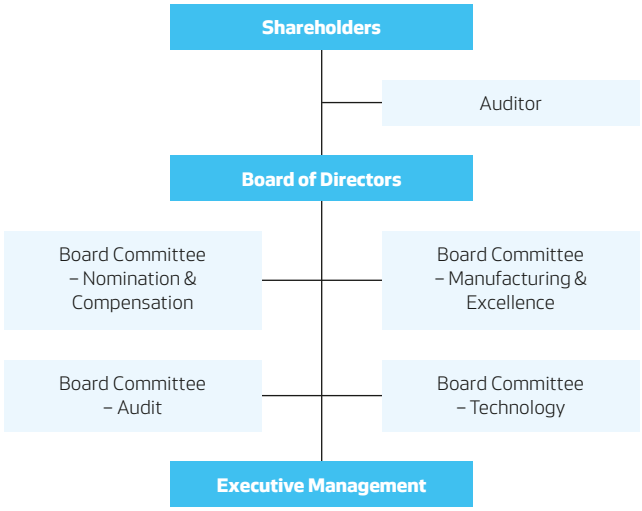
At the end of 2011, BlackRock Inc., USA, and Capital Research and Management Company, USA, both had reported a shareholding that exceeded 5 per cent. Both notifications were received in 2010.

In February 2012, Vestas received information from Capital Research and Management Company, USA, that they had reduced their holding of Vestas shares to 10,143,805 shares (4.98 per cent).

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 with due consideration to 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 and is convened by no more than five and no less than three weeks' notice counting from the date before the general meeting, ref. Article 4(4) of Vestas Wind Systems A/S' Articles of Association. The Articles of Association are available at vestas.com.

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.

Unless otherwise provided by the company's Articles of Association or applicable legislation, resolutions adopted by the shareholders at the general meeting are passed by a simple majority of votes, ref. Article 7(2) of the Articles of Association.

Any resolution in respect of an amendment 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 not 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, ref. Article 7(3) of the Articles of Association.

### Attendance at general meetings

Shareholders wishing to exercise their influence at the general meeting must first register their shares by name in order to subsequently requesting an admission card and voting papers. Any shareholder who is entitled to attend a general meeting must request an admission card not later than three days before the relevant general meeting is held. The admission card can be ordered via Vestas' InvestorPortal or by returning the registration form which is available at vestas.com.

The right of a shareholder to attend a general meeting and to vote is determined relative to 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 register of shareholders.

### Voting

Vestas has a single class of shares, and no shares carry any special rights. Each share carries one vote.

The Board of Directors invites all shareholders to exercise their influence and asks that all shareholders ensure that their holding of Vestas shares is registered by name in the company's register of shareholders. The Board of Directors also recommends that all shareholders express their opinions by voting at the general meetings, either by:

- attending the meeting;
- voting via the InvestorPortal;
- filling in and returning a proxy/correspondence form;
- giving proxy to the Board of Directors; or
- appointing a third party as proxy.

### Deadlines for proposed resolutions for the General Meeting

Any shareholder may in writing to the Board of Directors claim a specific matter included in the agenda for the general meeting. The claim must be submitted not later than six weeks before the date of the general meeting, ref. Article 4(6) of the Articles of Association.

In addition to participating in discussions taking place at the general meeting, the company's shareholders can ask questions to the Board of Directors three months before the meeting via agm@vestas.com. Questions and answers will continually be published on vestas.com.

### Annual General Meeting 2012

The Annual General Meeting of Vestas Wind Systems A/S will be held on 29 March 2012 at 2 p.m. (CET) at the Concert Hall (Musikhuset) in Aarhus (Denmark). The convening for the Annual General Meeting will be disclosed on 1 March 2012.

Distribution of dividends will always be decided with due consideration for the Group's plans for growth and liquidity requirements. The Board of Directors intends to propose to the company's Annual General Meeting that no dividend be paid in respect of 2011.

**Allocation of loss**

| (mEUR) | 2011 |
|---|---|
| The Board of Directors proposes the following distribution of the amount available: | |
| Transfer to reserve for net revaluation under the equity method | 36 |
| Dividend | 0 |
| Retained earnings | (218) |
| | (182) |

The Board of Directors intends to propose that Article 8(1) of the Articles of Association be amended to the effect that the Board of Directors can consist of 5-10 members elected by the General Meeting, against previously 3-8 members. This proposal is based on a wish to further consolidate the competencies of the Board of Directors.

Furthermore, the Board of Directors intends to propose that Article 10(1) of the Articles of Association be amended to the effect that in the future, the company can be bound by "the joint signatures of the Managing Director and another member of the Executive Management" instead of "the joint signatures of two members of the Executive Management".

In this connection, the following wording for Article 10(1) is proposed: "The company shall be bound by (i) the joint signatures of the Managing Director and another member of the Executive Management, (ii) the joint signatures of one member of the Executive Management and the Chairman or the Deputy Chairman of the Board of Directors, (iii) the joint signatures of one member of the Executive Management and two members of the Board of Directors, or (iv) the joint signatures of all the members of the Board of Directors."

At Vestas Wind Systems A/S' board meeting discussing the annual report for 2011, the chairmanship, Bent Erik Carlsen and Torsten Erik Rasmussen, informed the Board that they will not stand for re-election for the Board of Directors at the Annual General Meeting on 29 March 2012.

Furthermore, board member, Freddy Frandsen, informed the Board that he will not stand for re-election.

The remaining board members elected by the annual general meeting have all informed the Board that they will stand for re-election, ref. company announcement No. 7/2012.

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

The Board of Directors will also propose an authority for the company, in the period until the next annual general meeting, to acquire treasury shares. After such acquisition, Vestas' combined portfolio of treasury shares must not exceed 10 per cent of the share capital.

### The company's holding of treasury shares

In 2011, the Board of Directors exercised its authority to acquire treasury shares. Vestas acquired 300,000 shares in March, 200,000 shares in April and 200,000 shares in May at average prices of DKK 179.10, DKK 199.67 and DKK 154.12, respectively, equal to an acquisition price totalling EUR 17m. Vestas acquired treasury shares to cover its option programme for executives, ref. note 32 to the consolidated accounts.

At the end of 2011, Vestas had a portfolio of treasury shares consisting of 1,455,813 shares, equal to EUR 12m acquired in 2006, 2007, 2009 and 2011, respectively. The portfolio corresponds to 0.7 per cent of the share capital.

**Auditor**

Pursuant to Article 11(1) of the Articles of Association, Vestas' annual report must be audited by one or two audit firms to be appointed by the shareholders for the period until the next Annual General Meeting.

In 2011, PricewaterhouseCoopers was appointed as the company's auditor for the 2011 financial year.

For the 2011 financial year, PricewaterhouseCoopers received a fee of EUR 5m, ref. note 31 to the consolidated accounts.

**Board of Directors**

Pursuant to the company's existing Articles of Association, the company is managed by a Board of Directors composed of three to eight 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.

The existing Board members elected by the general meeting were elected in 2011 and their election term expires in 2012, 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.

Candidates for Vestas' Board of Directors must not have reached the age of 70, ref. the Board of Directors' rules of procedure.

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 strives to ensure that they:

- are able to act independently of special interests;
- represent a balance between continuity and renewal;
- match the company's situation; and
- have industry insight and the commercial and financial skills required to allow them to perform their tasks in the best possible manner.

When proposing new board candidates, the Board of Directors pursues the goal of having several nationalities of both sexes. In addition, the Board of Directors is focused on having a diverse age distribution. However, this goal must not compromise the other recruitment criteria.

**The members of the Board of Directors' positions in Vestas Wind Systems A/S**

| | Board of Directors | Audit Committee | Nomination & Compensation Committee | Technology Committee | Manufacturing & Excellence Committee |
|---|---|---|---|---|---|
| Bent Erik Carlsen | Chairman | | Chairman | Chairman | |
| Carsten Bjerg | Member | | | | |
| Elly Smedegaard | Member | | | | |
| Freddy Frandsen | Member | Member | | | Chairman |
| Håkan Eriksson | Member | | | Member | |
| Jørgen Huno Rasmussen | Member | | | Member | |
| Jørn Ankær Thomsen | Member | Member | Member | | |
| Kim Hvid Thomsen | Member | | | | Member |
| Kurt Anker Nielsen | Member | Chairman | | | |
| Michael A. Lisbjerg | Member | | | | |
| Sussie Dvinge Agerbo | Member | | | | |
| Torsten Erik Rasmussen | Deputy Chairman | | Member | | Member |
| Number of meetings in 2011 | 11[2)] | 4 | 6 | 4 | 6 |

2) In 2011, the Board of Directors held a total of 11 meetings inclusive of a two-day strategy seminar.

Pursuant to Danish legislation, a number of company and Group representatives are elected. The existing representatives were elected to the Board of Directors in 2008, and their election term runs until 2012. A description of the Danish system concerning company and Group representatives is available at vestas.com.

### Duties of the Board of Directors

The Board of Directors deals 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.

Cooperating 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.

The Board of Directors' rules of procedure is available at vestas.com.

### Authorities granted to the Board of Directors

Vestas' Articles of Association include an authority to Vestas' Board of Directors concerning an increase of the company's capital in one or more issues of new shares up to a nominal value of DKK 20,370,410 (20,370,410 shares), ref. Article 3 of the Articles of Association. The authority is valid until 1 May 2015.

Since the company was established in 1986, every year the Board of Directors has been authorised by the shareholders at the annual general meeting to let the company acquire treasury shares in the period until the next annual general meeting within a total nominal value of up to 10 per cent of the company's share capital from time to time, ref. section 198 of the Danish Companies Act.

The Board of Directors regularly assesses the company's capital and share structure, and the Board of Directors finds the present structure to be appropriate for the shareholders and the company.

### Assessment of the work performed by the Board of Directors

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

### Vestas shares held by Board members

At 31 December 2011, members of Vestas' Board of Directors and their related parties held a total of 151,158 Vestas shares. At 31 December 2011, these shares represented a combined market value of approx EUR 1.3m, ref. note 32 to the consolidated accounts.

The members of Vestas' Board of Directors are registered on the Vestas insider list. As a general rule, these persons may only trade in Vestas shares during a four-week period following the disclosure of the annual report, interim financial reports or other financial announcements, ref. the company's internal rules.

The Board members have a duty to report any share transactions, and a list of disclosed insider transactions made during the year is available at vestas.com.

## Board committees

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

Vestas has established four permanent Board committees. Each of these consists of a chairman and two members elected for terms of one year by and among the Board members. The election usually takes place at the Board meeting held immediately after the general meeting.

The committees hold the necessary number of meetings per year. At the request of the committees, other members of management may also participate in these meetings.

### Audit Committee

The Audit Committee supports the Board in assessments and controls relating to auditing, accounting policies, systems of internal controls, financial reporting, procedures for handling complaints regarding accounting and auditing and the need for an internal audit function. In 2011, the committee held a total of four meetings, and the three members of the committee participated in all meetings.

Each year, Vestas' Board of Directors and Audit Committee assess the need for an internal audit function. Vestas believes that there is no need for an internal audit function because a number of the assignments that would normally be undertaken by internal audit are handled by an in-house compliance department reporting directly to the Audit Committee.

The majority of the members of the Audit Committee meet the definition of independence of audit committee members set out in the Danish Auditors' Act. The Chairman also meets the requirements under the Auditors' Act on accounting qualifications.

The charter for the Audit Committee is available at vestas.com.

### Nomination & Compensation Committee

The Nomination & Compensation Committee supports the Board in overall staff-related topics, including assessments of remuneration. In 2011, the committee held a total of six meetings.

### Technology Committee

The Technology Committee supports the Board in the evaluation of technological matters, IPR strategy and product development plans. In 2011, the committee held a total of four meetings.

### Manufacturing & Excellence Committee

The Manufacturing & Excellence Committee supports the Board in the evaluation of the Supply Chain. The committee also supports the Board in matters concerning sustainability, quality, warranty obligations and product industrialisation. In 2011, the committee held a total of six meetings.

## Executive Management

The Executive Management of Vestas Wind Systems A/S is appointed by the company's Board of Directors. If the company's Executive Management consist of more than one member, the Board of Directors will appoint one of them as Chief Executive Officer and 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. Members of the Executive Management must retire before they reach the age of 70.

### 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 objective, 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. Findings concerning operational and financial risks are reported continuously to the Audit Committee and the Board of Directors.

The Executive Management's rules of procedure are available at vestas.com.

### Vestas shares held by Executive Management

At 31 December 2011, members of Vestas' Executive Management and their related parties held a total of 2,437 Vestas shares. These shares represented a combined market value of approx EUR 0.02m, ref. note 32 to the consolidated accounts.

The members of the Executive Management are registered on the Vestas insider list. As a general rule, these persons may only trade in Vestas shares during a four-week period following the disclosure of the annual report, interim financial reports or other financial announcements, ref. the company's internal rules.

The members of the Executive Management have a duty to report any share transactions, and a list of disclosed insider transactions made during the year is available at vestas.com.

## Remuneration

Vestas is a global Group based in Denmark, Scandinavia, which is reflected in the Group's remuneration principles. As an employer, Vestas undertakes to ensure responsibility and equal opportunities for its employees and to work actively to promote diversity.

Vestas' global remuneration principles for executives are based on Mercer's International Position Evaluation System. Mercer Reward Surveys are used as the benchmark.

For all other employee groups, locally based statistics are used as the basis for the remuneration.

**Remuneration policy for the Board of Directors and the Executive Management**

The remuneration policy for members of the Board of Directors and the Executive Management of Vestas Wind Systems A/S reflects the interests of the shareholders and the company, taking into consideration any specific matters, including the assignments and the responsibility undertaken. The policy is available at vestas.com.

### Remuneration to the Board of Directors

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.

Each member of the Board of Directors receives annually a fixed basic remuneration of EUR 43,606. Board members elected by the employees receive the same remuneration as the board members elected by the shareholders.

The Chairman receives a triple basic remuneration and the Deputy Chairman receives a double basic remuneration for their extended board duties.

In addition to the basic remuneration, Board members receive committee remuneration of EUR 21,804 for sitting on one of the board committees. The remuneration is determined using the same principles as for the basic remuneration, and the committee chairman receives a double committee remuneration.

For 2011, a total of EUR 1.0m was paid in remuneration to Board and committee members, ref. note 6 to the consolidated accounts. No special fees have been paid.

The Board members are not comprised by any incentive programme (option programme, bonus scheme or similar) or by Vestas' pension scheme, and in case of a takeover, the directors will not receive any compensation.

### Remuneration to the 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. At the same time, the Executive Management is given a further incentive to create shareholder value through partly incentive-based pay.

Members of the Executive Management are employed under executive service contracts, and all terms of their remuneration are fixed by the Board of Directors.

Members of the Executive Management receive a competitive remuneration package consisting of a fixed salary, share options and bonus. Fixed salary is based on a market level, share options focus on retention and long-term value creation for the shareholders, and bonus is based on the results for the year. If it is proved after the grant of variable components to members of the Executive Management that these were paid erroneously, the company may in exceptional cases reclaim in full or in part variable components.

In 2011, a total of EUR 1.7m was paid in salaries to the Executive Management, and EUR 1.1m was expensed as share-based payment, ref. note 6 to the consolidated accounts. No bonus was paid in 2011 under the 2010 bonus programme.

Based on proposals from the Nomination & Compensation Committee for the remuneration of the Executive Management, the Board of Directors annually assesses and approves the remuneration to ensure that it is in line with the conditions in comparable companies.

The service contracts for the members of the Executive Management contain a notice of termination of up to 24 months, which is normal for executives in Danish companies.

The members of the Executive Management will not receive any 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. Their notice of termination will, however, be changed to 36 months. There are no agreements on severance pay to any member of the Executive Management.

### Share-based incentive programme for 2009, 2010 and 2011

In 2011, an option programme was established for the Executive Management and selected executives. More information about

this option programme is provided in note 32 to the consolidated accounts.

From 2006-2009, the option programme comprised the Executive Management, Presidents and Group Senior Vice Presidents reporting directly to the Executive Management, and in 2010 the programme was extended to include the other Senior Vice Presidents, Vice Presidents, Chief Specialists and Chief Project Managers.

In the financial year 2011, a total of 997,857 options were granted to 374 persons under the 2011 programme exercisable in 2015-2016 at a price of DKK 184.06. Out of this, the Executive Management was granted 82,869 options. The allotment of options for the financial year was made in connection with the Board of Directors' approval of this annual report. The terms and conditions of the options are equivalent to the terms and conditions of the options issued for the financial year 2010.

For each year, the present value of the options granted to the Executive Management must not exceed 115 per cent of the gross salary at the date of grant. For Presidents, the value must not exceed 90 per cent, for Group Senior Vice Presidents 80 per cent, for Senior Vice Presidents 50 per cent, and for Vice Presidents, Chief Specialists and Chief Project Managers the value of options granted must not exceed 20 per cent of their gross salary. The present value of the share options is calculated in accordance with the Black-Scholes model.

When exercising the options, the Executive Management and the participants who report directly to the Executive Management must reinvest 50 per cent of the after-tax gain in Vestas shares which must be held for at least three years.

No executives exercised their allotted options in 2011, and at the end of 2011, Vestas had a total of 2,357,852 outstanding options, of which 329,684 were granted to the Executive Management.

**Bonus programme**

The overall objective of Vestas' bonus programme is to reward all Vestas employees financially when the annual targets are achieved – financial as well as non-financial. The bonus programme builds on Vestas' corporate strategy, which sets out that all employees should be rewarded when Vestas improves profitability. The background is that all Vestas employees contribute to the same value creation and provide support to the same customers, regardless of whether they work in a support function or whether they develop, manufacture, market, sell, install or render service on wind turbines.

The bonus programme defines a number of measurable focus areas, or Key Performance Indicators, which help accomplish Vestas' strategic goals.

To ensure a clear connection between the performance of each individual employee and the bonus payment, for 2011 the bonus programme was strongly focused towards the results achieved in the individual business unit. For most managers and employees, the targets for the Group carried a weight of 40 per cent, while business unit targets including safety, inventory days and local customer relations carried a weight of 60 per cent. For the Vestas Government and employees in corporate functions, the bonus depended exclusively on the Group's performance relative to the expectations announced for the year.

**Disbursed bonus**

| mEUR | Disbursed to the Executive Management | Disbursed to other employees |
|---|---|---|
| 2008 | 0.3 | 38.0 |
| 2009 | 0.9 | 57.7 |
| 2010 | 0 | 0 |
| 2011 | 0 | 0 |

The Group's bonus targets for 2011 were an EBIT margin of 8.4 per cent (35 per cent weighting), a free cash flow of EUR 200m (30 per cent), a customer loyalty index of 72 (20 per cent) and revenue of EUR 7bn (15 per cent).

Based on the results achieved in 2011, no bonus will be paid in 2012 to the Executive Management and the other employees for 2011.

The Group bonus targets for 2012 are an EBIT margin of 5.0 per cent (35 per cent weighting), a free cash flow of EUR 300m (30 per cent weighting), a CRSI index of 81 (20 per cent weighting) and revenue of EUR 8bn (15 per cent weighting).

The bonus disbursement is based on national legislation and is subject to local adjustments.

## Code of Conduct

As Vestas gradually grows bigger and bigger with employees and business partners with widely different cultural backgrounds, religious beliefs and political convictions, it is becoming more and more impor-

**Grant of options**

| Year of grant | Number of options granted | Number of employees | Number of exercised options | Number of lapsed options[5)] | Number of outstanding options | Number of options granted to the Executive Management | Exercise price (DKK) | Exercise period |
|---|---|---|---|---|---|---|---|---|
| 2006 | 56,448 | 18 | 2,550 | 7,293 | 46,605 | 16,378 | 147.60 | 2010-2012 |
| 2007 | 207,952 | 19 | 0 | 24,746 | 183,206 | 53,939 | 380.50 | 2010-2012 |
| 2008 | 189,002 | 19 | - | 14,486 | 174,516 | 51,380 | 380.50 | 2010-2014 |
| 2009 | 236,954 | 25 | - | 22,111 | 214,843 | 49,783 | 380.50 | 2013-2015 |
| 2010 | 832,382 | 349 | - | 49,251 | 783,131 | 75,335 | 320.60 | 2014-2015 |
| 2011 | 997,857 | 374 | - | 42,306 | 955,551 | 82,869 | 184.06 | 2015-2016 |

5) Number of lapsed options cover options cancelled due to retired employees.

tant to have a formal set of common values. Vestas' Code of Conduct is to ensure that all employees and other persons acting on behalf of Vestas know what is correct Vestas behaviour.

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.

**Code of Conduct – internal**
In 2011, Vestas continued its work to ensure a high degree of business ethics and to disseminate the Code of Conduct. Code of Conduct is accessible for all employees via e-learning, information material in 18 languages, etc.

To underline the importance of and further anchor the principles of Vestas' Code of Conduct, in 2011, the Executive Management and Presidents of the business units then in place individually signed a declaration that they have read and understood Vestas' Code of Conduct and that they are not aware of any violation of Vestas' Code of Conduct within their areas of responsibility which they have not handled in an adequate manner.

**Code of Conduct – external**
Vestas' supply chain covers more than 1,000 business partners throughout the world, giving Vestas good opportunities to help disseminate awareness of the UN Global Compact and other similar initiatives. However, there are large national and cultural differences between business partners, and the large number of business partners reduces the opportunities for implementing swift changes.

Vestas' long-term efforts involve a combination of requirements, advice and guidance in the fields of safety, the environment, human rights, labour rights, ethics, etc. with the aim of ensuring that not only Vestas' production, but the whole product and the creation thereof, is sustainable in the broadest sense.

For more information on sustainability in relation to Vestas' business partners, see vestas.com.

**Anti-corruption initiative**
Vestas has signed World Economic Forum's "Partnering Against Corruption Initiative" (PACI). Vestas pursues a large number of anti-corruption initiatives recommended by PACI, but as a PACI member, Vestas undertakes to develop and implement additional guidelines, processes, tools and control systems generally recognised to support a company's zero-tolerance policy on bribery and corruption.

In 2011, the company focused on aspects such as the development of an anti-corruption due diligence programme for use in selecting Vestas' business partners. The due diligence programme will be implemented in Vestas in 2012 in selected areas, and the programme is expected to be fully implemented throughout Vestas in the years to come.

Furthermore, a special procedure for gifts, entertainment and hospitality in relation to government officials is being implemented in Vestas' Government Relations function. This procedure is expected to be implemented throughout Vestas in the years to come. The procedure aims to ensure that decisions on spending money on gifts, entertainment and hospitality are based on sound and objective business arguments and that the decisions are well-documented. In the years to come, the PACI principles will be fully implemented.

**Compliance**
Vestas attaches great importance to ensuring an ethical environment in its operations, and to that end Vestas established a system in 2007 in which employees anonymously can report inappropriate behaviour or events. Vestas calls the system EthicsLine, and the system was extended in 2011 so that the company's business partners also have access to asking questions or to report any suspicions about violations of Vestas' Code of Conduct.

Vestas' Audit Committee receives reports from the management on compliance with the guidelines, omissions or cases of non-compliance with adopted policies, business procedures or internal controls.

In 2011, EthicsLine received a total of 86 inquiries. The inquiries concerned partly questions concerning the interpretation of Code of Conduct and partly suspected violations of the Code of Conduct.

## 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 OMX Copenhagen", listed companies must prepare a corporate governance report. The report must contain a description of the company's position on the recommendations in force. The committee's recommendations are available on corporategovernance.dk.

In connection with the preparation of the corporate governance report, the company must apply the "comply or explain" principle. The "comply or explain" principle entails that the company must either comply with the corporate governance recommendations or explain why the recommendations are not fully or partly complied with. This means that the company must state which recommendations it does not comply with, that it must explain the reasons for such non-compliance and, where relevant, state how it addresses the issue in question instead.

The recommendations specify that the circumstances of each company will govern the extent to which the recommendations are complied with, or whether it is appropriate not to comply, as the key issue is to create transparency in corporate governance matters.

The statutory report for 2011 is available at vestas.com/investor/corporategovernance.

## Competencies and fiduciary positions of the members of the Board of Directors

**Bent Erik Carlsen**
Born: 3 April 1945
Nationality: Danish
Resident: Denmark
Position: Director, B. Carlsen Shipping ApS (Denmark) 2007–.

### Position with Vestas Wind Systems A/S
Chairman of the company's Board of Directors since 1996. Elected to the Board of Directors in September 1996 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Carlsen does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] as he has been a member of the Board of Directors for more than 12 years.

Designated by the Board of Directors as Chairman of the Nomination & Compensation Committee and the Technology Committee.

### Shareholding
Increased his holdings of Vestas shares in 2011 by 10,000 shares. Shareholding as per 31 December 2011: 116,120 shares.

### Competencies
#### Education

| | |
|---|---|
| 1972 | B. Com. (marketing), Copenhagen Business School (Denmark) |
| 1978 | B. Com. (management accounting), Copenhagen Business School (Denmark) |
| – | Various management courses INSEAD (France) |

#### Former positions

| | |
|---|---|
| 1969–1972 | Sales Manager, Colon Emballage A/S (Denmark) |
| 1972–1979 | Managing Director, Eurocard Denmark A/S (Denmark) |
| 1979–1981 | Managing Director, Winther & Heide Eftf. A/S (Denmark) |
| 1981–1983 | Member of the European Management, Air Liquide (France) |
| 1983–1988 | Managing Director, Aktieselskabet Dansk Ilt- & Brintfabrik (Denmark) |
| 1988–1990 | Managing Director, Fro Saldatura S.A. (Italy) |
| 1990–1992 | Managing Director, L' Air Liquide Belge sa-nv (Belgium) |
| 1992–1999 | Managing Director, Hede Nielsen A/S (Denmark) |
| 1999–2002 | Managing Director, Air Liquide Scandinavia (Denmark) |
| 2002–2008 | Group Executive Vice President, A.P. Møller-Mærsk A/S (Denmark) |

#### Special competencies
Mr Carlsen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of managing international and national companies, including thorough knowledge of strategic management. Detailed knowledge of the company's affairs and the industry based on many years of experience from working on the Board of Directors of the company.

### Fiduciary positions
Member of the Boards of: Investeringsforeningen Valueinvest Danmark (Denmark), Odense Staalskibsværft A/S (Denmark) and SIF Group BV (The Netherlands).

---

**Torsten Erik Rasmussen**
Born: 29 June 1944
Nationality: Danish
Resident: Denmark
Position: Managing Director (CEO), Morgan Management ApS (Denmark) 1997–.

### Position with Vestas Wind Systems A/S
Deputy Chairman of the company 's Board of Directors since 2006. Elected to the Board of Directors in January 1998 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Rasmussen does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] as he has been a member of the Board of Directors for more than 12 years.

Elected by the Board of Directors as member of the Nomination & Compensation Committee and the Manufacturing & Excellence Committee.

### Shareholding
Vestas shareholding as per 31 December 2011: 7,837 shares.[7]

### Competencies
#### Education

| | |
|---|---|
| 1961–1964 | Commercial education, Dalhoff Larsen & Horneman A/S (Denmark) |
| 1964–1966 | Military service, Royal Danish Life Guards (Denmark) and discharged as First lieutenant (R) 1967 |
| 1972 | MBA, IMEDE, Lausanne (Switzerland) |
| 1985 | International Senior Managers' Program, Harvard Business School (USA) |

#### Former positions

| | |
|---|---|
| 1967–1971 | Department Manager and later Director, Northern Soft- & Hardwood Co. Ltd. (Congo) |
| 1973 | Management Assistant, LEGO System A/S (Denmark) |
| 1973–1975 | Finance and Administration Director, LEGOLAND A/S (Denmark) |
| 1975–1977 | Logistics Manager, LEGO System A/S (Denmark) |
| 1977 | Vice President, logistics, LEGO System A/S (Denmark) |
| 1978–1980 | President and CEO, LEGO Overseas A/S (Denmark) |
| 1981–1997 | Executive Vice President, Operations and member of the Group Management, LEGO A/S (Denmark) |

#### Special competencies
Mr Rasmussen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of strategic management and organisation of nationally and globally based companies, significant experience within technology, production and logistics in globally branded companies as well as experience within accounting and finance.

### Fiduciary positions
Chairman of the Boards of: Acadia Pharmaceuticals A/S (Denmark), Ball ApS (Denmark), Ball Holding ApS (Denmark), Ball Invest ApS (Denmark), CPD Invest ApS (Denmark), Oase Outdoors ApS (Denmark), and Procuratio Business Simulations ApS (Denmark).

Deputy Chairman of the Board of: TK Development A/S (Denmark).

Member of the Boards of: Acadia Pharmaceuticals Inc. (USA), Morgan Invest ApS (Denmark), Schur International A/S (Denmark), Vola A/S (Denmark), Vola Ejendomme ApS (Denmark) and Vola Holding A/S (Denmark).

**Positions of trust**
Chairman of: Acadia Pharmaceuticals Inc.'s Corporate Governance Committee (USA).

Member: Acadia Pharmaceuticals Inc.'s Compensation Committee (USA).

---

**Carsten Bjerg**
Born: 12 November 1959
Nationality: Danish
Resident: Denmark
Position: CEO and Group President of Grundfos Management A/S (Denmark) 2007–.

**Position with Vestas Wind Systems A/S**
Elected to the Board of Directors in March 2011. Term of office expires in 2012.

Meets the definition of independence as set out by the Danish Corporate Governance Committee.[6)]

**Shareholding**
Increased his holdings of Vestas shares in 2011 by 1,831 shares. Shareholding as per 31 December 2011: 1,831 shares.

**Competencies**
Education

| | |
|---|---|
| 1983 | BSc Engineering, The Engineering Academy of Denmark (Denmark) |
| 1984–1985 | ACPMM, University of Cambridge (England) |

Former positions

| | |
|---|---|
| 1983–1984 | Engineer & Trainee, Danfoss A/S (Denmark) |
| 1985–1989 | Project Manager, Danfoss A/S (Denmark) |
| 1989–1994 | Plant Manager, Danfoss A/S (Denmark) |
| 1994–1997 | Product Line Director, Danfoss A/S (Denmark) |
| 1997–2000 | SVP, International Production, Grundfos Management A/S (Denmark) |
| 2000–2003 | EVP, Production & Logistics, Grundfos Management A/S (Denmark) |
| 2003–2006 | Deputy CEO, Grundfos Management A/S (Denmark) |
| 2006–2007 | Acting CEO, Grundfos Management A/S (Denmark) |

Special competencies
Mr Bjerg has the following special competencies which specifically will be essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of managing an international group including thorough knowledge of R&D, manufacturing and strategic management.

**Fiduciary positions**
Chairman of the Boards of: Grundfos China Holding Co., Ltd. (China), Grundfos Holding AG (Switzerland), Grundfos New Business A/S (Denmark) and Grundfos Pumps (Shanghai) Co., Ltd. (China).

Member of the Board of: Grundfos Finance A/S (Denmark) and Rockwool International A/S (Denmark).

**Positions of trust**
Chairman of: FORNYELSESFONDEN (Denmark).

Member of: The General Council of the Confederation of Danish Industries (Denmark) and the Board of Provincial Industries Employers' Federation (Denmark).

---

**Elly Smedegaard Rex**
Born: 13 May 1955
Nationality: Danish
Resident: Denmark
Position: Service assistant and shop steward, Vestas Wind Systems A/S (Denmark) 1999–.

**Position with Vestas Wind Systems A/S**
Elected by company employees. Member of the Board of Directors since April 2008. Term of office expires in 2012.

Ms Rex does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6)] due to employment with Vestas Wind Systems A/S (Denmark).

**Shareholding**
In 2011, a related party has purchased 200 Vestas shares. Shareholding as per 31 December 2011: 200 shares.[7)]

**Competencies**
Education

| | |
|---|---|
| 1973 | Dental nurse (Denmark) |

Former positions

| | |
|---|---|
| 1974 | Shop assistant, Lem El (Denmark) |
| | Shop assistant, Stop (Denmark) |
| 1980–1983 | Host, Ølstrup parish community centre (Denmark) |
| 1983–1985 | Dental nurse, Tandlægerne i Nygade (Denmark) |
| | Dental nurse, Tandlæge Bidstrup (Denmark) |
| 1986 | Host, Ølstrup parish community centre (Denmark) |
| 1987–1990 | Office manager, Sommerland Vest (Denmark) |
| 1991–1993 | Dental nurse, Tandlægerne i Nygade (Denmark) |
| 1993–1994 | Office manager, Sommerland Vest (Denmark) |
| 1995–1996 | Kitchen assistant, ROFI-Centret Ringkøbing (Denmark) |
| | Kitchen assistant, Vedersø Mejerikro (Denmark) |
| 1997–1998 | Office manager, Troldeparken Sommerland Vest (Denmark) |
| 1998–1999 | Kitchen assistant, ROFI-Centret Ringkøbing (Denmark) |

Special competencies
Ms Rex has the following special competencies which are essential to the work of the Board of D irectors of Vestas Wind Systems A/S: Indepth knowledge of human resources and day-to-day operations, etc. of the Vestas Group.

---

**Freddy Frandsen**
Born: 24 April 1944
Nationality: Danish
Resident: Denmark
Position: Director

### Position with Vestas Wind Systems A/S
Elected to the Board of Directors in April 2004 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Frandsen meets the definition of independence as set out by the Danish Corporate Governance Committee[6] and the definition of independence of audit committee members as set out in the Danish Auditors' Act.[8]

Designated by the Board of Directors as Chairman of the Manufacturing & Excellence Committee and elected as a member of the Audit Committee.

### Shareholding
Vestas shareholding as per 31 December 2011: 3,653 shares.[7]

### Competencies
#### Education
| | |
|---|---|
| 1967 | Electronic Engineer, Engineering College of Aarhus (Denmark) |
| – | Various management courses INSEAD (Denmark) |

#### Former positions
| | |
|---|---|
| 1967–1973 | Engineer, Industry Department, Bruun & Sørensen A/S (Denmark) |
| 1973–1987 | Divisional Director, Skako A/S (Denmark) |
| 1987–1989 | Managing Director, Kverneland-Danmark A/S (Denmark) |
| 1989–1993 | Managing Director, Pedershaab A/S (Denmark) |
| 1993–2005 | Managing Director, Aalborg Industries A/S (Denmark) |

#### Special competencies
Mr Frandsen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of management and manufacturing matters and industry insight into production companies.

### Fiduciary positions
Chairman of the Board of: Hans Følsgaard A/S (Denmark).

Member of the Boards of: Desmi A/S (Denmark), Lindø Industripark A/S (Denmark), Odense Staalskibsværft A/S (Denmark), Polaris Invest II ApS (Denmark), Polaris Management A/S (Denmark), Svejsemaskinefabrikken Migatronic A/S (Denmark) and Aalborg University (Denmark).

### Positions of trust
Chairman of: Følsgaard Fonden (Denmark).

Member of: Nordsøen Forskerpark/Ocenarium (Denmark) and The non-profit foundation: Utzon Foundation (Denmark).

---

**Håkan Eriksson**
Born: 8 April 1961
Nationality: Swedish
Resident: USA
Position: Head of Ericsson Australia, New Zealand and Fiji (Australia) 2012–.

### Position with Vestas Wind Systems A/S
Elected to the Board of Directors in March 2009 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Eriksson meets the definition of independence as set out by the Danish Corporate Governance Committee.[6]

Elected by the Board of Directors as a member of the Technology Committee.

### Shareholding
Does not hold shares in the company.

### Competencies
#### Education
| | |
|---|---|
| 1981–1985 | MSc engineering (electrical), Linköping Institute of Technology, Linköping University (Sweden) |
| 2005 | Honorary PhD, Linköping Institute of Technology, Linköping University (Sweden) |

#### Former positions
| | |
|---|---|
| 1986–1992 | Employed with Ericsson Radio Systems AB (Sweden) |
| 1992–1995 | Manager, Systems Research and Development department, Ericsson Radio Systems AB (Sweden) |
| 1995–1997 | Director, Systems Design and Management Ericsson Research Canada (Canada) |
| 1997–1998 | Vice President, Business and Technology Development, Ericsson Radio Systems AB (Sweden) |
| 1998–2003 | Vice President and General Manager, Ericsson Research, Ericsson Radio Systems AB (Sweden) |
| 2003–2009 | Senior Vice President and General Manager, Research & Development, Telefonaktiebolaget LM Ericsson (Sweden) |
| 2009–2012 | Group Chief Technology Officer Ericsson, Telefonaktiebolaget LM Ericsson (Sweden) |
| 2010–2012 | Head of Ericsson Silicon Valley, Telefonaktiebolaget LM Ericsson (USA) 2010–. |

#### Special competencies
Mr Eriksson has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of international affairs, including research and development.

### Positions of trust
Member of: Kungliga Ingenjörsvetenskapsakademien (Sweden).

---

**Jørgen Huno Rasmussen**
Born: 25 June 1952
Nationality: Danish
Resident: Denmark
Position: President and CEO, FLSmidth & Co. A/S (Denmark) 2004–.

### Position with Vestas Wind Systems A/S
Elected to the Board of Directors in January 1998 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Rasmussen does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] as he has been a member of the Board of Directors for more than 12 years.

Elected by the Board of Directors as a member of the Technology Committee.

### Shareholding
Increased his holdings of Vestas shares in 2011 by 2,435 shares. Shareholding as per 31 December 2011: 2,935 shares.

### Competencies
#### Education
| | |
|---|---|
| 1976 | MSc engineering (civil), the Technical University (Denmark) |
| 1977 | B. Com. (organisation), Copenhagen Business School (Denmark) |
| 1980 | Ph.D., the Technical University (Denmark) |

#### Former positions
| | |
|---|---|
| 1979–1982 | Project Manager, A. Jespersen & Søn A/S (Denmark) |
| 1982–1983 | Manager, Industrial Construction, Chr. Islef & Co. A/S (Denmark) |
| 1983–1986 | Department Manager, H. Hoffmann & Sønner A/S (Denmark) |
| 1986–1988 | Director of International Operations, H. Hoffmann & Sønner A/S (Denmark) |
| 1988–2003 | Managing Director, Hoffmann A/S (Denmark) |
| 2000–2003 | Director and member of the Group Management, Veidekke ASA (Norway) |

#### Special competencies
Mr Rasmussen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of managing an international, listed group and optimising production processes.

### Fiduciary positions
Chairman of the Boards of: 11 subsidiaries of the FLSmidth Group (Denmark).

Deputy Chairman of the Boards of: Cembrit Holding A/S (Denmark), the Lundbeck foundation (Denmark) and Tryghedsgruppen SMBA (Denmark).

Member of the Board of: Lundbeckfond Invest A/S (Denmark).

### Positions of trust
Member of: The General Council of the Confederation of Danish Industries (Denmark), the Board of the Copenhagen Industries Employers' Federation (Denmark) and the representatives of the Tryghedsgruppen (Denmark).

---

**Jørn Ankær Thomsen**
Born: 17 May 1945
Nationality: Danish
Resident: Denmark
Position: Attorney at Law and partner, Gorrissen Federspiel (Denmark) 1976–.

### Position with Vestas Wind Systems A/S
Elected to the Board of Directors in April 2004 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Thomsen does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] and the definition of independence of audit committee members as set out in the Danish Auditors' Act[8] due to connection to one of the law firms acting as consultant to the company.

Elected by the Board of Directors as a member of the Nomination & Compensations Committee and the Audit Committee.

### Shareholding
Vestas shareholding as per 31 December 2011: 2,500 shares.

### Competencies
#### Education
| | |
|---|---|
| 1970 | Master of Law, University of Copenhagen (Denmark) |

#### Former positions
| | |
|---|---|
| 1970–1974 | Deputy judge and Junior associate (Denmark) and Lawyer in 1974 |

#### Special competencies
Mr Thomsen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of international and national legal matters, including corporate law and securities law.

### Fiduciary positions
Chairman of the Boards of: Aida A/S (Denmark), Aktieselskabet Schouw & Co. (Denmark), Carlsen Byggecenter Løgten A/S (Denmark), Carlsen Supermarked Løgten A/S (Denmark), Danish Industrial Equipment A/S (Denmark), DB 2001 A/S (Denmark), Den Professionelle Forening Danske Invest Institutional (Denmark), F.M.J. A/S (Denmark), Fibertex Nonwovens A/S (Denmark), Fibertex Personal Care A/S (Denmark), Fåmandsforeningen Danske Invest Institutional (Denmark), GAM Holding A/S (Denmark), GAM Wood A/S (Denmark), Givesco A/S (Denmark), Investeringsforeningen Danske Invest (Denmark), Investeringsforeningen Danske Invest AlmenBolig (Denmark), Investeringsforeningen Danske Invest Select (Denmark), Kildebjerg Ry A/S (Denmark), Løgten Midt A/S (Denmark), Martin Professional A/S (Denmark), Placeringsforeningen Profil Invest (Denmark), Schouw & Co. Finans A/S (Denmark), Specialforeningen Danske Invest (Denmark), Søndergaard Give A/S (Denmark) and Th. C. Carlsen, Løgten A/S (Denmark).

Member of the Boards of: ASM Foods AB (Sweden), Biomar Group A/S (Denmark), Carletti A/S (Denmark), Dan Cake A/S (Denmark), Danske Invest Management A/S (Denmark), Develvo Products A/S (Denmark), Ejendomsselskabet Blomstervej 16 A/S (Denmark), Givesco Bakery A/S (Denmark), Hydra-Grene A/S (Denmark), Hydra-Grene Holding A/S (Denmark) and P. Grene A/S (Denmark).

### Positions of trust
Chairman of: Direktør Svend Hornsylds Legat (Denmark).

Deputy Chairman of: Jens Eskildsen og hustru Mary Antonie Eskildsen memorial foundation (Denmark).

Member of: Købmand Th. C. Carlsens Memorial foundation (Denmark).

---

**Kim Hvid Thomsen**
Born: 8 August 1963
Nationality: Danish
Resident: Denmark
Position: Industry technician and Senior Shop Steward, Vestas Nacelles A/S (Denmark) 1985–.

### Position with Vestas Wind Systems A/S
Elected by Group employees. Member of the Board of Directors since May 1996 and re-elected for subsequent terms, most recently in 2008. Term of office expires in 2012.

Mr Thomsen does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] due to employment with the Vestas Nacelles A/S (Denmark).

Elected by the Board of Directors as member of the Manufacturing & Excellence Committee.

### Shareholding
Increased his and one of his related parties' holdings of Vestas shares in 2011 by 1,652 shares. Shareholding as per 31 December 2011: 4,798 shares.[7]

### Competencies
#### Education
| | |
|---|---|
| 1984 | Industry technician (Denmark) |

#### Former positions
| | |
|---|---|
| 1981–1984 | Industry technician trainee, Tim Maskinfabrik (Denmark) |
| 1985 | Industry technician, K.P. Komponenter (Denmark) |

### Special competencies
Mr Thomsen has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of production processes and human resources, etc. of the Vestas Group.

### Fiduciary positions
Deputy Chairman of the Board of: Metal Skjern-Ringkøbing (Denmark).

Member of the Board of: Uddannelsescenter Ringkøbing-Skjern (Denmark).

---

**Kurt Anker Nielsen**
Born: 8 August 1945
Nationality: Danish
Resident: Denmark
Position: Director

### Position with Vestas Wind Systems A/S
Elected to the Board of Directors in April 2006 and re-elected for subsequent terms, most recently in 2011. Term of office expires in 2012.

Mr Nielsen meets the definition of independence as set out by the Danish Corporate Governance Committee[6] and the definition of independence of audit committee members as set out in the Danish Auditors' Act.[8]

Designated by the Board of Directors as Chairman of the Audit Committee and demand for qualifications within financial accounting.

### Shareholding
Increased his holding of Vestas shares in 2011 by 1,200 shares. Shareholding as per 31 December 2011: 7,450.[7]

### Competencies
#### Education
| | |
|---|---|
| 1972 | MSc (Economics and Business Administration), Copenhagen Business School (Denmark) |

#### Former positions
| | |
|---|---|
| 1972–1973 | Business Economist, Carlsberg A/S (Denmark) |
| 1973–1974 | Management Consultant, Booz, Allen and Hamilton of Scandinavia (Denmark) |
| 1974–1977 | Economist, Novo Industri A/S (Denmark) |
| 1977–1984 | Head of Corporate Planning, Novo Industri A/S (Denmark) |
| 1984–1985 | Director, Corporate Planning and Communications, Novo Industri A/S (Denmark) |
| 1985–1989 | Vice President Corporate Finance, Novo Industri A/S (Denmark) |
| 1989–2000 | Chief Financial Officer, Novo Nordisk A/S (Denmark) |
| 1996–2000 | Deputy CEO, Novo Nordisk A/S (Denmark) |
| 2000–2003 | CEO, Novo A/S (Denmark) |

#### Special competencies
Mr Nielsen has the following special competencies which are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of accounting, finance, capital markets and other financial matters as well as experience of managing an international, listed group.

### Fiduciary positions
Chairman of the Boards of: Dalhoff Larsen & Horneman A/S (Denmark) and Reliance A/S (Denmark).

Deputy Chairman of the Board of: Novozymes A/S (Denmark).

Member of the Boards of: Novo Nordisk A/S (Denmark), Novo Nordisk Fonden (Denmark) and Veloxis Pharmaceuticals A/S (Denmark).

### Positions of trust
Chairman of: Novo Nordisk A/S' Audit Committee (Denmark), Novozymes A/S' Audit Committee (Denmark) and Veloxis Pharmaceuticals A/S' Audit Committee (Denmark).

---

**Michael Abildgaard Lisbjerg**
Born: 17 September 1974
Nationality: Danish
Resident: Denmark
Position: Skilled Worker - Production and Shop Steward, Vestas Nacelles A/S (Denmark) 2001–.

### Position with Vestas Wind Systems A/S
Elected by Group employees. Member of the Board of Directors since April 2008. Term of office expires in 2012.

Mr Lisbjerg does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] due to employment with the Vestas Nacelles A/S (Denmark).

### Shareholding
Increased his holding of Vestas shares in 2011 by 406 shares. Shareholding as per 31 December 2011: 834 shares.

### Competencies

Education

| | |
|---|---|
| 1995 | Auto Mechanic (Denmark) |
| 1996–1999 | Military service, Royal Danish Life Guards (Denmark) and discharged as technical sergeant |
| 1998 | Higher Preparatory Course – single subject (Denmark) |
| 2010–2011 | Project management, Erhversakademi MidtVest (Denmark) |

Former positions

| | |
|---|---|
| 1999–2001 | Nordisk Dæk Import A/S (Denmark) |

### Special competencies

Mr Lisbjerg has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of production processes and human resources, etc. of the Vestas Group.

---

**Sussie Dvinge Agerbo**
Born: 5 November 1970
Nationality: Danish
Resident: Denmark
Position: People & Culture employee, Vestas Wind Systems A/S (Denmark) 1990–.

### Position with Vestas Wind Systems A/S

Elected by company employees. Member of the Board of Directors since November 2005 and re-elected for subsequent terms, most recently in 2008. Term of office expires in 2012.

Ms Agerbo does not meet the definition of independence as set out by the Danish Corporate Governance Committee[6] due to employment with Vestas Wind Systems A/S (Denmark).

### Shareholding

Vestas shareholding as per 31 December 2011: 3,000 shares.[7]

### Competencies

Education

| | |
|---|---|
| 1989–1992 | Commercial upper secondary examination (Denmark) and office assistant |
| 1995 | Language secretary, English, Open education at HIH Herning (Denmark) |
| 1997 | Language secretary, German, Open education at HIH Herning (Denmark) |
| 2003 | IT Administrator, Ringkøbing Business College/ Vestjysk Business College, Skjern (Denmark) |

### Special competencies

Ms Agerbo has the following special competencies which specifically are essential to the work of the Board of Directors of Vestas Wind Systems A/S: In-depth knowledge of organisational structures and human resources, etc. of the Vestas Group.

---

## Fiduciary positions of the members of the Executive Management

**Ditlev Engel**
Born: 24 May 1964
Nationality: Danish
Resident: Denmark
Position: President and CEO, Vestas Wind Systems A/S (Denmark) 2005–.

### Position in Vestas Wind Systems A/S

Member of the Executive Management since May 2005.

### Shareholding

Vestas shareholding as per 31 December 2011: 2,224 shares.[7]

### Competencies

Education

| | |
|---|---|
| 1990 | Diploma in Business Economics, Copenhagen Business School (Denmark) |
| 1997 | General Management Program – INSEAD (France) |

Former positions

| | |
|---|---|
| 1990–1992 | Vice President of Hempel Hong Kong Ltd. (Hong Kong) |
| 1992–1995 | Vice President of Hempel Hai Hong Ltd. (Hong Kong) |
| 1995–1997 | President of Hempel Norge AS (Norway) |
| 1997–1999 | President of Hempel Hai Hong Ltd. (China) |
| 1999–2000 | Executive Vice President of Hempel A/S (Denmark) |
| 2000–2005 | Group President and CEO of Hempel A/S (Denmark) |

### Fiduciary positions

Member of: The General Council of the Confederation of Danish Industries (Denmark), the Industrial Policy Committee of the Confederation of Danish Industries (Denmark), the International Advisory Panel (IAP) on Energy from the Singaporean Ministry of Trade and Industry (Singapore), the Industry Advisory Group of the International Energy Agency (France) and UN's "High-Level Group on Sustainable Energy for All".

Industrial advisor for: EQT (Sweden).

---

**Henrik Nørremark**
Born: 24 May 1966
Nationality: Danish
Resident: Denmark
Position: Deputy CEO and Chief Operating Officer (COO) and acting Chief Financial Officer (CFO), Vestas Wind Systems A/S (Denmark) 2012–.

### Position in Vestas Wind Systems A/S

Member of the Executive Management since March 2004.

### Shareholding

Vestas shareholding as per 31 December 2011: 213 shares.

### Competencies

Education

| | |
|---|---|
| 1991 | Diploma in Business Economics, Herning Business School (Denmark) |

Former positions

| | |
|---|---|
| 1986–1991 | Auditor with Krøyer Pedersen (Denmark) |
| 1991–1993 | Financial Controller at Wind Turbine Maintenance Corporation (USA) |
| 1993–1994 | Financial Controller at Vestas Wind Systems A/S (Denmark) |
| 1994–1995 | Financial Controller at Vestas – American Wind Technology, Inc. (USA) |
| 1995–1999 | Group Financial Controller at Vestas Wind Systems A/S (Denmark) |
| 1999–2004 | Managing Director of Vestas – American Wind Technology, Inc. (USA) |
| 2004–2012 | Executive Vice President and CFO, Vestas Wind Systems A/S (Denmark) |

---

**Juan Araluce y Martinez de Azagra**
Born: 17 January 1963
Nationality: Spanish
Resident: Spain
Position: Chief Sales Officer (CSO), Vestas Wind Systems A/S (Denmark) 2012–.

**Position in Vestas Wind Systems A/S**
Member of the Executive Management since February 2012.

**Shareholding**
Does not hold shares in the company.

**Competencies**
Education

| | |
|---|---|
| 1988 | Degree in Economics and Business Administration, Universidad Complutense de Madrid (Spain) |
| 1992–1995 | Doctorate level courses in Economics, ICADE, Madrid (Spain) |
| 2003–2004 | Advanced Management Program, IESE, Barcelona (Spain) and Sales and Marketing Leadership Program, Kellogg School, Chicago (USA) |

Former positions

| | |
|---|---|
| 1988–1989 | Business Analyst, Retail Division, BP Spain (Spain) |
| 1989–1991 | Retail Network Development Manager, BP Med. (Spain) |
| 1991–1992 | Global Customers Service Director, Oil Marketing Unit, BP Oil International (UK) |
| 1992–1993 | Temporary Assignment, Polygon Retailing Ltd., (UK) |
| 1993–1995 | Planning, Administration, and Systems Development Director/Retail SAP Implementation Director, Retails Division, BP Oil Spain (Spain) |
| 1995–1999 | National Business Development and Distributors Network Director, Consumer Industry Division, BP Oil Spain (Spain) |
| 1999–2001 | Sales Director, BP Group, Gas and Power Business Spain, Power and Renewables Europe and Africa Business Unit (Spain) |
| 2001–2003 | Business Development Director, BP Group, Power and Renewables Europe and Africa Business Unit (Spain) |
| 2004–2007 | Gas Performance Unit Leader Spain, BP Group, Gas, Power and Renewables Europe and Africa Business Unit (Spain) |
| 2007–2012 | President, Vestas Mediterranean, Vestas Eólica SAU (Spain) |

---

**Anders Vedel**
Born: 6 March 1957
Nationality: Danish
Resident: Denmark
Position: Chief Turbines R&D Officer (CTO) and acting Chief Solutions and Services Officer (CSSO), Vestas Wind Systems A/S (Denmark) 2012–.

**Position in Vestas Wind Systems A/S**
Member of the Executive Management since February 2012.

**Shareholding**
Vestas shareholding as per 31 December 2011: 1,141 shares.[7)]

**Competencies**
Education

| | |
|---|---|
| 1991–1995 | Mechanical Engineer at Ingeniørhøjskolen Horsens (Denmark) |
| 2002 | Scandinavian International Management Institute (Denmark) |
| 2008 | Business Program at IMD, International Institute for Management Development (Switzerland) |

Former positions

| | |
|---|---|
| 1995–2000 | Various positions at Vestas Wind Systems A/S (Denmark) |
| 2000–2002 | Technical Director, IWT-Italian Wind Technology S.r.l. (Italy) |
| 2003–2004 | Service Manager, Vestas International Wind Technology A/S (Denmark) |
| 2004–2005 | Vice President of Service Northern Europe, Vestas Northern Europe AB (Sweden) |
| 2005–2006 | Vice President of Operations, Vestas-Americas Wind Technology Inc. (USA) |
| 2006–2007 | Vice President of CIM, Vestas Technology R&D, Vestas Wind Systems A/S (Denmark) |
| 2007–2012 | Senior Vice President, Vestas Technology R&D, Vestas Wind Systems A/S (Denmark) |
| 2007–2012 | Managing Director, Vestas Technology R&D, Vestas Technology R&D Chennai Pte. Ltd. (India) |

6) The Committee on Corporate Governance's definition of independency, see vestas.com.
7) The mentioned number of shares includes both own and related parties' total shareholding.
8) The Danish audit law's definition of audit members' independency, see vestas.com.

## Consolidated accounts


**054** Income statement
**055** Statement of comprehensive income
**056** Balance sheet
**058** Statement of changes in equity
**059** Cash flow statement
**061** Notes to the consolidated accounts
**105** Legal entities
**108** Management's statement
**109** The independent auditor's report

# Consolidated accounts

## Consolidated income statement 1 January – 31 December

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | 3, 4 | 5,836 | 6,920 |
| Cost of sales | 5, 6 | (5,111) | (5,745) |
| **Gross profit** | | **725** | **1,175** |
| | | | |
| Research and development costs | 5, 6, 7 | (203) | (150) |
| Distribution expenses | 5, 6 | (208) | (206) |
| Administrative expenses | 5, 6 | (352) | (351) |
| **Operating profit before special items** | | **(38)** | **468** |
| | | | |
| Special items | 5, 8 | (22) | (158) |
| **Operating profit** | | **(60)** | **310** |
| | | | |
| Income from investments in associates | 15 | 1 | 0 |
| Financial income | 9 | 26 | 22 |
| Financial expenses | 10 | (120) | (94) |
| **Profit before tax** | | **(153)** | **238** |
| | | | |
| Corporation tax | 11 | (13) | (82) |
| **Profit for the year** | | **(166)** | **156** |
| | | | |
| Distributed as follows: | | | |
| Shareholders in Vestas Wind Systems A/S | | (166) | 156 |
| | | **(166)** | **156** |
| | | | |
| **Earnings per share (EPS)** | 12 | | |
| Earnings per share (EUR) | | (0.82) | 0.77 |
| Earnings per share (EUR), diluted | | (0.82) | 0.77 |

## Consolidated statement of comprehensive income – 31 December

| mEUR | 2011 | 2010 |
|---|---|---|
| **Profit for the year** | **(166)** | **156** |
| | | |
| Exchange rate adjustment from conversion to EUR | 6 | (4) |
| Exchange rate adjustments relating to foreign entities | 18 | 42 |
| Fair value adjustments of derivative financial instruments | (24) | 10 |
| Fair value adjustments of derivative financial instruments transferred to the income statement (cost of sales) | (10) | 8 |
| Tax on derivative financial instruments and other comprehensive income | 8 | (6) |
| Other comprehensive income after tax | (2) | 50 |
| **Total comprehensive income** | **(168)** | **206** |
| | | |
| Distributed as follows: | | |
| Shareholders in Vestas Wind Systems A/S | (168) | 206 |
| | **(168)** | **206** |

## Consolidated balance sheet 31 December – Assets

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| Goodwill | | 320 | 320 |
| Completed development projects | | 577 | 169 |
| Software | | 90 | 88 |
| Development projects in progress | | 256 | 457 |
| **Total intangible assets** | 13 | **1,243** | **1,034** |
| | | | |
| Land and buildings | | 1,020 | 867 |
| Plant and machinery | | 387 | 304 |
| Other fixtures and fittings, tools and equipment | | 326 | 248 |
| Property, plant and equipment in progress | | 165 | 285 |
| **Total property, plant and equipment** | 14 | **1,898** | **1,704** |
| | | | |
| Investments in associates | 15 | 4 | 4 |
| Other receivables | 20 | 44 | 25 |
| Deferred tax | 16 | 333 | 224 |
| **Total other non-current assets** | | **381** | **253** |
| | | | |
| **Total non-current assets** | | **3,522** | **2,991** |
| | | | |
| Inventories | 17 | 2,546 | 2,735 |
| Trade receivables | 18 | 663 | 624 |
| Construction contracts in progress | 19 | 147 | 40 |
| Other receivables | 20 | 395 | 277 |
| Corporation tax | 21 | 41 | 64 |
| Cash at bank and in hand | 30 | 375 | 335 |
| **Total current assets** | | **4,167** | **4,075** |
| | | | |
| **Total assets** | | **7,689** | **7,066** |

## Consolidated balance sheet 31 December – Equity and liabilities

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| Share capital | 22 | 27 | 27 |
| Other reserves | | 7 | 9 |
| Retained earnings | | 2,542 | 2,718 |
| **Total equity** | | **2,576** | **2,754** |
| | | | |
| Deferred tax | 16 | 12 | 6 |
| Provisions | 23 | 145 | 139 |
| Pension obligations | 24 | 2 | 2 |
| Financial debts | 25 | 914 | 910 |
| **Total non-current liabilities** | | **1,073** | **1,057** |
| | | | |
| Prepayments from customers | | 1,865 | 1,546 |
| Construction contracts in progress | 19 | 38 | 15 |
| Trade payables | | 1,563 | 1,120 |
| Provisions | 23 | 170 | 223 |
| Financial debts | 25 | 6 | 4 |
| Other liabilities | 26 | 356 | 323 |
| Corporation tax | 21 | 42 | 24 |
| **Total current liabilities** | | **4,040** | **3,255** |
| | | | |
| **Total liabilities** | | **5,113** | **4,312** |
| | | | |
| **Total equity and liabilities** | | **7,689** | **7,066** |

## Consolidated statement of changes in equity 1 January – 31 December

| mEUR | Share capital | Other reserves: Translation reserve | Other reserves: Cash flow hedging reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Equity at 1 January 2011** | **27** | **3** | **6** | **2,718** | **2,754** |
| Acquisition of treasury shares | 0 | 0 | 0 | (17) | (17) |
| Share based payment | 0 | 0 | 0 | 7 | 7 |
| Total comprehensive income for the year[1)] | 0 | 24 | (26) | (166) | (168) |
| **Equity at 31 December 2011** | **27** | **27** | **(20)** | **2,542** | **2,576** |

| mEUR | Share capital | Other reserves: Translation reserve | Other reserves: Cash flow hedging reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Equity at 1 January 2010** | **27** | **(35)** | **(6)** | **2,556** | **2,542** |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 | 0 |
| Share based payment | 0 | 0 | 0 | 6 | 6 |
| Total comprehensive income for the year[1)] | 0 | 38 | 12 | 156 | 206 |
| **Equity at 31 December 2010** | **27** | **3** | **6** | **2,718** | **2,754** |

Refer to the parent company's statement of changes in equity on page 115 for information about which reserves are available for distribution. For proposed distribution of profit, refer to page 113 of the parent company's annual accounts.

1) Refer to the consolidated statement of comprehensive income for the specification of the translation and cash flow hedging reserve items relating to total income for the year.

## Consolidated cash flow statement 1 January – 31 December

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| Profit for the year | | (166) | 156 |
| Adjustments for non-cash transactions | 27 | 366 | 411 |
| Interest received, etc. | | 22 | 22 |
| Interest paid, etc. | | (60) | (49) |
| Corporation tax paid | | (69) | (131) |
| Cash flow from operating activities before change in net working capital | | 93 | 409 |
| Change in net working capital | 28 | 747 | (353) |
| **Cash flow from operating activities** | | **840** | **56** |
| | | | |
| Purchase of intangible assets | | (327) | (328) |
| Purchase of property, plant and equipment | | (406) | (458) |
| Purchase of other non-current assets | | (19) | (12) |
| Acquisition of enterprise | 29 | (21) | (2) |
| Disposal of property, plant and equipment | | 12 | 11 |
| Disposal of other non-current assets | | 0 | 0 |
| **Cash flow from investing activities** | | **(761)** | **(789)** |
| **Free cash flow** | | **79** | **(733)** |
| | | | |
| Acquisition of treasury shares | | (17) | 0 |
| Repayment of non-current liabilities | | 0 | (28) |
| Raising of non-current liabilities | | 4 | 596 |
| **Cash flow from financing activities** | | **(13)** | **568** |
| | | | |
| **Change in cash at bank and in hand less current portion of bank debt** | | **66** | **(165)** |
| | | | |
| Cash at bank and in hand less current portion of bank debt at 1 January | | 332 | 479 |
| Exchange rate adjustments of cash at bank and in hand | | (28) | 18 |
| **Cash at bank and in hand less current portion of bank debt at 31 December** | | **370** | **332** |
| | | | |
| The balance is specified as follows: | | | |
| Cash at bank and in hand without disposal restrictions | | 351 | 325 |
| Cash at bank and in hand with disposal restrictions | 30 | 24 | 10 |
| Total cash at bank and in hand | | 375 | 335 |
| Current portion of bank debt | 25 | (5) | (3) |
| | | **370** | **332** |

## Notes to the consolidated accounts


| Note | | Page |
|---|---|---|
| 1 | Group accounting policies | 061 |
| 2 | Critical accounting judgements and estimates | 068 |
| 3 | Segment information | 070 |
| 4 | Revenue | 072 |
| 5 | Amortisation, depreciation and impairment losses | 072 |
| 6 | Staff costs | 073 |
| 7 | Research and development costs | 073 |
| 8 | Special items | 074 |
| 9 | Financial income | 074 |
| 10 | Financial expenses | 074 |
| 11 | Corporation tax | 075 |
| 12 | Earnings per share (EPS) | 075 |
| 13 | Intangible assets | 076 |
| 14 | Property, plant and equipment | 078 |
| 15 | Investments in associates | 079 |
| 16 | Deferred tax | 079 |
| 17 | Inventories | 080 |
| 18 | Trade receivables | 080 |
| 19 | Construction contracts in progress | 081 |
| 20 | Other receivables | 081 |
| 21 | Corporation tax | 081 |
| 22 | Share capital | 082 |
| 23 | Provisions | 083 |
| 24 | Pension obligations | 085 |
| 25 | Financial debts | 087 |
| 26 | Other liabilities | 088 |
| 27 | Adjustment for non-cash transactions | 088 |
| 28 | Change in net working capital | 088 |
| 29 | Acquisition of enterprises | 089 |
| 30 | Cash at bank and in hand | 089 |
| 31 | Fees to auditors appointed by the Annual General Meeting | 090 |
| 32 | Management's option programme and shareholdings | 090 |
| 33 | Related party transactions | 094 |
| 34 | Government grants | 094 |
| 35 | Mortgages and security | 095 |
| 36 | Contractual obligations | 095 |
| 37 | Contingent liabilities and contingent assets | 096 |
| 38 | Derivative financial instruments, risk and capital management | 096 |
| 39 | Subsequent events | 104 |
| 40 | New accounting regulations | 104 |

## 1 Group accounting policies

The Consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The parent company's annual accounts have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to listed companies.

The annual report has been prepared in accordance with the additional Danish disclosure requirements for annual reports of listed companies. Reference is made to the disclosure requirements for annual reports of listed companies laid down by the NASDAQ OMX Copenhagen, the Danish Financial Statements Act and the Danish Statutory Order on Adoption of IFRS issued pursuant to the Danish Financial Statements Act.

**Basis of preparation**
The annual report has been prepared under the historical cost method, except for the derivative financial instruments.

The accounting policies as described below have been applied consistently over the financial year and in respect of the comparative figures.

The accounting policies remain unchanged from 2010.

The annual report is presented in million EUR.

**Implementation of new International Financial Reporting Standards**
With effect from 1 January 2011, the Vestas Group implemented amendments to IAS 24 regarding related party disclosures, to IAS 32 regarding financial instruments presentation, to IFRIC 14 regarding the limit on a defined benefit asset, to IFRIC 19 regarding extinguishing financial liabilities with equity instruments and improvements to IFRSs (May 2010).

The amendments and interpretations have not affected recognition and measurement or result in changes to the Group's accounting policies and changes to the note disclosures.

The amendments and interpretations do not affect earnings per share and diluted earnings per share.

The description of new standards and interpretations that are not yet effective has been included in note 40 to the consolidated accounts.

**Consolidated accounts and business combinations**
The consolidated accounts comprise Vestas Wind Systems A/S (the parent company) and the enterprises in which Vestas Wind Systems A/S directly or indirectly holds more than 50 per cent of the votes or otherwise exercises control (subsidiaries). Vestas Wind Systems A/S and its subsidiaries together are referred to as the Group.

Enterprises that are not subsidiaries, but in which the Group holds between 20 per cent and 50 per cent of the votes or otherwise exercises significant influence on operational and financial management, are classified as associates.

An overview of Group legal entities is provided on pages 105–107.

The consolidated accounts 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 enterprises.

The consolidated accounts are based on financial statements prepared under the accounting policies of the Vestas Group.

Newly acquired or newly founded subsidiaries are recognised from the date of obtaining the control of the enterprise acquired (date of acquisition). 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 period in which they are incurred. Identifiable assets, liabilities and contingent liabilities (net assets) relating to the enterprise 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 enterprise acquired comprises a positive difference, if any, between the total fair value of the enterprise 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 enterprise acquired (full goodwill).

2) Goodwill relating to the enterprise acquired comprises a positive difference, if any, between 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. Goodwill is not amortised, but is valued once a year and in connection with indication of impairment to determine whether it has been subject to any impairment. If so, write-down for impairment is made to the lower recoverable amount of the asset.

Sold or liquidated enterprises 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.

Comparative figures are restated for newly acquired, sold or liquidated enterprises.

**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 accounts 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. 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.

*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 expenses 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 expenses in the income statement.

*Translation of Group enterprises*
On recognition in the consolidated accounts of foreign enterprises 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 enterprises 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 directly in equity under the separate translation reserve.

Exchange adjustments of balances with foreign enterprises that are treated as part of the total net investment in the enterprise in question are recognised directly in equity in the consolidated accounts. Similarly, exchange gains and losses on the part of loans and derivative financial instruments entered into in order to hedge the net investment in foreign enterprises with another functional currency than the presentation currency of the Group, which effectively hedge against corresponding exchange gains/losses on the net investment in the enterprise, are recognised directly in equity under a separate translation reserve in the consolidated accounts.

On recognition in the consolidated accounts of associates with functional currencies that differ from the presentation currency of the Group, the share 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 associates 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 directly in equity under the separate translation reserve.

On full or partial disposal of foreign entities or on repayment of balances treated as part of the net investment, the share of the accumulated exchange adjustments recognised directly in and attributable to equity, is recognised in the income statement at the same time as any profit or loss on the disposal.

**Derivative financial instruments**
Derivative financial instruments are recognised and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively, and positive and negative values are set off only where the enterprise has the right and intention to settle several financial instruments on a net basis.

A currency element of sales agreement is treated as a stand alone derivative financial instrument if the currency of the contract is neither the functional currency of Vestas or the counterpart or a commonly used currency in the country in which the sales take place.

Fair values of derivative financial instruments are calculated on the basis of market data as well as recognised valuation methods.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the value of the hedged asset or the hedged liability related to the hedged risk.

According to the agreements entered into the hedging of future cash flows, except for currency hedging, are treated as fair value hedges of a recognised asset or a recognised liability.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future cash flows and effectively hedge changes in the value of the hedged item are recognised in comprehensive income. Profits or losses on such hedging transactions are transferred from comprehensive income on realisation of the hedged item and are recognised in the same entry as the hedged item. However, on hedging of proceeds from future borrowing, profits or losses on hedging transactions are transferred from equity over the term of the loan.

Changes in the fair values of derivative financial instruments, designated and qualify as hedges of net investments in foreign subsidiaries or associates and effectively hedge against exchange adjustments in these enterprises, are recognised directly in equity under the cash flow hedging reserve.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognised as they arise in financial income and expenses in the income statement.

**Segment information**
The reportable segments identified make up most of the Group's external revenue, which is solely derived from the sale of wind turbines and associated service activity. The reportable segments are an aggregation of operating segments within the Vestas Group as prescribed by IFRS 8. The reportable segments are determined based on the Group's management structures and the consequent reporting to the Chief Operating Decision Maker (CODM), the Executive Management. Thus, they are determined based on both geographical segments and business units (production and sales business units) of the Group. Service activities is a separate reportable segment. The remaining operating segments not included in the identified reportable segments are included under all other operating segments.

The production business units are classified as one reportable segment because the revenues generated by these units are driven by the Group's transfer pricing policy and are consistent across the Group. Secondly, Vestas only sells one product - wind turbines - and revenue is recognised largely based on the delivery of a complete wind turbine not on the basis of the independent sale of the three main products (blades, nacelle and tower) that make up the wind turbine.

The measure of EBIT, revenues and expenses included in segmental reporting are the same as those used in the consolidated accounts.

Income and expenses 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. Expenses allocated as either directly or indirectly attributable comprise of cost of sales, research and development costs, distribution expenses and administrative expenses.

The income and expenses allocated as indirectly attributable to the segments are allocated by means of sharing keys determined on the basis of the utilisation of key resources in the segment.

Non-current segment assets comprise the non-current assets used directly for segment operations, including intangible assets, property, plant and equipment and investments in associates.

Current segment assets comprise the current assets used directly for segment operations, including inventories, trade receivables, other receivables and prepayments.

Inter-company balances primarily comprise arms' length transactions between operating segments making up the reportable segments. These balances are eliminated to arrive at the figures in the consolidated accounts.

**Share-based payments**
The value of the services received in exchange for the granting of options is measured at the fair value of the options.

Equity settled share options granted 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 counter item is recognised directly in equity.

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

The fair value of the options granted is estimated using an option pricing model (Black-Scholes). In determining fair value, terms and conditions relating to the share options granted are taken into account.

**Government grants**
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 set off 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 expenses for which they compensate.

**Income statement**

**Revenue**

Revenue comprises sale of wind turbines and wind power systems, after-sales service and sale of spare parts.

Sale of individual wind turbines and small wind power systems 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 prior to year end, and provided that income can be measured reliably and is expected to be received. Contracts to deliver large wind power systems with a high degree of customisation are recognised in revenue as the systems are constructed based on the stage of completion of the individual contract (turnkey projects). Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the expenses incurred to the extent that it is probable that the expenses will be recovered.

Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power systems sold, are recognised in the income statement over the term of the agreement as the agreed services are provided.

**Cost of sales**

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

Furthermore, provisions for losses on construction contracts are included in cost of sales.

**Research and development costs**

Research and development costs comprise development costs that do not qualify for capitalisation, as well as amortisation of and impairment losses on capitalised development costs.

**Distribution expenses**

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

**Administrative expenses**

Administrative expenses comprise expenses incurred during the year for management and administration of the Group, including expenses for administrative staff, Management, office premises, office expenses and depreciation.

**Special items**

Special items comprise material amounts that are not attributable to normal operations. This includes costs related to significant organisational restructuring and adjustments to production capacity and the product programme. The costs will include the write-down of intangible and tangible assets as well as provisions for reorganisations and any reversal of these.

**Income from investments in associates**

The proportionate share of the results of associates after tax and after elimination of the proportionate share of intercompany profits/losses is recognised in the consolidated income statement.

**Financial income and expenses**

Financial income and expenses comprise interest, exchange gains and losses and impairment losses on securities, debt and foreign currency transactions, amortisation of financial assets and liabilities, including finance lease obligations, as well as extra payments and repayments under the on-account taxation scheme.

Borrowing costs related to construction of qualifying assets are recognised as part of the assets' cost price.

**Corporation tax**

Tax for the year consists of current tax and deferred tax for the year. 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.

To the extent that the Vestas Group achieves any tax allowance in the calculation of the taxable income in Denmark or abroad as a result of share-based payment schemes, the tax effect of the schemes is recognised in current tax for the year. However, where the total tax allowance exceeds the total cost of the scheme for accounting purposes, the tax effect of the excess allowance is recognised directly in equity.

**Balance sheet**

**Intangible assets**

Goodwill

Goodwill is initially recognised in the balance sheet as described under consolidated accounts and business combinations. 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 cash-generating units. Identification of cash-generating units is based on management structure and internal financial management. Management assesses that the smallest cash-generating units to which the carrying amount of goodwill can be allocated are the Group's geographical segments, Europe and Africa, Americas and Asia Pacific.

The carrying amount of goodwill is tested at least annually for impairment, together with the other non-current assets of the cash-generating unit to which goodwill has been allocated, and if the recoverable amount is lower than the carrying amount, 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 enterprise or the activity (cash-generating unit) 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.

Development projects and software

Development projects that are clearly defined and identifiable and in respect of 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 cost of sales, distribution and administrative expenses as well as research and development costs. At Vestas this is underpinned by a gate process, where these judgements are made on specific gates. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated amortisation and impairment losses. Development costs comprise salaries, amortisation and other expenses attributable to the Group's development activities.

Following completion of the development work, development projects are amortised on a straight-line basis over the estimated useful life. 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.

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 is measured at cost less accumulated amortisation and impairment losses. Cost includes both direct internal and external expenses. Software is amortised on a straight-line basis over five years. The basis of amortisation is calculated net of any impairment losses.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised as expenses in the financial year in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period, more than three months, of time to get ready for its intended use or sale.

### Property, plant and equipment

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 expenses directly related to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for materials, components, sub-suppliers and labour. Estimated expenses 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.

The cost of assets held under finance leases is calculated at the lower of the fair value of the leased asset and the net present value of the future minimum lease payments computed by applying the interest rate implicit in the lease or an approximated value thereof as the discount rate.

Subsequent expenses, 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 expenses 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 in the income statement. All other expenses incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised as expenses in the financial year in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period, more than three months, of time to get ready for its intended use or sale.

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.

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 cost of sales, research and development costs, distribution expenses as well as administrative expenses to the extent that depreciation is not included in the cost of assets of own construction.

### Leases

For accounting purposes, lease obligations 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 in accordance with the periods listed above. 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.

### Impairment of assets

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, initially before the end of the year of acquisition. Similarly, development projects in progress are tested annually for impairment.

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which goodwill has been allocated, and if the recoverable amount is lower than the carrying amount, goodwill is written down to its lower recoverable amount in the income statement. Impairment losses on goodwill are recognised in a separate line in the income statement.

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

The carrying amounts of other 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 the cash-generating unit to which the asset has been allocated.

Any impairment loss is recognised where the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement in cost of sales, research and development costs, distribution expenses and administrative expenses. Impairment losses on goodwill are presented in a separate line in the income statement.

Impairment losses on goodwill are not reversed. Impairment losses on other assets 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.

### Investments in associates

Investments in associates are measured in the balance sheet at the proportionate share of the net asset value of the associates calculated under the Group's accounting policies with deduction or addition of a proportionate share of unrealised intercompany profits and losses and with addition of the carrying amount of goodwill.

Associates with negative net asset values are measured at EUR 0. Any legal or constructive obligation of the Group to cover the negative balance of the associate is recognised in provisions.
Receivables from associates are measured at amortised cost. Provisions are made for bad debts.

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

The cost of goods for resale, duties, raw materials and consumables comprises direct costs and transportation expenses.

The cost of work in progress 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.

### Trade receivables
Trade receivables and other receivables are measured at amortised cost. Provisions are made for bad debts.

Prepayments recognised as assets comprise prepaid expenses concerning subsequent financial years and are measured at cost.

### Construction contracts in progress
Construction contracts in progress comprises agreements to deliver large wind power systems 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 interim billing and expected losses.

The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised immediately as an expense in the income statement.

The value of self-constructed components is recognised in "Construction contracts in progress" upon delivery of the components to the specific wind power systems construction site.

Where it is probable that the total expenses of a construction contract in progress will exceed total revenues from the contract, the expected loss for construction contracts in progress is recognised immediately as an expense and an obligation.

Prepayments from customers are recognised as liabilities.

A construction contract in progress for which the selling price of the work performed exceeds interim 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.

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

### Equity
#### Treasury shares
Purchase and sales sums as well as dividends relating to treasury shares are recognised directly in retained earnings in equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares.

Proceeds from the sale of treasury shares and the issuing of new shares in Vestas Wind Systems A/S relating to the exercise of share options or employee shares are recognised 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 dividend distribution proposed for the year is disclosed as a separate equity item.

Interim dividend is recognised as a liability at the time of resolution.

#### Translation reserve
The translation reserve in the consolidated accounts comprises exchange adjustments arising on the translation of the financial statements of foreign enterprises from their functional currencies into the presentation currency of the Group (EUR).

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

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

The cash flow hedging reserve also includes fair value adjustments of interest rate swaps, outstanding at the balance sheet date, entered into to hedge against the interest rate risks on loans with floating interest rates.

### Corporation tax and deferred tax
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.

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 concerning goodwill not deductible for tax purposes, office premises 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.

Adjustment are made to deferred tax to take account of the elimination of unrealised intercompany 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.

### Provisions
Provisions are recognised when – in consequence of an event that has occurred before or on the balance sheet date – the company 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 expenses required to settle the obligation. Discounting is applied where relevant. Warranty provisions comprise warranty obligations made in respect of delivered wind turbines and wind power systems based on experience. At the start of the warranty period, calculated provisions are made for each type of wind turbine and are released to the income statement over the warranty period as warranty costs are incurred. Subsequently, periodic reviews are performed based on an overall assessment of the need for provisions.

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

balance sheet date. On acquisition of enterprises, restructuring provisions in the acquired enterprise are recognised in goodwill only where a restructuring obligation relating to the acquired enterprise exists at the time of acquisition.

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.

### Pension obligations

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 payables.

For defined benefit plans, an annual actuarial calculation is made of the net present value of the future benefits under the defined benefit plan. Net present value is calculated based on assumptions of the future development in e.g. salary level, interest rates, inflation and mortality. The net present value is calculated only for benefits earned by employees from their employment to date with the Group. The actuarially calculated net present value less the fair value of any plan assets is recognised in the balance sheet in pension obligations in accordance with the corridor method.

In the income statement, the pension expense for the year is recognised based on the actuarial estimates and financial expectations at the beginning of the year. Furthermore, a share of the accumulated actuarial gains or losses at the beginning of the financial year is recognised if it exceeds the higher of 10 per cent of the pension obligations and 10 per cent of the fair value of the pension assets. The amount is recognised in the income statement over the employees' estimated average remaining period of employment with the Group. The non-recognised part of actuarial gains/losses is disclosed in the notes. Upon the change to IFRS, accumulated actuarial gains and losses were fully recognised in the opening balance sheet at 1 January 2005.

In the event of changes in benefits payable for employees' past services to the Group, a change is made to the actuarially calculated net present value, which is classified as past service cost. Past service cost is charged to the income statement immediately if the employees have already earned the right to the changed benefit. Otherwise, past service cost is recognised in the income statement over the period in which the employees earn the right to the changed benefit.

Where a pension plan constitutes a net asset, the asset is recognised only to the extent that it offsets non-recognised actuarial losses, future repayments from the plan, or if it will lead to a reduction in future contributions under the plan.

Other long-term staff benefits are similarly recognised by using an actuarial calculation, but without applying the corridor method. Accordingly, all actuarial gains and losses are recognised immediately in the income statement. Other long-term staff obligations include anniversary bonuses.

### Financial debts

Loans from credit institutions, etc. are recognised initially at the fair value of the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in financial expenses in the income statement over the loan period.

Financial debts also include the capitalised remaining lease obligations on finance leases measured at amortised cost.

### Prepayments from customers

Prepayments from customers recognised in liabilities are measured at cost and comprise prepayments received for wind turbines or wind power systems ordered but not yet delivered and service prepayments received in respect of wind turbines and wind power systems delivered.

### Other debt

Other debts are measured at amortised cost.

Deferred income is measured at cost and comprises payments received in respect of income in subsequent years.

**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 enterprises are recognised from the date of acquisition. Cash flows relating to enterprises 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 corporation 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 sales and from acquisitions and disposals of intangible assets, property, plant and equipment as well as other non-current assets. The cash flow effect of business acquisitions and sales is shown separately.

The establishment of finance leases are 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 of shares for treasury 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.

### Cash at bank and in hand

Cash at bank and in hand comprise cash at bank and in hand and current bank debt.

Assets and short term debts that are included as cash at hand and in bank in the cash flow statement are those included in the Group's cash management.

## Glossary

### 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 financial income and expenses, 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:** 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 after tax (effective tax rate) as a percentage of average property, plant and equipment and intangible assets, inventories and receivables 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 average number of shares.

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

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

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

**P/E ratio:** The official closing price on the NASDAQ OMX Copenhagen divided by earnings per share for the year.

**Price/book value:** The official closing price on the NASDAQ OMX Copenhagen divided by year-end book value per share.

### 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

## 2 Critical accounting judgements and estimates

When preparing the annual report of the Vestas 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 most significant accounting estimates and judgements are described below. The Group's accounting policies are described in detail in note 1 to the consolidated accounts.

**Critical judgements**

**Use of percentage-of-completion method**

Management performs critical accounting estimates in connection with income-recognition. Provided that certain criteria in respect of project complexity, etc. are met, revenue from projects in progress is recognised under the percentage-of-completion method corresponding to the selling price of the work performed based on the stage of completion (turnkey projects). Where projects do not qualify for recognition under the percentage-of-completion method, total revenue is not recognised until the point in time when the risk is transferred to the buyer (supply-only and supply-and-installation projects).

Delays, etc. may result in material timing deviations in the Group's revenue recognition, and thus earnings, compared to expectations.

**Critical 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. Special risks of the Vestas Group have been described on page 27 of the Management report, and in the individual notes to the consolidated accounts.

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.

**Warranty provisions**

The product warranties, which in the great majority of cases cover 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 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 prepayments from customers.

In addition to the above, provisions are made for upgrades of turbines sold due to type faults, etc. where Vestas has a warranty obligation at the date of provision. Such provisions will also include 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 repair.

It is estimated that 15–20 per cent of the warranty provisions made for the year relate to adjustments of estimates in previous years of provisions for serial faults, etc. Included in this, is the cost of upgrades of turbines sold in previous year, commercial settlements and proactive upgrading as well as new information about the serial faults in question.

Total warranty provisions of EUR 148m have been made in 2011, corresponding to 2.5 per cent of the Group's annual revenue.

For further information on warranty provisions and related product risks, reference is made to page 16 of the Management report and to note 23 to the consolidated accounts.

Management assesses the likely outcome of pending and future negotiations with sub-suppliers for compensation. Compensation from sub-suppliers may be recognised only when a written agreement with the sub-supplier has been made.

The carrying amount of warranty provisions at 31 December 2011 is EUR 249m (2010: EUR 283m).

**Impairment of assets**

Goodwill

In the annual impairment test of goodwill, an estimate is made to determine how parts of the enterprise (cash-generating units) related to the goodwill will be able to generate sufficient future positive net cash flows to support the value of goodwill, trademarks with an indefinite useful life and other net assets of the enterprise in question.

The estimate of the future free net cash flows is based on budgets and business plans for the coming five years and on projections for subsequent years. Key parameters are revenue development, EBIT, proposed capital expenditure as well as growth expectations for the following years. Budgets and business plans for the coming five years are based on specific future business initiatives for which the risks relating to key parameters have been assessed and recognised in estimated future free cash flows. Projections for years following the next five-year period are based on general expectations and risks.

The discount rates used to calculate the recoverable amount are before tax and reflect the risk-free interest rate of the individual geographical segments and related risk. The proportion of equity in relation to the Group's future capital structure is expected to continue to be high.

For a description of the impairment test of intangible assets, refer to note 13 to the consolidated accounts.

The carrying value of goodwill at 31 December 2011 is EUR 320m (2010: EUR 320m).

Development projects

Finished development projects are reviewed on an annual basis to determine whether there is any indication of impairment. If this is indicated, an impairment test is carried out for the individual development projects. For development projects in progress, however, an annual impairment test is always performed. The impairment test is performed on the basis of various factors, including future use of the project, the fair value of the estimated future earnings as well as interest rate and risks.

The carrying value of development projects in progress and finished development projects at 31 December 2011 are EUR 833m (2010: EUR 626m).

**Receivables**

Receivables are measured at amortised cost less provisions for bad debts based on customers' inability to pay. If the ability to pay changes in future, further provisions may be required. Management makes analyses based on customers' expected ability to pay, historical data on payment patterns, doubtful debts, customer concentrations, customers' credit standing and security received as well as economic trends in the company's sales channels.

It is estimated that the provisions made are sufficient to meet bad debts.

The carrying value of receivables at 31 December 2011 is EUR 1,249m (2010: EUR 966m).

**Deferred tax**

The Vestas 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 future positive taxable income. The assessment is made on an annual basis and is based on budgets and business plans for the future years, including planned business initiatives.

The value of recognised deferred tax assets amounts to EUR 333m (2010: EUR 224m), of which EUR 115m (2010: EUR 27m) relates to tax loss carry-forwards. Of the total tax carry-forwards, EUR 0m is expected to be realised within 12 months, and EUR 115m is expected to be realised later than 12 months after the balance sheet date. The value of non-recognised tax assets (primarily tax loss carry-forwards) totals EUR 32m (2010: EUR 21m), which is not expected to be utilised in the foreseeable future.

For further description of the Group's tax assets, refer to note 16 to the consolidated accounts.

## 3 Segment information

| 2011<br>mEUR | Europe and Africa sales units | Americas sales units | Asia Pacific sales units | Production units | Service activity | Total reportable segments |
|---|---|---|---|---|---|---|
| **EXTERNAL REVENUE** | | | | | | |
| Wind turbines and wind power systems | 2,585 | 1,911 | 619 | 0 | - | 5,115 |
| Service | - | - | - | - | 705 | 705 |
| Other | 1 | 0 | 2 | 13 | 0 | 16 |
| **Total external revenue** | **2,586** | **1,911** | **621** | **13** | **705** | **5,836** |
| Internal revenue[1] | 359 | 71 | 34 | 4,176 | 0 | 4,640 |
| **Total segment revenue** | **2,945** | **1,982** | **655** | **4,189** | **705** | **10,476** |
| **Reportable segments' operating results (EBIT)** | **(4)** | **(99)** | **(155)** | **109** | **110**[2] | **(39)** |
| **Financial items (net)** | **(75)** | **(54)** | **(2)** | **(60)** | - | **(191)** |
| **OTHER SEGMENT ITEMS** | | | | | | |
| Depreciation and amortisation | 12 | 6 | 15 | 125 | 8 | 166 |
| Impairment losses (recognised in the income statement) | 0 | 0 | 0 | 22 | 0 | 22 |
| Impairment losses (recognised in equity) | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment losses (recognised in the income statement) | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment losses (recognised in equity) | 0 | 0 | 0 | 0 | 0 | 0 |
| Warranty provisions for the year | 1 | 0 | 0 | 0 | 0 | 1 |
| Share-based payments | 9 | 0 | 0 | 0 | 0 | 9 |
| Additions to property, plant and equipment and intangible assets | 24 | 11 | 8 | 241 | 6 | 290 |
| Additions to investments in associates | 0 | 0 | 0 | 0 | 0 | 0 |
| Investments in associates | 3 | 0 | 0 | 0 | 0 | 3 |
| Non current assets (excluding deferred tax, pensions, etc.) | 120 | 19 | 38 | 1,378 | 13 | 1,568 |
| Segment assets | 2,018 | 977 | 674 | 2,387 | 13 | 6,069 |
| External revenue specified by countries: | | | | | | |
| USA | - | 1,705 | - | - | - | |
| Germany | 839 | - | - | - | - | |

| | |
|---|---|
| External revenue in Denmark | 170 |
| External revenue outside Denmark | 5,666 |

| | USA | China | Others | Total |
|---|---|---|---|---|
| Non-current assets located in Denmark (excluding deferred tax, pensions, etc.) | - | - | - | 1,838 |
| Non-current assets located outside Denmark (excluding deferred tax, pensions, etc.) | 497 | 288 | 518 | 1,303 |

1) Internal revenue relates to inter-group sales as well as management fee, service, royalty and rental income from other companies in the Group.
2) Service EBIT before allocation of group costs.

External revenue specified by country comprises all countries with external revenue that account for more than 10 per cent of the Group's total external revenue.

In 2011 and 2010 no single customer accounts for more than 10 per cent of the Group's total external revenue. None of the Group's assets are classified as held-for-sale. None of the write-downs made on a single asset is material in itself. The non-current assets in all other countries do not individually exceed 10 per cent of total non-current assets for the Group except for the USA.

## 3 Segment information (continued)

| 2010<br>mEUR | Europe and Africa sales units | Americas sales units | Asia Pacific sales units | Production units | Service activity | Total reportable segments |
|---|---|---|---|---|---|---|
| **EXTERNAL REVENUE** | | | | | | |
| Wind turbines and wind power systems | 3,773 | 1,482 | 1,028 | 0 | - | 6,283 |
| Service | - | - | - | - | 623 | 623 |
| Other | 6 | 1 | 1 | 6 | 0 | 14 |
| **Total external revenue** | **3,779** | **1,483** | **1,029** | **6** | **623** | **6,920** |
| Internal revenue[1] | 531 | 143 | 52 | 3,274 | 0 | 4,000 |
| **Total segment revenue** | **4,310** | **1,626** | **1,081** | **3,280** | **623** | **10,920** |
| **Reportable segments' operating results (EBIT)** | **125** | **35** | **(108)** | **(197)** | **84**[2] | **(61)** |
| **Financial items (net)** | **(82)** | **(36)** | **(26)** | **(11)** | - | **(155)** |
| **OTHER SEGMENT ITEMS** | | | | | | |
| Depreciation and amortisation | 13 | 9 | 11 | 115 | 10 | 158 |
| Impairment losses (recognised in the income statement) | 0 | 0 | 0 | 56 | 0 | 56 |
| Impairment losses (recognised in equity) | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment losses (recognised in the income statement) | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment losses (recognised in equity) | 0 | 0 | 0 | 0 | 0 | 0 |
| Warranty provisions for the year | 3 | 0 | 1 | 0 | 0 | 4 |
| Share-based payments | 6 | 0 | 0 | 0 | 0 | 6 |
| Additions to property, plant and equipment and intangible assets | 17 | 5 | 12 | 278 | 10 | 322 |
| Additions to investments in associates | 2 | 0 | 0 | 0 | 0 | 2 |
| Investments in associates | 3 | 0 | 1 | 0 | 0 | 4 |
| Non current assets (excluding deferred tax, pensions, etc.) | 110 | 15 | 44 | 1,260 | 15 | 1,444 |
| Segment assets | 2,105 | 656 | 800 | 2,316 | 15 | 5,892 |
| External revenue specified by countries: | | | | | | |
| USA | - | 1,218 | - | - | - | - |
| Germany | 0 | - | - | - | - | - |

| | |
|---|---|
| External revenue in Denmark | 111 |
| External revenue outside Denmark | 6,809 |

| | USA | China | Others | Total |
|---|---|---|---|---|
| Non-current assets located in Denmark (excluding deferred tax, pensions, etc.) | - | - | - | 1,616 |
| Non-current assets located outside Denmark (excluding deferred tax, pensions, etc.) | 476 | 277 | 369 | 1,122 |

1) Internal revenue relates to inter-group sales as well as management fee, service, royalty and rent income from other companies in the Group.
2) Service EBIT before allocation of group costs.

## 3 Segment information (continued)

| mEUR | 2011 | 2010 |
|---|---|---|
| **RECONCILIATION** | | |
| Reportable segments' EBIT | (39) | (61) |
| All other operating segments' EBIT [1] | (21) | 371 |
| **Consolidated operating profit (EBIT)** | **(60)** | **310** |
| | | |
| Reportable segments' revenue | 10,476 | 10,920 |
| All other segments' revenue | 396 | 494 |
| Elimination of internal revenue | (5,036) | (4,494) |
| **Consolidated revenue** | **5,836** | **6,920** |
| | | |
| Reportable segments' assets | 6,069 | 5,892 |
| All other segments' assets | 3,502 | 2,895 |
| Elimination | (1,882) | (1,721) |
| **Consolidated total assets** | **7,689** | **7,066** |

1) Includes parent company income (management fee, service, royalty and other rental income from Group companies) reduced by costs related to Vestas Technology R&D and Group staff functions.

## 4 Revenue

| mEUR | 2011 | 2010 |
|---|---|---|
| Sale of wind turbines and wind power systems | 5,115 | 6,283 |
| Sale of service | 705 | 623 |
| Other | 16 | 14 |
| | **5,836** | **6,920** |
| | | |
| Sale of wind turbines and wind power systems are specified as follows: | | |
| Revenue using percentage-of-completion method (turnkey projects) | 807 | 397 |
| Revenue using completed contract method (supply-only and supply-and-installation projects) | 4,308 | 5,886 |
| | **5,115** | **6,283** |

## 5 Amortisation, depreciation and impairment losses

| mEUR | 2011 | 2010 |
|---|---|---|
| Amortisation, depreciation and impairment losses of non-current assets are specified as follows: | | |
| Amortisation, intangible assets | 128 | 90 |
| Impairment losses, intangible assets | 0 | 15 |
| Depreciation, property, plant and equipment | 205 | 182 |
| Impairment losses, property, plant and equipment | 22 | 83 |
| Gains and losses on sold property, plant and equipment | 10 | 4 |
| | **365** | **374** |
| | | |
| – and have been expensed as follows: | | |
| Cost of sales | 159 | 147 |
| Research and development costs | 128 | 84 |
| Distribution expenses | 40 | 34 |
| Administrative expenses | 16 | 14 |
| Special items | 22 | 95 |
| | **365** | **374** |

## 6 Staff costs

| mEUR | 2011 | 2010 |
|---|---|---|
| Staff costs are specified as follows: | | |
| Wages and salaries, etc. | 1,037 | 882 |
| Share-based payment | 9 | 6 |
| Pension schemes | 55 | 48 |
| Other social security expenses | 114 | 89 |
| | **1,215** | **1,025** |

EUR 417m (2010: EUR 345m) out of the total staff costs is expensed in cost of sales and EUR 798m (2010: EUR 680m) is expensed in research and development costs, distribution expenses and administrative expenses.

| | | |
|---|---|---|
| Attributable to: | | |
| **Board of Directors** | | |
| Board remuneration | 1 | 1 |
| | **1** | **1** |
| **Executive Management** | | |
| Wages and salaries, etc. | 2 | 2 |
| Share-based payment | 1 | 1 |
| | **3** | **3** |
| **Other executives (Vestas Government)** | | |
| Wages and salaries, etc. | 8 | 7 |
| Share-based payment | 2 | 2 |
| Pension schemes | 0 | 0 |
| | **10** | **9** |

Board of Directors and Executive Management are not covered by any pension schemes.

| | | |
|---|---|---|
| Average number of employees | 22,296 | 22,216 |
| Number of employees 31 December | 22,721 | 23,252 |

## 7 Research and development costs

| mEUR | 2011 | 2010 |
|---|---|---|
| Research and development costs expensed in the year are specified as follows: | | |
| Research and development costs | 402 | 372 |
| Capitalised development projects | (302) | (292) |
| Amortisation of development projects | 103 | 70 |
| Impairment losses of development projects | 0 | 0 |
| | **203** | **150** |

## 8 Special items

| mEUR | 2011 | 2010 |
|---|---|---|
| Impairment losses of intangible assets | 0 | 15 |
| Impairment losses of property, plant and equipment | 22 | 80 |
| Impairment losses of inventories | 0 | 10 |
| Staff costs | 0 | 47 |
| Other restructuring cost | 0 | 6 |
| | **22** | **158** |

## 9 Financial income

| mEUR | 2011 | 2010 |
|---|---|---|
| Exchange rate adjustments | 0 | 0 |
| Deposits and receivables: | | |
| – Interest income | 21 | 20 |
| – Other financial income | 1 | 2 |
| Hedge ineffectiveness (cash flow hedge) | 0 | 0 |
| Hedge ineffectiveness (fair value hedge) | 0 | 0 |
| Change in discounting of provisions | 4 | 0 |
| | **26** | **22** |

## 10 Financial expenses

| mEUR | 2011 | 2010 |
|---|---|---|
| Exchange rate adjustments | 56 | 41 |
| Financial debts, which are measured at amortised cost: | | |
| – Interest expenses | 53 | 40 |
| – Other financial expenses | 7 | 9 |
| Hedge ineffectiveness (cash flow hedge) | 4 | 1 |
| Hedge ineffectiveness (fair value hedge) | 0 | 0 |
| Change in discounting of provisions | 0 | 3 |
| | **120** | **94** |

In 2011, borrowing costs amounting to EUR 10m (2010: EUR 1m) was capitalised as part of property, plant and equipment and development projects at a rate of 3.3 per cent (2010: 3.9 per cent).

## 11 Corporation tax

| mEUR | 2011 | 2010 |
|---|---|---|
| Current tax on profit for the year | 65 | 46 |
| Deferred tax on profit for the year | (78) | 30 |
| Tax on profit for the year | (13) | 76 |
| Change in corporation tax rate | 0 | 0 |
| Adjustments relating to previous years (net) | 26 | 6 |
| **Corporation tax in the consolidated income statement** | **13** | **82** |
| | | |
| Tax on entries in comprehensive income related to deferred tax | (8) | 6 |
| **Tax on entries in comprehensive income** | **(8)** | **6** |
| | | |
| **Total corporation tax for the year** | **5** | **88** |
| | | |
| Computation of effective tax rate: | | |
| Corporation tax rate in Denmark | 25% | 25% |
| Adjustment relating to previous years | (17)% | 2% |
| Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate (net) | (9)% | 1% |
| Non-tax deductible expenses | (8)% | 0% |
| Non-taxable income | 3% | 0% |
| Tax on special items | (2)% | 6% |
| Provisions for tax loss carry-forwards | 0% | 0% |
| Change in corporation tax rate | 0% | 0% |
| **Effective tax rate** | **(8)%** | **34%** |

In 2011, the tax rate was (8) per cent against 34 per cent in 2010. The adjustments from previous years and higher tax rates in profitable foreign subsidiaries resulted in positive paid taxes in 2011.

Vestas Wind Systems A/S is jointly taxed with all its Danish subsidiaries. The current Danish corporation tax is allocated to the jointly taxed enterprises in proportion to their taxable incomes. Enterprises that utilise tax losses of other enterprises pay a joint tax contribution to the parent company corresponding to the tax value of the utilised tax losses, whereas enterprises whose tax losses are utilised by other enterprises receive a joint tax contribution from the parent company corresponding to the tax value of the utilised losses (full allocation). The jointly taxed enterprises have adopted the on-account taxation scheme.

## 12 Earnings per share (EPS)

| mEUR | 2011 | 2010 |
|---|---|---|
| **Profit for the year (mEUR)** | **(166)** | **156** |
| | | |
| Weighted average number of ordinary shares | 203,704,103 | 203,704,103 |
| Weighted average number of treasury shares | (1,260,197) | (756,798) |
| Weighted average number of ordinary shares outstanding | 202,443,906 | 202,947,305 |
| Dilutive effect of outstanding options | 0 | 0 |
| **Average number of shares outstanding including dilutive effect of options** | **202,443,906** | **202,947,305** |
| | | |
| Earnings per share (EPS) | (0.82) | 0.77 |
| Earnings per share (EPS-D), diluted | (0.82) | 0.77 |

For information about numbers of shares used for the calculation of earnings per share (EPS), see note 22 to the consolidated accounts.

## 13 Intangible assets

| 2011<br>mEUR | Goodwill | Completed development projects | Software | Development projects in progress | Total |
|---|---|---|---|---|---|
| Cost at 1 January | 320 | 361 | 137 | 457 | 1,275 |
| Exchange rate adjustments | 0 | 1 | 1 | 2 | 4 |
| Additions | 0 | 16 | 26 | 302 | 344 |
| Disposals | 0 | (4) | 0 | (6) | (10) |
| Transfers | 0 | 499 | 0 | (499) | 0 |
| **Cost at 31 December** | 320 | 873 | 164 | 256 | **1,613** |
| | | | | | |
| Amortisation and impairment losses at 1 January | 0 | 192 | 49 | 0 | 241 |
| Exchange rate adjustments | 0 | 1 | 0 | 0 | 1 |
| Amortisation for the year | 0 | 103 | 25 | 0 | 128 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Reversal of amortisation of disposals in the year | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| **Amortisation and impairment losses at 31 December** | 0 | 296 | 74 | 0 | 370 |
| | | | | | |
| **Carrying amount at 31 December** | **320** | **577** | **90** | **256** | **1,243** |
| | | | | | |
| Internally generated assets included above | 0 | 561 | 88 | 256 | 905 |
| Amortisation period | | 3–5 years | 5 years | | |

Included in software are IT projects in progress amounting to EUR 9m at 31 December 2011.

| 2010<br>mEUR | Goodwill | Completed development projects | Software | Development projects in progress | Total |
|---|---|---|---|---|---|
| Cost at 1 January | 320 | 207 | 103 | 320 | 950 |
| Exchange rate adjustments | 0 | 0 | 0 | (1) | (1) |
| Additions | 0 | 0 | 36 | 292 | 328 |
| Disposals | 0 | 0 | (2) | 0 | (2) |
| Transfers | 0 | 154 | 0 | (154) | 0 |
| **Cost at 31 December** | **320** | **361** | **137** | **457** | **1,275** |
| | | | | | |
| Amortisation and impairment losses at 1 January | 0 | 108 | 30 | 0 | 138 |
| Exchange rate adjustments | 0 | 0 | 0 | 0 | 0 |
| Amortisation for the year | 0 | 70 | 20 | 0 | 90 |
| Impairment losses for the year | 0 | 14 | 1 | 0 | 15 |
| Reversal of amortisation of disposals in the year | 0 | 0 | (2) | 0 | (2) |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| **Amortisation and impairment losses at 31 December** | **0** | **192** | **49** | **0** | **241** |
| | | | | | |
| **Carrying amount at 31 December** | **320** | **169** | **88** | **457** | **1,034** |
| | | | | | |
| Internally generated assets included above | 0 | 169 | 86 | 457 | 712 |
| Amortisation period | | 3–5 years | 5 years | | |

The impairment losses on development projects and software relate to the restructuring that took place within the Group in 2010.

Included in software are IT projects in progress amounting to EUR 35m at 31 December 2010.

## 13 Intangible assets (continued)

**Goodwill**
At 31 December 2011, management completed impairment testing of the carrying amount of goodwill. The impairment testing was done in the fourth quarter based on the budgets and business plans approved by the Board of Directors and the Executive Management as well as other assumptions adjusted, as required, to comply with IAS 36.

The main part of the carrying amount of goodwill in the Vestas Group arose in connection with the merger between Vestas Wind Systems A/S and NEG Micon A/S in 2004 when Vestas acquired NEG Micon A/S.

For the purpose of the impairment test, the carrying amount of goodwill at 1 January 2004 plus goodwill from subsequent acquisitions have been allocated to the cash flow generating units: Europe and Africa, Americas and Asia Pacific. At 31 December 2011, goodwill of the three units amounted to EUR 229m, EUR 84m and EUR 7m, respectively.

When performing impairment tests of cash-generating units, the recoverable amount (value in use) calculated as the discounted value of expected future cash flows is compared to the carrying amount of each of the cash-generating units.

Expected future cash flows are based on budgets and business plans for the next five years.

For all segments, the key parameters are revenue, EBIT, working capital investments, capital investments in progress and contracted as well as growth assumptions.

The revenue growth rate in the period 2007–2010 amounted to 17 per cent per year.

The growth rate used in the impairment model for the years after 2013 is 1.5 per cent, which, to be prudent, is lower than the expected growth rate for the same period.

At 31 December 2011, the net working capital as a percentage of revenue amounted to (1.2) per cent. In the period 2007–2011 the net working capital as a percentage of revenue moved from (10) to (1.2) per cent, see the Group financial highlights for the development in net working over this period.

Budgets and business plans for the next five years are based on Vestas' 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. The first five years are based on the growth expectation of a single high-digit EBIT margin in short and medium term. Projections for year six onwards are based on general market expectations and risks.

The terminal value after the five years is determined taking into account general growth expectations for the segments in question.

The discount rates used to calculate the recoverable amount are before tax and reflect the risk-free interest rate of the individual geographical segments and related risk. The proportion of equity in relation to the Group's future capital structure is expected to continue to be high.

| | Discount rates before tax (%) | | Growth in terminal period (%) | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Europe and Africa | 19.1 | 17.5 | 1.5 | 3.0 |
| Americas | 19.0 | 16.4 | 1.5 | 3.0 |
| Asia Pacific | 16.8 | 14.2 | 1.5 | 3.0 |

The recoverable amount and net book values of the segments Europe and Africa, Americas and Asia Pacific are EUR 2,010m and EUR 1,826m, EUR 1,207m and EUR 737m and EUR 583m and EUR 505m, respectively. Possible changes to the fundamental assumptions might result in the carrying amount of goodwill exceeding the recoverable amount in any of the segments.

**Development projects**
Recognised completed development projects and development projects in progress comprise development and testing of new wind turbines. The new wind turbines are expected to result in competitive advantages and thus a strengthening of the Group's market position.

The values of the development projects recognised have been compared to expected sales of the individual turbine types. The impairment losses on development projects in 2010, included in special items on the income statement, relates to cancelled development projects in relation to the restructuring. All capitalised development costs are allocated to Europe.

**Software**
Software comprises expenses for acquiring software licences and own development. The value of the recognised software has been compared to the expected value in use. The impairment losses on software in 2010, included in special items on the income statement, relate to cancelled software projects in relation to the restructuring. The costs of software outside Europe that is capitalised is immaterial.

## 14 Property, plant and equipment

| 2011<br>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 | 1,056 | 548 | 563 | 285 | 2,452 |
| Exchange rate adjustments | 24 | 14 | 9 | 5 | 52 |
| Additions | 8 | 72 | 100 | 226 | 406 |
| Disposals | (5) | (48) | (38) | (1) | (92) |
| Transfers | 185 | 77 | 88 | (350) | 0 |
| **Cost at 31 December** | **1,268** | **663** | **722** | **165** | **2,818** |
| | | | | | |
| Depreciation and impairment losses at 1 January | 189 | 244 | 315 | 0 | 748 |
| Exchange rate adjustments | 5 | 5 | 8 | 0 | 18 |
| Depreciation for the year | 45 | 55 | 105 | 0 | 205 |
| Impairment losses for the year | 11 | 8 | 3 | 0 | 22 |
| Reversal of depreciation of disposals in the year | 0 | (45) | (28) | 0 | (73) |
| Transfers | (2) | 9 | (7) | 0 | 0 |
| **Depreciation and impairment losses at 31 December** | **248** | **276** | **396** | **0** | **920** |
| | | | | | |
| **Carrying amount at 31 December** | **1,020** | **387** | **326** | **165** | **1,898** |
| | | | | | |
| Depreciation period | 20–40 years | 3–10 years | 3–5 years | | |

The impairment losses on property, plant and equipment relate to, among other things, the planned closure of the tower factory in Varde, Denmark.

| 2010<br>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 | 768 | 421 | 419 | 354 | 1,962 |
| Exchange rate adjustments | 27 | 15 | 14 | 21 | 77 |
| Additions | 185 | 133 | 133 | 7 | 458 |
| Disposals | (1) | (36) | (8) | 0 | (45) |
| Transfers | 77 | 15 | 5 | (97) | 0 |
| **Cost at 31 December** | **1,056** | **548** | **563** | **285** | **2,452** |
| | | | | | |
| Depreciation and impairment losses at 1 January | 107 | 191 | 203 | 0 | 501 |
| Exchange rate adjustments | 2 | 5 | 5 | 0 | 12 |
| Depreciation for the year | 37 | 46 | 99 | 0 | 182 |
| Impairment losses for the year | 41 | 30 | 12 | 0 | 83 |
| Reversal of depreciation of disposals in the year | 0 | (29) | (1) | 0 | (30) |
| Transfers | 2 | 1 | (3) | 0 | 0 |
| **Depreciation and impairment losses at 31 December** | **189** | **244** | **315** | **0** | **748** |
| | | | | | |
| **Carrying amount at 31 December** | **867** | **304** | **248** | **285** | **1,704** |
| | | | | | |
| Depreciation period | 20–40 years | 3–10 years | 3–5 years | | |

The impairment losses on property, plant and equipment relate to the restructuring that took place within the Group in 2010.

## 15 Investments in associates

| mEUR | 2011 | 2010 |
|---|---|---|
| Cost at 1 January | 5 | 2 |
| Exchange rate adjustments | 0 | 0 |
| Additions | 1 | 3 |
| Disposals | 0 | 0 |
| Disposals, disposals of companies | (2) | 0 |
| **Cost at 31 December** | **4** | **5** |
| | | |
| Value adjustments at 1 January | (1) | (1) |
| Exchange rate adjustments | 0 | 0 |
| Share of profit | 1 | 0 |
| Dividend | 0 | 0 |
| Disposals | 0 | 0 |
| **Value adjustments at 31 December** | **0** | **(1)** |
| | | |
| **Carrying amount at 31 December** | **4** | **4** |

## 16 Deferred tax

| mEUR | 2011 | 2010 |
|---|---|---|
| Deferred tax at 1 January (net) | 218 | 263 |
| Exchange rate adjustments | (1) | 5 |
| Deferred tax on profit for the year | 78 | (30) |
| Adjustment relating to previous years | 17 | (15) |
| Changes in corporation tax rate | 1 | 1 |
| Tax on entries in comprehensive income | 8 | (6) |
| **Deferred tax at 31 December (net)** | **321** | **218** |
| | | |
| Tax base of tax loss carry-forwards (net) | 115 | 27 |
| Intangible assets | (76) | (90) |
| Property, plant and equipment | 78 | (6) |
| Current assets | 125 | 110 |
| Provisions | 93 | 82 |
| Balance of tax losses for recapture in foreign subsidiaries under Danish joint taxation | (23) | (23) |
| Tax credit | 11 | 38 |
| Other | 10 | 86 |
| **Deferred tax assets** | **333** | **224** |
| | | |
| Intangible assets | 0 | 0 |
| Property, plant and equipment | 11 | 0 |
| Current assets | 0 | (1) |
| Provisions | 0 | 1 |
| Balance of tax losses for recapture in foreign subsidiaries under Danish joint taxation | 0 | 0 |
| Other | 1 | 6 |
| **Provision for deferred tax** | **12** | **6** |
| | | |
| **Deferred tax asset at 31 December (net)** | **321** | **218** |

## 16 Deferred tax (continued)

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

If the earnings were to be distributed, this would release a current tax charge of EUR 0m for 2011 (2010: EUR 37m).

Deferred tax assets are recognised for tax loss carry-forwards corresponding to earnings that are likely to be generated in the future. The assessment has been made considering the ability to utilise tax carry-forwards in previous years as well as future expectations. Of the total tax carry-forwards, EUR 21m (2010: EUR 31m) are subject to expiry limits, however, these are all expected to be utilised within five years. Deferred tax assets amounting to EUR 32m (2010: EUR 21m) have not been recognised in the balance sheet, as their utilisation is not assessed to be sufficiently certain, primarily because of Vestas' earnings expectations in some countries.

Of the total deferred tax relating to tax loss carry-forwards included in the deferred tax assets, an amount of EUR 134m (2010: EUR 26m) relates to Denmark. Of the tax-loss carry-forwards noted above, EUR 0m (2010: EUR 0m) relates to Denmark. For further description of the utilisation of tax-loss carry-forwards, see note 2 to the consolidated accounts.

## 17 Inventories

| mEUR | 2011 | 2010 |
|---|---|---|
| Raw materials and consumables | 774 | 800 |
| Work in progress | 513 | 366 |
| Finished goods | 1,256 | 1,568 |
| Prepayments for goods | 3 | 1 |
| | **2,546** | **2,735** |
| | | |
| Inventories used for the year, which are included in costs of sales | 4,196 | 4,624 |
| Write-downs of inventories in the year | 46 | 64 |
| Reversal of write-downs in the year | 26 | 34 |

## 18 Trade receivables

| mEUR | 2011 | 2010 |
|---|---|---|
| Trade receivables | 663 | 624 |
| | | |
| Fair value of security received for trade receivables balances outstanding as at 31 December | 127 | 105 |
| | | |
| Write-downs included in trade receivables, developed as follows: | | |
| Write-downs at 1 January | (2) | 0 |
| Write-downs in the year | (1) | (2) |
| Realised in the year | 0 | 0 |
| Reversals | 0 | 0 |
| **Write-downs at 31 December** | **(3)** | **(2)** |
| | | |
| All trade receivables are expected to be received within 12 months. | | |
| | | |
| The age distribution of receivables is as follows: | | |
| Not overdue | 558 | 543 |
| 0–60 days overdue | 63 | 46 |
| 61–120 days overdue | 8 | 11 |
| 121–180 days overdue | 5 | 4 |
| More than 180 days overdue | 29 | 20 |
| | **663** | **624** |

## 18 Trade receivables (continued)

The total write-downs of trade debtors of EUR 3m (2010: EUR 2m) that is based on an individual assessment of each receivable, relates to companies in bankruptcy.

Trade receivables are mainly owed by companies within the energy sector. The credit risk is dependent on the development within this sector. Vestas does not have a single significant trade debtor nor are the trade debtors concentrated in specific countries.

## 19 Construction contracts in progress

| mEUR | 2011 | 2010 |
|---|---|---|
| Sales value of construction contracts in progress | 403 | 322 |
| Progress billings | (294) | (297) |
| | **109** | **25** |
| | | |
| – which are included as follows: | | |
| Construction contracts in progress (assets) | 147 | 40 |
| Construction contracts in progress (liabilities) | (38) | (15) |
| | **109** | **25** |

No retentions related to construction contracts in progress at the end of 2011 and 2010.

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

## 20 Other receivables

| mEUR | 2011 | 2010 |
|---|---|---|
| Prepayments | 33 | 27 |
| Supplier claims | 17 | 26 |
| Other receivables | 389 | 249 |
| | **439** | **302** |
| | | |
| – specified as follows: | | |
| 0–1 years | 395 | 277 |
| > 1 year | 44 | 25 |
| | **439** | **302** |

Other receivables stated above principally comprise VAT and insurance receivables.

## 21 Corporation tax

| mEUR | 2011 | 2010 |
|---|---|---|
| Corporation tax 1 January | 40 | (52) |
| Exchange rate adjustments | (1) | (1) |
| Corporation tax for the year | (65) | (46) |
| Adjustments relating to previous years | (43) | 9 |
| Change in corporation tax rate | (1) | (1) |
| Corporation tax paid in the year | 69 | 131 |
| **Corporation tax at 31 December** | **(1)** | **40** |
| | | |
| Corporation tax (assets) | 41 | 64 |
| Corporation tax (liabilities) | (42) | (24) |
| | **(1)** | **40** |

## 22 Share capital

| | 2011 | 2010 |
|---|---|---|
| The share capital comprises of 203,704,103 shares of DKK 1.00 | 203,704,103 | 203,704,103 |
| Number of shares at 1 January | 203,704,103 | 203,704,103 |
| **Number of shares at 31 December** | **203,704,103** | **203,704,103** |
| Shares outstanding | 202,248,290 | 202,948,290 |
| Treasury shares | 1,455,813 | 755,813 |
| **Number of shares at 31 December** | **203,704,103** | **203,704,103** |

The share capital was increased by 18,500,000 shares of DKK 1.00 in 2009. Except for these increases, the share capital has been unchanged in the period 2007–2011.

All shares rank equally.

| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | Number of shares | Number of shares | Nominal value (DKK) | Nominal value (DKK) | % of share capital | % of share capital |
| Treasury shares at 1 January | 755,813 | 758,363 | 755,813 | 758,363 | 0.4 | 0.4 |
| Purchases/(sales) | 700,000 | (2,550) | 700,000 | (2,550) | 0.3 | 0.0 |
| **Treasury shares at 31 December** | **1,455,813** | **755,813** | **1,455,813** | **755,813** | **0.7** | **0.4** |

The Board of Directors has been authorised at the Annual General Meeting to allow Vestas Wind Systems A/S to acquire treasury shares amounting to a total nominal value of 10 per cent of the company's share capital during the period up until the next Annual General Meeting on 29 March 2012.

Vestas Wind Systems A/S acquired treasury shares in 2011 at nominal values of DKK 300k, 200k and DKK 200k at share prices of DKK 179.10, DKK 199.67 and DKK 154.12, respectively, corresponding to an acquisition sum of EUR 17m. In 2009 Vestas acquired treasury shares, at nominal value of DKK 22k at a share price of DKK 339.17 corresponding to an acquisition sum of EUR 1m and in 2007, at nominal values of DKK 569k and DKK 28k at share prices of DKK 378.54 and DKK 357.90, respectively, corresponding to an acquisition sum of EUR 30m.

Treasury shares are acquired with a view to using them for the Group's share option programmes.

The share capital has been fully paid.

No dividend has been paid out in 2011 and 2010 relating to the financial years 2010 and 2009.

## 23 Provisions

| mEUR | 2011 | 2010 |
|---|---|---|
| **WARRANTY PROVISIONS** | | |
| Warranty provisions at 1 January | 283 | 339 |
| Exchange rate adjustments | 1 | 0 |
| Warranty provisions for the year | 148 | 194 |
| Utilised warranty provisions during the year | (179) | (253) |
| Reversed warranty provisions during the year | 0 | 0 |
| Adjustment to previously recognised warranty provisions | 0 | 0 |
| Adjustments relating to the change in discounting of warranty provisions | (4) | 3 |
| **Warranty provisions at 31 December** | **249** | **283** |
| | | |
| The warranty provisions are expected to be consumed as follows: | | |
| 0–1 year | 138 | 171 |
| >1 year | 111 | 112 |
| | **249** | **283** |

The product warranties, which in the great majority of cases cover 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. See page 16 of the management report and note 2 to the consolidated accounts for further information on Vestas' warranty provisions.

In addition to the above, provisions are made for upgrades to wind turbines sold due to type faults, etc. where Vestas has a warranty obligation at the date of provision. 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, upwards as well as downwards, of previous estimates in light of factual information about population size, costs of repairs and the timing of such repairs.

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

It is estimated that 15–20 per cent 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 for upgrades of wind turbines sold in previous years, commercial settlements and proactive upgrading as well as new information about the serial faults in question.

**Product risks**
Lack of reliability in several of Vestas' products has previously led to major warranty provisions, and 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 Group's products and to improve customer earnings.

## 23 Provisions (continued)

| mEUR | 2011 | 2010 |
|---|---|---|
| **OTHER PROVISIONS** | | |
| Other provisions at 1 January | 79 | 72 |
| Exchange rate adjustments | 0 | 1 |
| Other provisions for the year | 45 | 70 |
| Utilised other provisions during the year | (58) | (64) |
| Adjustment to previously recognised other provisions | 0 | 0 |
| **Other provisions at 31 December** | **66** | **79** |

Other provisions include compensation regarding agreements made to purchase wind turbine parts which are not expected to be fulfilled in accordance with the contractually agreed parameters and provisions for onerous service contracts. The provisions have been calculated based on management's best estimate and are expected to be settled on average over 2–3 years.

| | | |
|---|---|---|
| Other provisions are expected to be payable as follows: | | |
| 0–1 year | 32 | 52 |
| > 1 year | 34 | 27 |
| | **66** | **79** |

| | | |
|---|---|---|
| The provisions are expected to be payable as follows: | | |
| 0–1 year | 170 | 223 |
| > 1 year | 145 | 139 |
| | **315** | **362** |

## 24 Pension obligations

The Vestas Group's entities have different pension schemes and severance programmes which have been adapted to the labour market variables of the individual countries. Approximately 99 per cent of the Group's pension expenses relate to defined contribution plans, which includes no further obligations to the company other than the contributions paid.

The other plans are defined benefit plans, the majority of which have related plan assets in independent pension funds. The defined benefit plans will typically secure the employees covered by a pension based on final-salary.

Under defined contribution plans, an employer commits to paying a certain contribution (e.g. a fixed amount or a fixed percentage of their salary). Under a defined contribution plan, the Group does not carry the risk relating to the future development in interest rate, inflation, mortality and disablement.

Under defined benefit plans, an employer commits to paying a certain benefit (e.g. a retirement benefit as a fixed amount or a fixed percentage of the employee's final salary). Under a defined benefit plan, the Group carries the risk relating to the future development in interest rate, inflation, mortality and disablement.

The pension obligation of Danish and some foreign entities are covered by insurance. Foreign entities whose obligations are not or are only partly covered by insurance (defined benefit plans) calculate their obligations, using actuaries, at net present value at the balance sheet date. These pension plans are fully or partly covered through pension funds for the employees. In the consolidated accounts an amount of EUR 2m (2010: EUR 2m) has been recognised in liabilities in respect of the Group's defined benefit obligations towards current and previous employees after deducting plan assets.

| mEUR | 2011 | 2010 |
|---|---|---|
| The following amounts have been recognised in the consolidated income statement: | | |
| Defined contribution plans | 55 | 57 |
| Defined benefit plans | 0 | 2 |
| | **55** | **59** |
| | | |
| The cost has been recognised in the following items: | | |
| Cost of sales | 32 | 34 |
| Research and development costs | 6 | 6 |
| Distribution expenses | 6 | 6 |
| Administrative expenses | 11 | 13 |
| | **55** | **59** |
| | | |
| Net present value of covered defined benefit plans | (8) | (9) |
| Net present value of uncovered defined benefit plans | 0 | (1) |
| Net present value of defined benefit plans | (8) | (10) |
| Fair value of plan assets | 6 | 6 |
| Surplus/(deficit) cover | (2) | (4) |
| Non-recognised actuarial (gains)/losses | 0 | 2 |
| **Net obligation recognised in the balance sheet** | **(2)** | **(2)** |
| | | |
| Development in net present value of defined benefit plan obligations: | | |
| | | |
| Net present value of defined benefit plan obligations at 1 January | 10 | 10 |
| Exchange adjustments | 0 | 0 |
| Pension expenses relating to current financial year | 0 | 0 |
| Calculated interest on obligations | 0 | 0 |
| Actuarial (gains) /losses | (2) | 0 |
| Loss on reductions and fulfilment | 0 | 1 |
| Pension expenses relating to prior financial years | 0 | 0 |
| Pensions paid | 0 | (1) |
| **Net present value of defined benefit plan obligations at 31 December** | **8** | **10** |

## 24 Pension obligations (continued)

| mEUR | 2011 | 2010 |
|---|---|---|
| Development in fair value of pension assets: | | |
| Pension assets at 1 January | 6 | 7 |
| Exchange rate adjustments | 0 | 0 |
| Estimated return on plan assets | 0 | 0 |
| Actuarial gains/(losses) | 1 | 0 |
| Paid in by the Vestas Group | 0 | 0 |
| Paid in by participants | 0 | 0 |
| Pensions paid | (1) | (1) |
| **Pension assets at 31 December** | **6** | **6** |
| | | |
| Pension expenses recognised in the income statement: | | |
| Pension expenses relating to current financial year | 0 | 1 |
| Calculated interest on obligation | 1 | 1 |
| Estimated return on plan assets | 0 | 0 |
| Recognised actuarial (gain)/loss for the year | 0 | 0 |
| Pension expenses relating to prior financial years | 0 | 0 |
| Loss on reductions and fulfilment | 0 | 0 |
| **Total recognised for defined benefit plans** | **1** | **2** |
| | | |
| Pension assets break down as follows: | | |
| European shares | 2 | 2 |
| European bonds | 3 | 3 |
| Cash funds | 1 | 1 |
| | **6** | **6** |
| | | |
| Return on pension assets: | | |
| Estimated return on plan assets | 0 | 0 |
| Actual return on plan assets | 0 | 0 |
| Actuarial gain/(loss) on plan assets | 0 | 0 |
| | | |
| The Group expects to pay less than EUR 1m to the defined benefit plan in 2012. | | |
| | | |
| The average assumptions underlying actuarial calculations at the balance sheet date are as follows: | | |
| Discount rate (%) | 3.3 | 3.8 |
| Estimated return on pension funds (%) | 4.8 | 4.6 |
| Estimated rate of pay increase (%) | 4.0 | 4.0 |
| Estimated pension increase (%) | 0.7 | 2.0 |

The estimated return on the plan assets has been determined based on the composition of the assets and general expectations with respect to economic trends.

| mEUR | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Actuarially calculated pension obligations | (8) | (10) | (10) | (10) | (10) |
| Pension assets | 6 | 6 | 7 | 7 | 8 |
| **Deficit cover** | **(2)** | **(4)** | **(3)** | **(3)** | **(2)** |
| | | | | | |
| Changes to obligations based on experience | 0 | 0 | 0 | 0 | 0 |
| Changes to pension assets based on experience | 0 | 0 | 0 | 0 | 0 |

There are no restrictions on the types of the pension assets which Vestas is allowed to invest in to meet the pension obligations. The pension assets include no Vestas shares, receivables from or any property leased by Vestas.
All relevant assumptions relating to the actuarial calculations exclude immaterial costs.

## 25 Financial debts

| mEUR | 2011 | 2010 |
|---|---|---|
| Financial debts are recognised in the balance sheet as follows: | | |
| | | |
| **CURRENT LIABILITIES** | | |
| Mortgage debt | 1 | 1 |
| Bank debt and debt to credit institutions | 5 | 3 |
| | **6** | **4** |
| | | |
| **NON-CURRENT LIABILITIES** | | |
| Mortgage debt | 7 | 7 |
| Debt to credit institutions | 309 | 306 |
| Corporate bonds | 598 | 597 |
| | **914** | **910** |
| | | |
| 1–5 years | 910 | 906 |
| > 5 years | 4 | 4 |
| | | |
| **Financial debts** | **920** | **914** |
| | | |
| Fair value | 851 | 914 |
| Nominal value | 920 | 914 |

On 23 March 2010, Vestas issued euro dominated corporate bonds at a nominal amount of EUR 600m at a rate of 4.625 per cent and an effective interest of 4.8 per cent. The corporate bonds will mature 23 March 2015.

It is Group policy to endeavour and ensure an appropriate development in the financial ratios with a view, for example, to maintaining the Group's credit rating and to complying with the agreed requirements in the Group's financing agreements.

The fair value is calculated as the present value of agreed cash flows using a current market-based interest rate. The fair value of the issued corporate bonds is determined based on the listed bond price as t 31 December.

## 26 Other liabilities

| mEUR | 2011 | 2010 |
|---|---|---|
| Staff cost | 101 | 120 |
| Taxes and duties | 153 | 120 |
| Other payables | 102 | 83 |
| | **356** | **323** |

## 27 Adjustment for non-cash transactions

| mEUR | 2011 | 2010 |
|---|---|---|
| Amortisation and depreciation for the year of intangible assets and property, plant and equipment, including gains and losses on sale of non-current assets | 365 | 374 |
| Share of profit in associates | 1 | 0 |
| Warranty provisions in the year (net) | (35) | (56) |
| Pension provisions in the year | 0 | 0 |
| Other provisions in the year | (12) | 7 |
| Exchange rate adjustment | (69) | (74) |
| Financial income | (26) | (22) |
| Financial expenses | 120 | 94 |
| Corporation tax for the year | 13 | 82 |
| Cost of share-based payments | 9 | 6 |
| Other adjustments | 0 | 0 |
| | **366** | **411** |

## 28 Change in net working capital

| mEUR | 2011 | 2010 |
|---|---|---|
| Change in inventories | 193 | 1,198 |
| Change in receivables | (264) | (166) |
| Change in prepayments from customers | 342 | (1,328) |
| Change in trade payables | 443 | 58 |
| Change in other liabilities | 33 | (115) |
| | **747** | **(353)** |

## 29 Acquisition of enterprises

| mEUR | 2011 | | 2010 | |
|---|---|---|---|---|
| | Fair value | Carrying amount prior to acquisition | Fair value | Carrying amount prior to acquisition |
| Other non-current assets | 17 | 17 | 0 | 0 |
| **Total non-current assets** | **17** | **17** | **0** | **0** |
| | | | | |
| Inventories | 4 | 4 | 4 | 4 |
| Trade receivables | 0 | 0 | 0 | 0 |
| Cash at bank and in hand | 0 | 0 | 0 | 0 |
| Other receivables | 0 | 0 | 0 | 0 |
| **Total current assets** | **4** | **4** | **4** | **4** |
| | | | | |
| **Total non-current liabilities** | **0** | **0** | **0** | **0** |
| | | | | |
| Trade payables | 0 | 0 | 0 | 0 |
| Other liabilities | 0 | 0 | 0 | 0 |
| **Total current liabilities** | **0** | **0** | **0** | **0** |
| | | | | |
| Net assets | 21 | 21 | 4 | 4 |
| Goodwill | 0 | 0 | 0 | 0 |
| **Total purchase consideration:** | **21** | **21** | **4** | **4** |
| of which relate to cash and cash equivalents less bank debt | 0 | 0 | 0 | 0 |
| Purchase consideration payable | 0 | 0 | (2) | (2) |
| **Cash purchase consideration** | **21** | **21** | **2** | **2** |
| Share consideration | 0 | 0 | 0 | 0 |
| **Net cash purchase consideration** | **21** | **21** | **2** | **2** |

In October 2011 Vestas Wind Systems A/S acquired activities in OCAS AS related to a completed development project in Norway. In October 2010, Vestas acquired the activities (activities related to project development) in GB Linowo Sp. Z.o.o. in Poland. In 2011 Vestas acquired similar activities in Bulgaria.

## 30 Cash at bank and in hand

Cash at bank and in hand with disposal restrictions, EUR 24m (2010:EUR 10m) mainly comprises prepayments from a range of customers in relation to projects and the restriction is lifted as contractual obligations are met and included in day-to-day cash management.

## 31 Fees to auditors appointed by the Annual General Meeting

| mEUR | 2011 | 2010 |
|---|---|---|
| Audit: | | |
| PricewaterhouseCoopers | 3 | 3 |
| **Total audit** | **3** | **3** |
| | | |
| Non-audit services: | | |
| | | |
| PricewaterhouseCoopers | | |
| Assurance engagements | 0 | 0 |
| Tax assistance | 1 | 1 |
| Other services | 1 | 1 |
| **Total non-audit services** | **2** | **2** |
| | | |
| **Total** | **5** | **5** |

Vestas' auditors can be used, within certain parameters, for certain non-audit services and may often be the obvious choice due to business knowledge, confidentiality and costs consideration. Vestas has a comprehensive 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.

In 2011 and 2010, other services include fees mainly for other assistance in accounting.

## 32 Management's option programme and shareholdings

**Option programme**

A share option programme was established in 2006 for the Executive Management, the Vestas Government and other selected executives of the Group, totalling 20 people. Options were granted based on the achievement of specified targets for 2006 and 2007. The market value, based on the Black-Scholes valuation model calculated at the date of grant/establishment of the programme, amounted to EUR 3m.

In 2007, a new option programme was introduced for the same members as in the 2006 programme. The programme granted 580,080 options, which were valued, based on the Black-Scholes valuation model, on 15 May 2007 at a market value of EUR 12m. 155,102 of the options, valued at EUR 3m, were allocated to the Executive Management.

The members may exercise their options in specified periods and choose to purchase the company's shares at the relevant strike price depending on the programme. Exercise of the options can only occur in the periods where executives are allowed to trade shares in accordance with the Group's internal rules, being within the four weeks following the company announcement of the annual report and quarterly financial reports.

Options are allotted to members when the Board of Directors approves the final annual report relating to the year of grant except for options allotted in 2007. The allotment for 2007 was on 15 May 2007 when the programme was announced.

The share prices and the exercise prices are based on the closing share prices obtained from Bloomberg Financial Markets on the day before 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 movement 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.

## 32 Management's option programme and shareholdings (continued)

The requirements of the programmes from 2010 onwards are similar to the 2007 programme except that only the Executive Management, Presidents and 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 per cent of the profit gained by the participants after deduction of calculated tax.

**2006 programme**
All the options allotted in 2006 have lapsed. 56,448 options were the net allotted amount in 2007 with a value of EUR 1m at grant. The members of the scheme loose the right to the options, if they terminate their employment before the end of the vesting period. The options can be exercised between two and four years after they have been allotted. Options allotted in 2007 can be exercised from 2010 to 2012. There will be no more new allotments from this programme.
The share price, volatility, exercise price, risk-free rate, dividend per share and years to expiry are DKK 167.0, 54 per cent, DKK 147.6, 3.8 per cent, DKK 0 and 5, respectively , at the date of grant.

**2007 programme**
The options allotted to the members of the schemes for 2007, 2008 and 2009 are valued based on the equivalent of 60 per cent of their 2006 annual salary. For 2008 onwards members will only be allotted options if they are still employed when the Board of Directors approves the annual report for the respective years. 207,952 and 189,002 options were allotted in 2007 and 2008, respectively, leaving 183,126 options to be allotted for 2009. The valuations of options grated after 2007 are based on parameters determined at the date of grant. The options can be exercised within two years when three years have elapsed after they have been allotted. This period after the allotment of options is referred to as vesting period.

The members of the scheme loose the right to the options, if they terminate their employment before the end of each of the three allotments' vesting period. On exercising the options government members and Senior Vice Presidents reporting to the Executive Management must invest 50 per cent of the profit after tax in Vestas shares, which must be held for at least three years.

**2009 expansion**
Three new members were added to the programme on 7 January 2009 and were granted 21,970 options at a value estimated to be EUR 1m. A further four members were added to the scheme on 27 October 2009 and were granted 31,858 options with an estimated value of EUR 1m. In both cases the date of allotment of the options will be the Board of Director's approval of the annual report for 2009 but the service periods start in January 2009 and October 2009, respectively. The terms and conditions of the options are the same as the terms and conditions of the options granted in May 2007.

**2010 programme**
On 25 January 2010, the 2007 programme was expanded to include other members of management and a total of 774,539 options with an estimated value of EUR 16m were granted. 75,335 options, valued at EUR 2m, were allocated to the Executive Management.

**2011 programme**
On 2 March 2011, new options totalling 997,857 with a value of EUR 14m were granted to current and new members of the the 2007 programme. 82,869 options, valued at EUR 1m, were allocated to the Executive Management.

The exercise of the options can only occur, if the members themselves have not terminated their employment at the time of the exercise. Options allotted in 2007, 2008, 2009, 2010 and 2011 can be exercised from 2010 to 2012, 2012 to 2014, 2013 to 2015, 2014 to 2015 and 2015 to 2016, respectively.

The fair value at the grant date has been calculated under the Black-Scholes option pricing model adjusted for dilution of share capital based on the following assumptions:

| | 2011 programme | 2010 programme | 2007 programme 2009 expansion (October) | 2007 programme 2009 expansion (January) | 2007 programme 2007 and 2008 grant |
|---|---|---|---|---|---|
| Share price at grant (DKK) | 191.50 | 299.00 | 337.00 | 303.50 | 380.50 |
| Volatility (%) | 54 | 56 | 65 | 88 | 44 |
| Exercise price (DKK) | 184.06 | 320.60 | 380.50 | 380.50 | 380.50 |
| Risk-free interest rate for options (%) | 2.39 | 2.85 | 3.47 | 3.27 | 4.30 |
| Annual dividend per share (DKK) | 0 | 0 | 0 | 0 | 0 |
| Years to expiry | 5 | 5 | 5 | 5 | 5 |

## 32 Management's option programme and shareholdings (continued)

| | | | | | Grant date | | Balance sheet date |
|---|---|---|---|---|---|---|---|
| | Group Executive Management pcs | Other executives pcs | Total pcs | Exercise price per option DKK | Fair value per option DKK | Total fair value tEUR | Total fair value[1] tEUR |
| **Outstanding at 1 January 2011** | **246,815** | **1,146,894** | **1,393,709** | | | **29,332** | |
| Granted 2010 programme | 0 | 57,843 | 57,843 | 320.60 | 158 | 1,224 | - |
| Granted 2011 programme | 82,869 | 914,988 | 997,857 | 184.06 | 102 | 13,705 | - |
| Lapsed 2010 programme | 0 | (49,251) | (49,251) | 320.60 | 158 | (1,042) | - |
| Lapsed 2011 programme | 0 | (42,306) | (42,306) | 184.06 | 102 | (581) | - |
| Exercised | 0 | 0 | 0 | | - | - | - |
| Expired | 0 | 0 | 0 | | - | - | - |
| **Outstanding at 31 December 2011** | **329,684** | **2,028,168** | **2,357,852** | | | **42,638** | **2,018** |
| | | | | | | | |
| **Outstanding at 1 January 2010** | **171,480** | **470,659** | **642,139** | | | **13,428** | |
| Granted 2010 programme | 75,335 | 699,204 | 774,539 | 320.60 | 158 | 16,387 | - |
| Lapsed 2006 programme | 0 | (2,805) | (2,805) | 147.60 | 89 | (33) | - |
| Lapsed 2007 programme | 0 | (17,614) | (17,614) | 380.50 | 152–207 | (419) | - |
| Exercised | 0 | (2,550) | (2,550) | 147.60 | 89 | (31) | - |
| Expired | 0 | 0 | 0 | | - | - | - |
| **Outstanding at 31 December 2010** | **246,815** | **1,146,894** | **1,393,709** | | | **29,332** | **11,598** |
| | | | | | | | |
| Number of exercisable options at 31 December 2011 | 70,317 | 159,494 | 229,811 | 333.3[2] | | | |
| | | | | | | | |
| Number of exercisable options at 31 December 2010 | 16,378 | 30,227 | 46,605 | 147.6[2] | | | |

1) The fair value as at 31 December is determined based on parameters as at that date with the exception of the exercise price, which remains constant as specified on page 115. No options expired in 2011.
2) Weighted average.

The weighted average remaining life of the options outstanding at 31 December 2011 is three years (2010: three years).

## 32 Management's option programme and shareholdings (continued)

| | Options outstanding | | | Options exercised | | Lapsed options | | Expired options | |
|---|---|---|---|---|---|---|---|---|---|
| | No. of options | Exercise price | Weighted average exercise price | No. of options | Weighted average exercise price | No. of options | Weighted average exercise price | No. of options | Weighted average exercise price |
| **Programmes 2011** | | | | | | | | | |
| 2006 programme | 46,605 | 147.60 | 0 | (2,550)[1] | 0 | (7,293) | 0 | 0 | 0 |
| 2007 programme | 572,565 | 380.50 | 0 | 0 | 0 | (61,343) | 0 | 0 | 0 |
| 2010 programme | 783,131 | 320.60 | 0 | 0 | 0 | (49,251) | 0 | 0 | 0 |
| 2011 programme | 955,551 | 184.06 | 0 | 0 | 0 | (42,306) | 0 | 0 | 0 |
| | **2,357,852** | | **276.40** | **(2,550)** | **147.60** | **(160,193)** | **299.60** | **0** | **0** |

1) The weighted average share price at the date of exercise was DKK 313.60.

| | Options outstanding | | | Options exercised | | Lapsed options | | Expired options | |
|---|---|---|---|---|---|---|---|---|---|
| | No. of options | Exercise price | Weighted average exercise price | No. of options | Weighted average exercise price | No. of options | Weighted average exercise price | No. of options | Weighted average exercise price |
| **Programmes 2010** | | | | | | | | | |
| 2006 programme | 46,605 | 147.60 | 0 | (2,550)[1] | 0 | (7,293) | 0 | 0 | 0 |
| 2007 programme | 572,565 | 380.50 | 0 | 0 | 0 | (61,343) | 0 | 0 | 0 |
| 2010 programme | 774,539 | 320.60 | 0 | 0 | 0 | | 0 | 0 | 0 |
| | **1,393,709** | | **339.50** | **(2,550)** | **147.60** | **(68,636)** | **355.80** | **0** | **0** |

1) The average share price at the date of exercise is DKK 313.60.

**Management's holdings of Vestas shares**

The internal rules regarding the trading in Vestas shares for the Board of Directors, the Executive Management and certain employees only allow trading in the four weeks following the publication of the annual report and quarterly reports.

| | Balance at 1 January | Purchased in the year | Sold in the year | Balance 31 December | Market value[1] tEUR |
|---|---|---|---|---|---|
| **THE BOARD OF DIRECTORS** | | | | | |
| Bent Erik Carlsen | 106,120 | 10,000 | - | 116,120 | 968 |
| Carsten Bjerg | 0 | 1,831 | - | 1,831 | 15 |
| Elly Smedegaard Rex | 0 | 200 | - | 200 | 2 |
| Freddy Frandsen | 3,653 | - | - | 3,653 | 30 |
| Håkan Eriksson | 0 | - | - | 0 | 0 |
| Jørgen Huno Rasmussen | 500 | 2,435 | - | 2,935 | 24 |
| Jørn Ankær Thomsen | 2,500 | - | - | 2,500 | 21 |
| Kim Hvid Thomsen | 3,146 | 1,652 | - | 4,798 | 40 |
| Kurt Anker Nielsen | 6,250 | 1,200 | - | 7,450 | 62 |
| Michael Abildgaard Lisbjerg | 428 | 406 | - | 834 | 7 |
| Sussie Dvinge Agerbo | 3,000 | - | - | 3,000 | 25 |
| Torsten Erik Rasmussen | 7,837 | - | - | 7,837 | 65 |
| | **133,434** | **17,724** | **-** | **151,158** | **1,259** |
| **EXECUTIVE MANAGEMENT** | | | | | |
| Ditlev Engel | 2,224 | - | - | 2,224 | 18 |
| Henrik Nørremark | 213 | - | - | 213 | 2 |
| | **2,437** | **0** | **0** | **2,437** | **20** |

1) The calculation of the year-end market value is based on the share price quoted on the NASDAQ OMX Copenhagen at the end of the year (DKK 62.00).

## 33 Related party transactions

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

The related parties of the Vestas Group include the Board of Directors of the company, the Executive Management, and other executives (Vestas Government), together with close members of the family of these individuals. Furthermore, related parties include entities which are significantly influenced by the afore-mentioned individuals.

**Transactions with the Board of Directors, Executive Management and other executives**
Transactions with the Executive Management only consist of normal management remuneration and the transactions mentioned below, see note 6 to the consolidated accounts.

Transactions with the Board of Directors, Executive Management and other executives in the year comprise the following:

Purchase of normal legal services for EUR 0.3m at arm's length basis (2010: EUR 1.2m) from the law firm Gorrissen Federspiel, where Jørn Ankær Thomsen is a partner. The outstanding balance payable to Gorrissen Federspiel at 31 December 2010 amounted to EUR 0.1m (2010: EUR 0.1m).

Five people (2010: five) covered by the definition of related parties have directly or indirectly full or part ownership of wind turbines where a company in the Vestas Group performs service work. These transactions take place at arm's length and in total amounted to EUR 0.4m in 2010 (2010: EUR 0.2m). The outstanding amount of purchases from related parties at 31 December 2011 amounted to EUR 0.3m (2010: EUR 0.1m).

There have been no other transactions with any members of the Board of Directors and the Executive Management in Vestas Wind Systems A/S or other executives 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 2011.

**Transactions with and associates**
Related parties also include associates over whom Vestas Wind Systems A/S has control or significant influence.

The Vestas Group's and associates and related shareholdings are listed under "Legal entities" on pages 105–107.

Outstanding balances with associates have resulted from standard business transactions regarding purchase and sale of goods and services. No interest is calculated on the outstanding balances and the transactions are entered into with the same trading conditions as for the Group's other customers and suppliers.

## 34 Government grants

The Group has received a number of government grants, of which EUR 0m (2010: EUR 2m) has been offset against incurred expenses and EUR 28m (2010: EUR 23m) has been offset against non-current assets. Out of the EUR 28m (2010: EUR 23m) offset against property, plant and equipment EUR 2m (2010: EUR 0m) was received in cash.

## 35 Mortgages and security

As security for the Group's mortgage loans, mortgage deeds registered to the mortgagor and all-money mortgages have been secured on land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment. Some of the Group's other property, plant and equipment has been placed as security.

Furthermore, the Group has issued mortgage deeds registered to the mortgagor and all-money mortgages which are secured on the aforementioned properties. These mortgage deeds registered to the mortgagor and all-money mortgages are all in the possession of the Group.

As security for credit facilities, the Group has given security in its cash at bank and in hand and other current assets.

| mEUR | 2011 | 2010 |
|---|---|---|
| Total mortgage loans | 8 | 8 |
| | | |
| Mortgage deeds and all-money mortgages: | | |
| Nominal value of mortgage deeds and all-money mortgages | 10 | 10 |
| Carrying amount of pledged assets | 21 | 19 |
| | | |
| Other mortgage deeds and all-money mortgages in the possession of the Group | 122 | 122 |
| | | |
| The carrying amounts of the collaterals outstanding as at 31 December are specified below: | | |
| Bank guarantees | 345 | 293 |
| | **345** | **293** |

## 36 Contractual obligations

| mEUR | 2011 | 2010 |
|---|---|---|
| The minimum lease obligations relating to operating leases fall due: | | |
| 0–1 year | 49 | 44 |
| 1–5 years | 100 | 109 |
| > 5 years | 30 | 74 |

Operating leases comprise irrevocable operating leases regarding buildings and vehicles. The main obligation relates to buildings in Germany and runs for up to 21 years after the balance sheet date. The lease agreements will not result in any restrictions in relation to raising of other debts or payment of dividends.

Costs recognised in the income statement relating to operating leases amount to EUR 44m in 2011 (2010: EUR 37m).

The Group has entered into binding contracts concerning purchase of plant to be delivered in 2012 and thereafter at a value of EUR 18m (2010: EUR 54m).

The Group has entered into binding contracts concerning purchase of components for production to be delivered in 2012 and thereafter at a total value of EUR 1,346m (2010: EUR 2,021m).

## 37 Contingent liabilities and contingent assets

**Contingent liabilities**
Vestas is involved in some litigation proceedings including agent matters and a class action regarding the change in accounting policy among others. However, it is the opinion of management that settlement or continuation of these proceeding will not have a material effect on the financial position of the Vestas Group.

**Contingent assets**
Vestas has made supplier claims for faulty deliveries. However, it is the opinion of management that settlement of these will not have a material effect on the financial position of the Vestas Group.

## 38 Derivative financial instruments, risk and financial management

**The Group's policy for managing financial risks**
The Vestas Group is exposed to changes in exchange rates, interest rates and commodity prices due to its investments and financing operations. Management identifies the level and concentration of risks and initiates policies to address these, through continuous business reviews. Moreover, the Group is exposed to credit and liquidity risks. It is the Group's policy not to engage in any active speculation in financial risks. Accordingly, the Group's financial management is directed solely towards managing or eliminating financial risks relating to operations and funding.

The Group's policy for managing financial risks remains unchanged from last year.

**Credit risks**
The Group's credit risk primarily relates to receivables and bank balances, investments as well as derivative financial instruments.

Credit risks relating to receivables arise when Vestas makes sales for which no prepayment has been received. In some cases Vestas hedge uncertainties relating to payments by way of letters of credit, bank guarantees, credit insurance, conditional sale, etc. Security received is taken into account in the assessment of any provision for bad debts.

Vestas' customers' creditworthiness is reviewed in connection with the closing of contracts. If Vestas does not receive security for the payments, the total contract amount plus VAT, or if the customer does not have adequate credit rating from S&P, Moody's or Fitch, a more detailed assessment of the customer's creditworthiness is performed by the sales unit, Contract Review Board and Group Treasury prior to the signing of the contract to mitigate any risks to Vestas.

91 per cent (2010: 87 per cent) of Vestas' customers/trade receivables had not exceeded the deadline for payment at 31 December 2011. The credit risk relating to the outstanding trade receivables balance as at 31 December is mitigated by the EUR 127m (2010: EUR 105m) received as security. Historically, Vestas' customers have paid within the payment period agreed upon.

Vestas sells wind turbines, wind power systems and service to companies, which are well positioned in national and international markets. These companies are considered to be reputable companies. All outstanding trade debtors are owed by reputable companies.

## 38 Derivative financial instruments, risk and financial management (continued)

Credit risks relating to bank balances, investments as well as derivative financial instruments arise due to uncertainty as to whether the counterparty will be able to meet its obligations when they are due. The Group minimises this risk by only using financial institutions with a high credit standing as brokers for the purchase and sale of financial instruments. Furthermore, internally Vestas has set limits for the Group's total balance with each bank.

The group of Vestas' bankers currently consists of 9 banks, which all fulfil the minimum required long term credit rating from either S&P, Fitch and/or Moody's of:

| Credit Rating Agency | Rating |
|---|---|
| S&P | A |
| Fitch | A |
| Moody's | A2 |

The financial crisis has downgraded two members of the Vestas banking group and as such, not all of them are complying with the desired rating. Vestas has decided to retain the cooperation, but is monitoring the development of the banks closely and will act accordingly.

No bank balances or derivative financial instruments are overdue or written down due to the counterparty's inability to pay. There are no historic losses related to bank balances and derivative financial instruments due to the counterparty's inability to pay.

**Liquidity risks**
Liquidity risk is the risk that Vestas is unable to meet its obligations as they fall due because of inability to realise assets or obtain adequate funding. The Group ensures that a strong liquidity position is maintained in order to service its financial obligations as they fall due, both under normal and more pressing conditions.

Group Treasury is charged with ensuring that substantial capital resources are in place at all times through a combination of liquidity management, non-committed and committed credit facilities and other debt instruments. Vestas controls its liquidity risk through a combination of cash pool systems, non-committed and committed credit facilities and other debt instruments on the basis of continuous cash flow forecast.

However, it is naturally not possible to guarantee that Vestas will always be able to maintain its credit rating or to comply with the minimum requirements in the financing agreements. The occurrence of either eventuality would be likely to have a significant adverse effect on the Group.

The value of cash assets with disposal restrictions was EUR 24m at 31 December 2011 (2010: EUR 10m).

## 38 Derivative financial instruments, risk and financial management (continued)

The following table shows the timing of cash flows related to financial obligations, assets and hedging instruments.

| 2011<br>mEUR | Carrying amount | Fair value | < 1 year | 1–5 years | More than 5 years | Total cash flows |
|---|---|---|---|---|---|---|
| **MEASURED AT AMORTISED COST (LOANS AND OTHER DEBT)** | | | | | | |
| Mortgage debts | 8 | 8 | 1 | 3 | 4 | 8 |
| Bank debt and debt to credit institutions | 314 | 314 | 5 | 309 | 0 | 314 |
| Trade payables | 1,563 | 1,563 | 1,563 | 0 | 0 | 1,563 |
| Other liabilities | 267 | 267 | 267 | 0 | 0 | 267 |
| Corporate bonds | 598 | 521 | 0 | 598 | 0 | 598 |
| | **2,750** | **2,673** | **1,836** | **910** | **4** | **2,750** |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| Interest SWAPS (gross): | | | | | | |
| Floating-rate obligation | 11 | 11 | 9 | 2 | 0 | 11 |
| Fixed-rate obligation | 9 | 9 | 7 | 2 | 0 | 9 |
| Currency hedging agreements: | | | | | | |
| Cash flow hedges | 53 | 53 | 39 | 14 | 0 | 53 |
| Fair value hedges | 16 | 16 | 16 | 0 | 0 | 16 |
| | **89** | **89** | **71** | **18** | **0** | **89** |
| **Total financial liabilities** | **2,839** | **2,762** | **1,907** | **928** | **4** | **2,839** |
| **MEASURED AT AMORTISED COST (RECEIVABLES AND DEPOSITS)** | | | | | | |
| Trade receivables | 663 | 663 | 663 | 0 | 0 | 663 |
| Construction contracts and other receivables | 524 | 524 | 480 | 44 | 0 | 524 |
| | **1,187** | **1,187** | **1,143** | **44** | **0** | **1,187** |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| Interest SWAPS (gross): | | | | | | |
| Floating-rate assets | 11 | 11 | 9 | 2 | 0 | 11 |
| Fixed-rate obligation | 21 | 21 | 10 | 11 | 0 | 21 |
| Currency hedging agreements: | | | | | | |
| Cash flow hedges | 8 | 8 | 8 | 0 | 0 | 8 |
| Fair value hedges | 10 | 10 | 10 | 0 | 0 | 10 |
| | **50** | **50** | **37** | **13** | **0** | **50** |
| **Total financial assets** | **1,237** | **1,237** | **1,180** | **57** | **0** | **1,237** |

## 38 Derivative financial instruments, risk and financial management (continued)

| 2010<br>mEUR | Carrying amount | Fair value | < 1 year | 1–5 years | More than 5 years | Total cash flows |
|---|---|---|---|---|---|---|
| **MEASURED AT AMORTISED COST (LOANS AND OTHER DEBT)** | | | | | | |
| Mortgage debts | 8 | 8 | 1 | 1 | 7 | 9 |
| Bank debt and debt to credit institutions | 309 | 309 | 6 | 352 | 0 | 358 |
| Trade payables | 1,120 | 1,120 | 1,120 | 0 | 0 | 1,120 |
| Other liabilities | 254 | 254 | 254 | 0 | 0 | 254 |
| Corporate bonds | 597 | 583 | 0 | 717 | 0 | 717 |
| | **2,288** | **2,274** | **1,381** | **1,070** | **7** | **2,458** |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| Interest SWAPS (gross): | | | | | | |
| Floating-rate obligation | 0 | 0 | 0 | 0 | 0 | 0 |
| Fixed-rate obligation | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency hedging agreements: | | | | | | |
| Cash flow hedges | 28 | 28 | 19 | 9 | 0 | 28 |
| Fair value hedges | 10 | 10 | 10 | 0 | 0 | 10 |
| | **38** | **38** | **29** | **9** | **0** | **38** |
| **Total financial liabilities** | **2,326** | **2,312** | **1,410** | **1,079** | **7** | **2,496** |
| **MEASURED AT AMORTISED COST (RECEIVABLES AND DEPOSITS)** | | | | | | |
| Trade receivables | 624 | 624 | 624 | 0 | 0 | 624 |
| Construction contracts and other receivables | 274 | 274 | 249 | 25 | 0 | 274 |
| | **898** | **898** | **873** | **25** | **0** | **898** |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| Interest SWAPS (gross): | | | | | | |
| Floating-rate assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Fixed-rate obligation | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency hedging agreements: | | | | | | |
| Cash flow hedges | 40 | 40 | 32 | 8 | 0 | 40 |
| Fair value hedges | 9 | 9 | 9 | 0 | 0 | 9 |
| | **49** | **49** | **41** | **8** | **0** | **49** |
| **Total financial assets** | **947** | **947** | **914** | **33** | **0** | **947** |

Cash at bank and in hand and investments are measured at fair value and any adjustments are made through the income statement.

Cash flows for hedged assets and hedged liabilities as well the hedging instrument are recognised in the income statement in the same period.

For a description of cash flows relating to operating leases, reference is made to note 36 to the consolidated accounts.

The carrying amounts of derivative financial instruments are included in other receivables and other liabilities, as appropriate.

As a general rule, the fair value of financial liabilities and financial assets is calculated using discounted cash flow models based on the market interest rates and credit conditions at the balance sheet date.

Financial instruments measured at fair value are categorised into the following levels of the fair value hierarchy:
Level 1: Observable market prices for identical instruments.
Level 2: Valuation techniques primarily based on observable prices or traded prices for comparable instruments.
Level 3: Valuation techniques primarily based on unobservable prices.

The fair value of Vestas' forward exchange contracts as well as of other derivative financial instruments (commodity instruments) is measured according to 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 bonds is measured as level 1 because the fair value is set from the share price in an open market.

## 38 Derivative financial instruments, risk and financial management (continued)

**Market risks**
Vestas' market risks relating to financial instruments comprise: currency risks, interest rate risks and commodity price risks.

**Currency risks**
The Group's business activities involve a number of currency risks in connection with purchases and sales of goods and services in foreign currencies. It is Group policy to hedge the currency risk at the time of entering into a binding agreement in foreign currency. The currency risk is primarily hedged by forward exchange contracts.

In 2009 and 2010 Vestas has been investing in production facilities ensuring that customers in Europe and Africa are supplied from Europe, customers in Americas from USA and those in Asia Pacific from Asia significantly reducing the currency risk for the Group.

Exchange adjustments relating to investments in Group subsidiaries and associates abroad with a different functional currency than that of the parent company are recognised directly in equity. Related currency risks are not hedged as, in the Group's opinion, hedging of such long-term investments will not be optimal from an overall risk, liquidity and cost perspective.

An increase of 10 per cent (2010: 1 per cent), considered probable by management, in the currencies specified below against the euro, will have the following isolated effects as at 31 December.

| | | 2011 | 2010 |
|---|---|---|---|
| USD: | Equity | 5 | (12) |
| | Profit for the year | 23 | 0 |
| CAD: | Equity | 51 | 2 |
| | Profit for the year | 2 | 1 |
| GBP: | Equity | 19 | 0 |
| | Profit for the year | 0 | 1 |
| AUD: | Equity | (3) | 0 |
| | Profit for the year | (3) | (1) |
| SEK: | Equity | 0 | (2) |
| | Profit for the year | (55) | 0 |

Only currencies with material effect on comprehensive income and income statement are specified above. The above analysis is based on the assumption that all other variables, interest rates in particular, remain constant. The expectations are based on currently available market data.

A corresponding decline in the exchange rates for the above currencies will have the same but opposite effect for both equity and profit for the year. The differences between the 2011 and 2010 values are solely due to differences in the nominal amounts in the individual currencies.

## 38 Derivative financial instruments, risk and financial management (continued)

**Currency hedging agreements relating to future transactions (cash flow hedges)**
The following net outstanding forward exchange contracts of the Group at 31 December, which are publicly traded, are used and qualify as cash flows hedges:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| mEUR | Nominal principal amount[1)] | Accumulated capital gain/loss recognised in the statement of comprehen-sive income | Fair value of principal amount | Term to maturity (months), up to | Nominal principal amount[1)] | Accumulated capital gain/loss recognised in the statement of comprehen-sive income | Fair value of principal amount | Term to maturity (months), up to |
| USD | 41 | (8) | 49 | 8 | 465 | 5 | 460 | 19 |
| SEK | (531) | 18 | (549) | 24 | (232) | 0 | (232) | 24 |
| CAD | 508 | 0 | 508 | 10 | 254 | (8) | 262 | 18 |
| GBP | 196 | 3 | 193 | 40 | (88) | 0 | (88) | 14 |
| AUD | (23) | 9 | (32) | 6 | (157) | (5) | (152) | 23 |
| PLN | (253) | (4) | (249) | 12 | (41) | (2) | (39) | 10 |
| BRL | 32 | 0 | 32 | 5 | 59 | (1) | 60 | 8 |
| DKK | (75) | 4 | (79) | 22 | (42) | 0 | (42) | 12 |
| BGN | (6) | 0 | (6) | 11 | (39) | 0 | (39) | 56 |
| RON | (306) | (4) | (302) | 12 | (57) | 0 | (57) | 25 |
| TRY | (55) | (1) | (54) | 11 | (24) | 0 | (24) | 4 |
| NZD | 0 | 0 | 0 | 0 | (1) | 0 | (1) | 2 |
| ARS | 0 | 0 | 0 | 0 | (6) | 0 | (6) | 4 |
| EUR | 539 | (62) | 601 | 40 | (91) | 18 | (109) | 56 |
| CZK | (19) | (1) | (18) | 9 | 0 | 0 | 0 | 0 |
| NOK | (49) | 2 | (51) | 13 | 0 | 0 | 0 | 0 |
| | **(1)** | **(44)** | **43** | | **0** | **7** | **(7)** | |

1) Positive principal amounts of forward exchange contracts are sales of the currency in question, and negative principal amounts are purchases.

The Group's cash flow hedges relate primarily to net cash flows outside euro-based countries, primarily in American, Australian and Canadian dollars as well as Swedish kroner and Great British pound (USD, AUD, CAD, SEK and GBP, respectively) with equivalents in Danish kroner (DKK) and euro (EUR).

**Currency hedging agreements relating to assets and liabilities recognised in the balance sheet (fair value hedges)**
The following net outstanding forward exchange contracts of the Group at 31 December are used and qualify as fair value hedging of assets and liabilities included in the balance sheet.

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| mEUR | Nominal principal amount[1)] | Accumulated capital gain/loss recognised in the income statement | Fair value of principal amount | Term to maturity (months), up to | Nominal principal amount[1)] | Accumulated capital gain/loss recognised in the income statement | Fair value of principal amount | Term to maturity (months), up to |
| USD | 197 | 0 | 197 | 12 | 29 | (2) | 31 | 5 |
| AUD | (25) | 5 | (30) | 12 | 17 | (1) | 18 | 5 |
| NOK | (9) | 0 | (9) | 10 | (8) | 0 | (8) | 12 |
| CAD | 6 | 4 | 2 | 5 | 0 | 0 | 0 | - |
| INR | 0 | 0 | 0 | 0 | 12 | 0 | 12 | 3 |
| EUR | (153) | (16) | (137) | 12 | (50) | 0 | (50) | 0 |
| SEK | 5 | 0 | 5 | 16 | 0 | 0 | 0 | 0 |
| GBP | (1) | 0 | (1) | 9 | 0 | 0 | 0 | 0 |
| PLN | (20) | 0 | (20) | 2 | 0 | 0 | 0 | 0 |
| | **0** | **(7)** | **7** | | **0** | **(3)** | **3** | |

1) Positive principal amounts of forward exchange contracts are sales of the currency in question, and negative principal amounts are purchases.

## 38 Derivative financial instruments, risk and financial management (continued)

Gains/(losses) on derivative financial instruments for the year used for hedging of fair values amounted to EUR 14m (2010: EUR (46)m).

Fair value adjustments caused by movements in the hedged risk on hedged instruments amounted to EUR 14m (2010: EUR (46)m).

The Vestas Group's fair value hedges relate to receivables outside euro-based countries, primarily in American and Australian dollars (USD and AUD), with equivalents in euro (EUR).

All fair value changes are recognised in the income statement.

**Commodity price risks**
Vestas continuously controls the overall commodity price risk in relation to sale and production of wind turbines. The majority of the commodity risk is managed by the sourcing organisation by means of contractual agreements with suppliers. Those commodities where the price risk management can be supported by financial derivatives both alternatives are taken into consideration to obtain the most effective hedging of the price risks. Financial derivatives are only traded with counterparts included in the Vestas banking group.

The fair value of the commodity hedges outstanding at the balance sheet date amounts to EUR 1m (2010: EUR 0m), which has been recognised in equity.

The isolated effects of a 10 per cent increase or decline in the price curve for the hedged commodities at 31 December are specified as follows:

| | 2011 | 2010 |
|---|---|---|
| **10 PER CENT INCREASE** | | |
| Equity | 2 | 0 |
| Profit for the year | 0 | 0 |
| | | |
| **10 PER CENT DECLINE** | | |
| Equity | (2) | 0 |
| Profit for the year | 0 | 0 |

The above analysis is based on the outstanding financial hedge instruments at the balance sheet date.

The hedging of commodities are considered to be an effective cash flow hedge and changes in the value of these are recognised in the statement of comprehensive income. The sensitivity analyses are prepared on the assumption that all other factors are kept constant.

**Interest rate risks**
The Group's interest rate risk relates to interest rate fluctuations that can affect the Group's cash flows related to interest payments and receipts. The basis for management of the interest rate risk is an ongoing evaluation of the risk versus interest expenses and taking decisions on what part of the funding should be fixed and what part should be variable.

**Sensitivity analysis – interest rate risks**
Vestas estimates, based on the current market conditions, that a change in the interest rate of one percentage point either up or down is considered likely. An increase or decline of 1 percentage point in the level of interest rates, in relation to swaps financial derivatives outstanding at the balance sheet day, will have the following effect on equity and the income statement.

| mEUR | 2011 | 2010 |
|---|---|---|
| **1 PERCENTAGE POINT INCREASE** | | |
| Equity | 0 | (9) |
| Profit for the year | (3) | (9) |
| | | |
| **1 PERCENTAGE POINT DECLINE** | | |
| Equity | 0 | 9 |
| Profit for the year | 3 | 9 |

## 38 Derivative financial instruments, risk and financial management (continued)

The Group's interest-bearing financial assets and liabilities have the following term to contractual review or maturity, depending on which date occurs first. The differences in between 2011 and 2010 values are solely due to differences in the interest bearing assets and liabilities.

| | Time of review/maturity | | | | | |
|---|---|---|---|---|---|---|
| **2011**<br>**mEUR** | < 1 year | 1–5 years | > 5 years | Total | Fixed-interest part | Effective interest rate (%) |
| **FINANCIAL LIABILITIES** | | | | | | |
| Mortgage debt | 1 | 3 | 4 | 8 | 8 | 4.6 |
| Bank debt and debt to credit institutions | 5 | 309 | 0 | 314 | 0 | 3.7 |
| Corporate bonds | 0 | 598 | 0 | 598 | 598 | 4.8 |
| | **6** | **910** | **4** | **920** | **606** | |
| **FINANCIAL ASSETS** | | | | | | |
| Trade receivables | 663 | 0 | 0 | 663 | | |
| | **663** | **0** | **0** | **663** | | |

| | Time of review/maturity | | | | | |
|---|---|---|---|---|---|---|
| **2010**<br>**mEUR** | < 1 year | 1–5 years | > 5 years | Total | Fixed-interest part | Effe ctive interest rate (%) |
| **FINANCIAL LIABILITIES** | | | | | | |
| Mortgage debt | 1 | 3 | 4 | 8 | 8 | 4.6 |
| Bank debt and debt to credit institutions | 3 | 306 | 0 | 309 | 0 | 3.7 |
| Corporate bonds | 0 | 597 | 0 | 597 | 597 | 4.8 |
| | **4** | **906** | **4** | **914** | **605** | |
| **FINANCIAL ASSETS** | | | | | | |
| Trade receivables | 624 | 0 | 0 | 624 | | |
| | **624** | **0** | **0** | **624** | | |

The effective interest rates were calculated at the balance sheet date.

**Financial management**

In connection with financial management it is the Group's objective to create the necessary stability to implement strategic development work while in the long term achieving a competitive return for the company's shareholders. At the same time, the Group has the objective of reducing cost of capital.

The Group's possible methods of maintaining or changing its capital structure are: adjustment of the dividends level; share buy-backs; issuing of new shares; new borrowing, change of the level of funding from prepayments received and credit granted by suppliers or the sale of assets to reduce debts.

The Group assesses its financial position on the basis of net interest-bearing debt/EBITDA calculated in accordance with the guidelines issued by the Danish Society of Financial Analysts. Vestas' ambition is to have a net interest-bearing debt/EBITDA which does not exceed 2:1, as at the last day of each financial year.

## 39 Subsequent events

**Preliminary financial highlights**
On 3 January 2012, Vestas disclosed, based on preliminary accounting figures, that it expected an order intake of 7.4 GW for 2011, revenue of approx EUR 6bn, an EBIT margin of approx 0 per cent and a positive free cash flow, ref. company announcement No. 1/2012.

**Organisational changes**
On 12 January 2012, Vestas disclosed a new organisational structure aimed at increasing customer focus and earnings and reducing costs by more than EUR 150m by the end of 2012, ref. company announcement No. 3/2012.

**Orders**
In 2012, Vestas has announced two orders for Finland and China, respectively, with a total capacity of 79 MW.
A complete overview of announced orders is available at Vestas' website. Vestas only announces firm and unconditional orders and in relation to company announcements, the order value must exceed EUR 66m.

**Major shareholder announcement**
In February 2012, Vestas received information from Capital Research and Management Company, USA, that they had reduced their holding of Vestas shares to 10,143,805 shares (4.98 per cent) ref. company announcement No. 5/2012.

**Change in the Executive Management of Vestas**
The Board of Directors of Vestas Wind Systems A/S has received a thorough briefing on the conditions which during the last months have led to profit warnings. As a consequence of this, CFO and Deputy CEO, Henrik Nørremark resigns, ref. company announcement No. 6/2012.

**Election of members to the Board of Directors of Vestas Wind Systems A/S**
At Vestas Wind Systems A/S' board meeting discussing the annual report for 2011, the chairmanship, Bent Erik Carlsen and Torsten Erik Rasmussen, informed the Board that they will not stand for re-election for the Board of Directors at the Annual General Meeting on 29 March 2012.

Furthermore, board member, Freddy Frandsen, informed the Board that he will not stand for re-election.

The remaining board members elected by the annual general meeting have all informed the Board that they will stand for re-election, ref. company announcement No. 7/2012.

## 40 New accounting regulations

The IASB issued the following standards and amendments which have not yet been approved by the EU:

**IAS 12 (Amended 2010) "Income Taxes"**
The amendment will be effective for financial years starting on or after January 1, 2012. The change means that investment properties, measured at fair value according to IAS 40, only is considered to be recovered through sale. The Group will apply IAS 12 (Amended 2010) from 1 January 2012. The change has no impact on Vestas' financial statements as Vestas does not hold investment properties.

**Amendment to IFRS 7 "Financial instruments, disclosures"**
The amendment implies changed disclosure requirements with respect to derecognition of financial instruments. The implementation is not expected to have any material impact.

**IFRS 9 "Financial Instruments: Classification and Measurement"**
The number of categories of fixed asset investments is reduced to two – amortised cost category or the fair value model. The classification is made on the basis of the nature of the business model and the characteristics of the instrument, respectively. The implementation of the standard is not expected to have any material effect on the recognition of the fixed asset investments of Vestas.

**IFRS 10 Consolidated Financial Statements**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard supersedes IAS 27 Consolidated and Separate Financial Statements and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

**IFRS 11 Joint Ventures/Joint arrangements**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard supersedes IAS 31 Interest in Joint Ventures and establishes the principles for financial reporting by parties to a joint arrangement. At present the standard is not expected to have any material impact on Vestas.

**IFRS 12 Disclosures of Interests in Other Entities**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, as associate or an unconsolidated structured entity.

**IFRS 13 Fair value measurement**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard sets out in a single IFRS a framework for measuring fair value and required disclosures about fair value measurement.

**Amendments to IAS 1 Presentation of Items of Other Comprehensive Income**
The amendments aim is to improve consistency and clarity of the presentation of items of other comprehensive income statement properties.

**IAS 19 Employee Benefits**
The standard is effective for annual periods beginning on or after 1 January 2013. The revised standard prescribes the accounting and disclosure for employee benefits allowing users to make better assessment on the characteristics of a company's defined benefit plans, the amounts recognised in the financial statements, risks arising from defined benefit plans and participation in multi-employer plans.

**IAS 27 Separate Financial Statements**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Together with IFRS 10 Consolidated Financial statements supersedes IAS 27 Consolidated and Separate Financial Statements.

**IAS 28 Investments in Associates and Joint Ventures**
The standard is effective for annual periods beginning on or after 1 January 2013. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of equity method when accounting for investments in associates and joint ventures.

**IFRIC 20 Stripping costs in the production phase of a surface mine**
The interpretation relates to the accounting treatment of operating mine costs.

## Legal entities[1)]

| Name | Place of registered office | Share capital | | Votes and ownership |
|---|---|---|---|---|
| **Parent company** | | | | |
| **Vestas Wind Systems A/S** | **Aarhus, Denmark** | **tDKK** | **203,704** | **-** |
| **Production units** | | | | |
| **Vestas Blades A/S** | **Aarhus, Denmark** | **tDKK** | **91,000** | **100%** |
| Vestas Blades Deutschland GmbH | Lauchhammer, Germany | tEUR | 26 | 100% |
| Vestas Blades Italia S.r.l. | Taranto, Italy | tEUR | 21,364 | 100% |
| Vestas Wind Technology (China) Co. Ltd. | Tianjin, China | tCNY | 945,516 | 100% |
| Vestas Blades America Inc. | Windsor (CO), USA | tUSD | 12,000 | 100% |
| Vestas Blades Spain S.L.U. | Daimiel ,Spain | tEUR | 25,500 | 100% |
| **Vestas Control Systems A/S** | **Aarhus, Denmark** | **tDKK** | **12,000** | **100%** |
| Vestas Control Systems Spain S.L.U. | Olvega, Spain | tEUR | 384 | 100% |
| **Vestas Nacelles A/S** | **Aarhus, Denmark** | **tDKK** | **300,000** | **100%** |
| Vestas Nacelles Italia S.r.l. | Taranto, Italy | tEUR | 8,423 | 100% |
| Vestas Nacelles Deutschland GmbH | Lübeck, Germany | tEUR | 25 | 100% |
| Vestas Nacelles Spain S.A. | Viveiro, Spain | tEUR | 601 | 100% |
| Vestas Nacelles Estonia, OÜ | Tallinn, Estonia | tEUR | 100 | 100% |
| Vestas Nacelles America Inc. | Windsor (CO), USA | tUSD | 20,000 | 100% |
| Vestas Castings Magdeburg GmbH | Magdeburg, Germany | tEUR | 260 | 100% |
| Vestas Castings Guldsmedshyttan AB | Guldsmedshyttan, Sweden | tSEK | 11,000 | 100% |
| Vestas Castings Kristiansand AS | Kristiansand, Norway | tNOK | 62,797 | 100% |
| Vestas Castings (Xuzhou) Co. Ltd. | Xuzhou, China | tCNY | 172,119 | 100% |
| **Vestas Towers A/S** | **Aarhus, Denmark** | **tDKK** | **55,000** | **100%** |
| Vestas Towers America Inc. | Windsor (CO), USA | tUSD | 20,000 | 100% |
| Vestas Towers Mediterranean S.L. | Madrid, Spain | tEUR | 2,060 | 100% |

1) Companies of immaterial significance have been left out of the overview.

## Legal entities (continued)

| Name | Place of registered office | Share capital | | Votes and ownership |
|---|---|---|---|---|
| **Sales and service units** | | | | |
| **Vestas Americas A/S** | **Aarhus, Denmark** | **tDKK** | **3,550,000** | **100%** |
| Vestas America Holding, Inc. | Portland (OR), USA | tUSD | 1,200,000 | 100% |
| Vestas - American Wind Technology Inc. | Portland (OR), USA | tUSD | 105,856 | 100% |
| Vestas - Canadian Wind Technology Inc. | Kincardine (ON), Canada | tCAD | 92,010 | 100% |
| **Vestas Asia Pacific A/S** | **Aarhus, Denmark** | **tDKK** | **33,000** | **100%** |
| Vestas Asia Pacific Wind Technology Pte. Ltd. | Singapore, Singapore | tSGD | 10,000 | 100% |
| Vestas - Australian Wind Technology Pty. Ltd. | Melbourne, Australia | tAUD | 53,000 | 100% |
| Vestas Korea Wind Technology Ltd. | Seoul, South Korea | tKRW | 500,000 | 100% |
| Vestas New Zealand Wind Technology Ltd. | Wellington, New Zealand | tNZD | 100 | 100% |
| Vestas Taiwan Ltd. | Tapei City, Taiwan | tTWD | 500 | 100% |
| Vestas Wind Technology (Beijing) Co. Ltd. | Beijing, China | tCNY | 8,171 | 100% |
| Vestas - Danish Wind Technology A/S | Aarhus, Denmark | tDKK | 30,000 | 100% |
| Vestas Wind Technology India Pvt Limited | Chennai, India | tINR | 1,490,150 | 100% |
| Vestas Wind Technology Japan Co. Ltd. | Tokyo, Japan | tJPY | 110,000 | 100% |
| **Vestas Central Europe A/S** | **Aarhus, Denmark** | **tDKK** | **307,000** | **100%** |
| Vestas Deutschland GmbH | Husum, Germany | tEUR | 16,873 | 100% |
| Vestas Services GmbH | Husum, Germany | tEUR | 25 | 100% |
| Vestas Benelux B.V. | Rheden, The Netherlands | tEUR | 1,362 | 100% |
| Vestas Österreich GmbH | Schwechat, Austria | tEUR | 7,035 | 100% |
| Vestas Czechia s.r.o. | Prague, Czech Republic | tCZK | 200 | 100% |
| Vestas Hungary Kft. | Budapest, Hungary | tHUF | 500 | 100% |
| Vestas Bulgaria EOOD | Sofia, Bulgaria | tBGN | 5 | 100% |
| Vestas CEU Romania S.R.L | Bucharest, Romania | tRON | 570 | 100% |
| Vestas Central Europe-Zagreb d.o.o | Zagreb, Croatia | tHRK | 20 | 100% |
| Vestas Slovakia spol S.r.o. | Bratislava, Slovakia | tEUR | 5 | 100% |
| LCC Vestas RUS | Moscow, Russia | tRUB | 4,333 | 100% |
| Vestas Eastern Africa Ltd. | Nairobi, Kenya | tKHS | 100 | 100% |
| Vestas Southern Africa Pty. Ltd. | Sunninghill, South Africa | tZAR | 1 | 100% |
| Vestas Ukraine LLC | Kiev, Ukraine | tUAH | 1,598 | 100% |
| **Vestas Mediterranean A/S** | **Aarhus, Denmark** | **tDKK** | **50,000** | **100%** |
| Vestas Italia S.r.l. | Rome, Italy | tEUR | 3,000 | 100% |
| Vestas Hellas Wind Technology S.A. | Athens, Greece | tEUR | 6,808 | 100% |
| Vestas Eólica SAU | Madrid, Spain | tEUR | 12,680 | 100% |
| Vestas France SAS | Montpellier, France | tEUR | 5,040 | 100% |
| Vestas (Portugal) - Serviços de Tecnología Eólica Lda. | Lisbon, Portugal | tEUR | 6,000 | 100% |
| Vestas WTG Mexico S.A. de C.V. | Mexico City, Mexico | tMXN | 454 | 100% |
| Vestas Mexicana del Viento S.A. de C.V. | Mexico City, Mexico | tMXN | 61 | 100% |
| Vestas do Brasil Ltda. | Sao Paolo, Brazil | tBRL | 2,538 | 100% |
| Vestas Argentina S.A. | Buenos Aires, Argentina | tARS | 66 | 100% |
| Vestas Chile Turbinas Eólica Limitade | Santiago, Chile | tCLP | 5,080 | 100% |
| Vestas Rüzgar Enerjisi Sistemleri Sanayi ve Ticaret Ltd. Sirketi | Istanbul, Turkey | tTRY | 11,500 | 100% |
| Vestas Turbinas Eólicas del Uruguay S.A. | Montevideo, Uruguay | tURU | 720 | 100% |
| Vestas MED (Cyprus) Ltd. | Nicosia, Cyprus | tEUR | 300 | 100% |
| Vestas Nicaragua SA | Managua, Nicaragua | tNIO | 50 | 100% |
| Vestas CV Limitada | Cidade de Praia, The Republic of Cape Verde | tCVE | 200 | 100% |
| Vestas Wind Systems Dominican Republic S.R.L. | Santo Domingo, The Dominican Republic | tDOP | 100 | 100% |

## Legal entities (continued)

| Name | Place of registered office | Share capital | | Votes and ownership |
|---|---|---|---|---|
| **Sales and service units (continued)** | | | | |
| **Vestas Northern Europe A/S** | **Aarhus, Denmark** | **tDKK** | **100,000** | **100%** |
| Vestas - Celtic Wind Technology Ltd. | Warrington, England | tGBP | 8,200 | 100% |
| Vestas Northern Europe AB | Malmö, Sweden | tSEK | 1,000 | 100% |
| Vestas Poland Sp.z.o.o. | Szczecin, Poland | tPLN | 435 | 100% |
| Vestas Ireland Ltd. | Dublin, Ireland | tEUR | 2,000 | 100% |
| Vestas Norway AS | Oslo, Norway | tNOK | 1,100 | 100% |
| Vestas Finland Oy | Helsinki, Finland | tEUR | 3 | 100% |
| **Vestas Offshore A/S** | **Aarhus, Denmark** | **tDKK** | **97,000** | **100%** |
| Vestas Offshore The Netherlands B.V. | Ijmuiden, The Netherlands | tEUR | 18 | 100% |
| Vestas Offshore UK Ltd. | Warrington, England | tGBP | 11,500 | 100% |
| Vestas Offshore Bligh Bank. | Brussels, Belgium | tEUR | 61 | 100% |
| Vestas Offshore Sweden AB | Malmö, Sweden | tSEK | 100 | 100% |
| Vestas Offshore Germany GmbH | Hamburg, Germany | tEUR | 1,275 | 100% |
| **Other subsidiaries and associates** | | | | |
| **Vestas Spare Parts & Repair A/S** | **Aarhus, Denmark** | **tDKK** | **50,000** | **100%** |
| Vestas Spare Parts Belgium N.V. | Brussels, Belgium | tEUR | 500 | 100% |
| Vestas Spare Parts & Repair UK, Ltd. | Bristol, England | tGBP | 1,000 | 100% |
| Vestas Spare Parts & Repair Spain, S.L. | Barcelona, Spain | tEUR | 4,000 | 100% |
| Vestas Spare Parts & Repair Germany GmbH | Lübeck, Germany | tEUR | 25 | 100% |
| Vestas Spare Parts & Repair America, Inc. | Windsor (CO), USA | tUSD | 1000 | 100% |
| Vestas Wind Systems (China) Co. Ltd. | Hohhot, China | tCNY | 321,799 | 100% |
| Vestas Schwitzerland AG | Zürich, Schwitzerland | tCHF | 100 | 100% |
| Vestas Services Philippines, Inc. | Makai City, Philippines | tPHP | 9,336 | 100% |
| Vestas India Holding A/S | Aarhus, Denmark | tDKK | 267,110 | 100% |
| Wind Power Invest A/S | Aarhus, Denmark | tDKK | 25,000 | 100% |
| Vestas Technology (UK) Limited | Isle of Wight, England | tGBP | 90 | 100% |
| Vestas Technology R&D Singapore Pte. Ltd. | Singapore, Singapore | tSGD | 3,805 | 100% |
| Vestas Technology R&D Chennai Pte. Ltd. | Chennai, India | tINR | 40,000 | 100% |
| Vestas Technology R&D Americas Inc. | Houston (TX), USA | tUSD | 1,000 | 100% |
| Vestas Technology R&D (Beijing) Co., Ltd. | Beijing, China | tCNY | 6,729 | 100% |
| Vestas Wind Technology (Jiangsu) Co. Ltd. | Jiangsu, China | tCNY | 11,871 | 100% |
| OCAS AS | Oslo, Norway | tNOK | 100 | 100% |
| Vestas Shared Service A/S | Aarhus, Denmark | tDKK | 50 | 100% |
| Vestas Shared Service (Deutschland) GmbH | Hamburg, Germany | tEUR | 25 | 100% |
| Vestas Shared Service (Spain), S.L.U. | Madrid, Spain | tEUR | 3 | 100% |
| Vestas Shared Service America, Inc. | Portland (OR), USA | tUSD | 2,000 | 100% |
| Vestas Middle East A/S | Aarhus, Denmark | tDKK | 12,000 | 100% |
| GREP Svenska AB | Falkenberg, Sweden | tSEK | 1,824 | 100% |
| GREP USA Inc. | California, USA | tUSD | 2,001 | 100% |
| GREP Wind Power Inc. | California, USA | tUSD | 1,100 | 100% |
| GREP California Aquisitions, Inc. | California, USA | tUSD | 2,006 | 100% |
| Pecsa, Plantas Eólicas De Canarias Sociedad Anónima | Las Palmas, Spain | tEUR | 1,496 | 49.8% [2] |
| Planta Eólica Europea S.A. | Tarifa, Spain | tEUR | 1,199 | 43.9% [2] |

2) Associates (wind power plants).

## 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 2011.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of Vestas Wind Systems A/S, are prepared in accordance with the Danish Financial Statements Act. Moreover, the consolidated financial statements and the financial statements are prepared in accordance with additional Danish disclosure requirements for listed companies. The management report is also prepared in accordance with 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 2011 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 2011.

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.

We recommend that the annual report be approved at the Annual General Meeting.

Aarhus, 8 February 2012

**Executive Management**

**Ditlev Engel**
President and CEO

**Henrik Nørremark**
Deputy CEO,
Chief Operating Officer (COO) and
acting Chief Financial Officer (CFO)

**Board of Directors**

**Bent Erik Carlsen**
Chairman

**Torsten Erik Rasmussen**
Deputy Chairman

**Carsten Bjerg**

**Elly Smedegaard Rex**

**Freddy Frandsen**

**Håkan Eriksson**

**Jørgen Huno Rasmussen**

**Jørn Ankær Thomsen**

**Kim Hvid Thomsen**

**Kurt Anker Nielsen**

**Michael Abildgaard Lisbjerg**

**Sussie Dvinge Agerbo**

## The independent auditor's report

**To the Shareholders of Vestas Wind Systems A/S**

### Report on Consolidated Financial Statements and Parent Company Financial Statements

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2011, which comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company Financial Statements are prepared under the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with Danish disclosure requirements for listed companies.

### Management's Responsibility for the Consolidated Financial Statements and the Parent Company 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 Danish disclosure requirements for listed companies and for preparing Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

The audit has not included "Nonfinancial principal key figures for the Group", "Accounting Policy for nonfinancial principal key figures" and "GRI Statement" on pages 7, 32 and 120; these are included in a separate report on page 33.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

### Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2011 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

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 2011 and of the results of the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies.

### Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Copenhagen, 8 February 2012

**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab

**Lars Holtug**
State Authorised
Public Accountant

**Claus Lindholm Jacobsen**
State Authorised
Public Accountant


VE-011

# Annual accounts for Vestas Wind Systems A/S


**112** Accounting policies
**113** Income statement
**114** Balance sheet
**115** Statement of changes in equity
**116** Notes to the annual accounts

# Annual accounts for Vestas Wind Systems A/S

## Accounting policies for Vestas Wind Systems A/S

The annual accounts have been prepared in accordance with the provisions of the Danish Financial Statements Act (DK GAAP) applying to enterprises of reporting class D, as well as the requirements laid down by NASDAQ OMX 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 annual accounts are presented in euro (EUR).

For adopted accounting policies see note 1 to the consolidated accounts on page 61. The denomination of the items in the parent company's annual accounts complies with the requirements of the DK GAAP but conforms to the contents of the accounting policies according to IFRS. Refer to the section "Terminology" for a description of the main differences between DK GAAP and IFRS in the denomination of the items.

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

The accounting policies of the parent company deviate from the Group's accounting policies in the following areas:

**Investments in subsidiaries**

Investments in subsidiaries are recognised and measured in the annual report of the parent company under the equity method.

On acquisition of subsidiaries, the difference between cost of acquisition and net asset value of the enterprise 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 enterprise acquired.

Any remaining positive differences in connection with the acquisition of subsidiaries are included in the item "Investments in subsidiaries". The item "Share of profit in subsidiaries after tax" in the income statement includes the proportionate share of the profit after tax less goodwill amortisation.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises 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 positive differences (goodwill).

Subsidiaries with a negative net asset 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. Any legal or constructive obligation of the parent company to cover the negative balance of the company is recognised in provisions.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve under the equity method" under equity.

Gains and losses on disposals or winding up of subsidiaries 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 cost of disposal or winding up. The gains or losses are included in the income statement.

**Goodwill**

Goodwill is included in the item "Goodwill" or in the item "Investments in subsidiaries" 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 maximum 20 years, and which will be longest for enterprises acquired for strategic purposes with a long-term earnings profile.

### Terminology

**Net revenue (DK GAAP):** Revenue (IFRS)

**Fixed assets (DK GAAP):** Non-current assets (IFRS)

**Provisions (DK GAAP):** Non-current and current liabilities (IFRS)

**Long-term debt (DK GAAP):** Non-current liabilities (IFRS)

**Short-term debt (DK GAAP):** Current liabilities (IFRS)

## Income statement 1 January – 31 December for Vestas Wind Systems A/S

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| **Net revenue** | 1 | 421 | 522 |
| Cost of sales | 2 | (452) | (394) |
| **Gross profit** | | **(31)** | **128** |
| | | | |
| Administrative expenses | 2, 3 | (529) | (392) |
| **Operating profit before special items** | | **(560)** | **(264)** |
| | | | |
| Special items | 4 | (6) | (44) |
| **Operating profit** | | **(566)** | **(308)** |
| | | | |
| Share of profit in subsidiaries after tax | 5 | 171 | 304 |
| Financial income and expenses (net) | 6 | 104 | 94 |
| **Profit before tax** | | **(291)** | **90** |
| | | | |
| Corporation tax | 7 | 109 | 50 |
| **Profit for the year** | | **(182)** | **140** |
| | | | |
| Proposed distribution of profit: | | | |
| Reserve for net revaluation under the equity method | | 36 | 304 |
| Retained earnings | | (218) | (164) |
| Dividends | | 0 | 0 |
| **Profit for the year** | | **(182)** | **140** |

## Balance at 31 December for Vestas Wind Systems A/S – Assets, equity and liabilities

| mEUR | Note | 2011 | 2010 |
|---|---|---|---|
| Intangible assets | 8 | 933 | 725 |
| Property, plant and equipment | 9 | 394 | 364 |
| Investments in subsidiaries | 10 | 1,842 | 1,279 |
| **Total fixed assets** | | **3,169** | **2,368** |
| | | | |
| Inventories | 11 | 3 | 1 |
| | | | |
| Receivables from subsidiaries | | 2,686 | 3,177 |
| Other receivables | | 55 | 43 |
| Corporation tax | | 9 | 6 |
| Prepayments and accrued income | 12 | 6 | 6 |
| Deferred tax | 13 | 139 | 0 |
| **Total receivables** | | **2,895** | **3,232** |
| | | | |
| Cash at bank and in hand | | 158 | 123 |
| | | | |
| **Total current assets** | | **3,056** | **3,356** |
| | | | |
| **Total assets** | | **6,225** | **5,724** |
| | | | |
| Share capital | | 27 | 27 |
| Reserve for net revaluation under the equity method | | 72 | 17 |
| Retained earnings | | 2,347 | 2,597 |
| **Total equity** | | **2,446** | **2,641** |
| | | | |
| Warranty provisions | 14 | 255 | 276 |
| Deferred tax | 13 | 0 | 16 |
| Other provisions | 15 | 4 | 4 |
| **Total provisions** | | **259** | **296** |
| | | | |
| Mortgage debt | 16 | 7 | 7 |
| Debt to credit institutions | 16 | 895 | 902 |
| **Total long-term debt** | | **902** | **909** |
| | | | |
| Short-term share of mortgage debt and debt to credit institutions | 16 | 0 | 0 |
| Trade payables | | 93 | 98 |
| Payables to subsidiaries | | 2,424 | 1,705 |
| Other liabilities | | 101 | 75 |
| **Total short-term debt** | | **2,618** | **1,878** |
| | | | |
| **Total debt** | | **3,520** | **2,787** |
| | | | |
| **Total equity and liabilities** | | **6,225** | **5,724** |
| | | | |
| Mortgages and security | 17 | | |
| Contractual obligations | 18 | | |
| Contingent liabilities | 19 | | |
| Related party transactions | 20 | | |
| Currency and interest rate risks and the use of derivative financial instruments | 21 | | |
| Subsequent events | 22 | | |

## Statement of changes in equity 1 January – 31 December for Vestas Wind Systems A/S

| 2011<br>mEUR | Share capital | Reserve under the equity method | Retained earnings | Total |
|---|---|---|---|---|
| **Equity at 1 January** | **27** | **17** | **2,597** | **2,641** |
| Exchange rate adjustments from conversion to EUR | 0 | 0 | 6 | 6 |
| Exchange rate adjustments relating to foreign entities | 0 | 18 | 0 | 18 |
| Reversal of fair value adjustments of derivative financial instruments, recognised in the income statement | 0 | (26) | 16 | (10) |
| Fair value adjustments of derivative financial instruments | 0 | 26 | (50) | (24) |
| Changes in equity | 0 | 1 | (2) | (1) |
| Share-based payments | 0 | 0 | 7 | 7 |
| Tax on changes in equity | 0 | 0 | 8 | 8 |
| Profit for the year | 0 | 36 | (218) | (182) |
| Acquisition of treasury shares | 0 | 0 | (17) | (17) |
| Transferred from retained earnings | 0 | 0 | 0 | 0 |
| **Equity at 31 December** | **27** | **72** | **2,347** | **2,446** |

| 2010<br>mEUR | Share capital | Reserve under the equity method | Retained earnings | Total |
|---|---|---|---|---|
| **Equity at 1 January** | **27** | **0** | **2,417** | **2,444** |
| Exchange rate adjustments from conversion to EUR | 0 | 0 | (3) | (3) |
| Exchange rate adjustments relating to foreign entities | 0 | 42 | 0 | 42 |
| Reversal of fair value adjustments of derivative financial instruments, recognised in the income statement | 0 | 0 | 8 | 8 |
| Fair value adjustments of derivative financial instruments | 0 | 26 | (16) | 10 |
| Share-based payments | 0 | 0 | 6 | 6 |
| Tax on changes in equity | 0 | (7) | 1 | (6) |
| Profit for the year | 0 | 304 | (164) | 140 |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 |
| Transferred from retained earnings | 0 | (348) | 348 | 0 |
| **Equity at 31 December** | **27** | **17** | **2,597** | **2,641** |

## Notes to the annual accounts for Vestas Wind Saystems A/S

### 1 Net revenue

The net revenue in the parent company consists of management fee, service, royalty and rental income from other Group companies.

### 2 Staff costs

| mEUR | 2011 | 2010 |
|---|---|---|
| Staff costs are specified as follows: | | |
| Wages and salaries, etc. | 194 | 208 |
| Pension schemes | 13 | 14 |
| Other social security costs | 1 | 1 |
| | **208** | **223** |

For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company see note 6 to the consolidated accounts. 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 option programme, see note 32 to the consolidated accounts.

| | | |
|---|---|---|
| Average number of employees | 2,352 | 2,611 |

### 3 Fees to auditors appointed by the Annual General Meeting

| mEUR | 2011 | 2010 |
|---|---|---|
| Audit: | | |
| PricewaterhouseCoopers | 1 | 1 |
| **Total audit** | **1** | **1** |
| Non-audit services: | | |
| PricewaterhouseCoopers | | |
| Assurance engagements | 0 | - |
| Tax assistance | 0 | 0 |
| Other services | 1 | 1 |
| Total **non-audit services** | **1** | **1** |
| **Total** | **2** | **2** |

Vestas' auditors can be used, within certain parameters, for certain non-audit services and may often be the obvious choice due to business knowledge, confidentiality and costs consideration. Vestas has a comprehensive 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.

In 2010 and 2011, other services include fees mainly for other assistance in accounting.

## 4 Special items

Special items comprise write down of property, plant and equipment regarding closing of the plant in Varde.

## 5 Share of profit in subsidiaries

| mEUR | 2011 | 2010 |
|---|---|---|
| Share of profit in subsidiaries before tax | 307 | 452 |
| Share of tax of subsidiaries | (122) | (134) |
| Amortisation of goodwill | (14) | (14) |
| | **171** | **304** |

## 6 Financial income and expenses

| mEUR | 2011 | 2010 |
|---|---|---|
| Financial income from subsidiaries | 200 | 172 |
| Financial expenses to subsidiaries | (12) | (1) |
| Exchange rate adjustments | (40) | (34) |
| Other financial income | 0 | 0 |
| Other financial expenses | (44) | (43) |
| | **104** | **94** |

## 7 Corporation tax

| mEUR | 2011 | 2010 |
|---|---|---|
| Current tax on profit for the year | 3 | 5 |
| Deferred tax on profit for the year | (113) | (54) |
| Change to tax rate | 0 | 0 |
| Joint taxation contribution | 0 | 0 |
| Adjustments relating to previous years (net) | 1 | (1) |
| **Total corporation tax for the year** | **(109)** | **(50)** |
| | | |
| Tax on entries in equity relating to deferred tax | (8) | 6 |
| **Tax on entries in equity** | **(8)** | **6** |
| | | |
| **Total tax for the year** | **(117)** | **(44)** |

## 8 Intangible assets

| 2011<br>mEUR | Completed development projects | Goodwill | Software | Development projects in progress | Total |
|---|---|---|---|---|---|
| Cost at 1 January | **418** | **19** | **127** | **458** | **1,022** |
| Exchange rate adjustments | 1 | 0 | 0 | 2 | 3 |
| Additions | 16 | 0 | 26 | 302 | 344 |
| Disposals | (4) | 0 | 0 | (6) | (10) |
| Transfers | 499 | 0 | 0 | (499) | 0 |
| **Cost at 31 December** | **930** | **19** | **153** | **257** | **1,359** |
| | | | | | |
| Amortisation at 1 January | **249** | **7** | **41** | **0** | **297** |
| Exchange rate adjustments | 1 | 0 | 0 | 0 | 1 |
| Amortisation for the year | 103 | 1 | 24 | 0 | 128 |
| Impairment for the year | 0 | 0 | 0 | 0 | 0 |
| Reversal of amortisation of disposals in the year | 0 | 0 | 0 | 0 | 0 |
| **Amortisation at 31 December** | **353** | **8** | **65** | **0** | **426** |
| | | | | | |
| **Carrying amount at 31 December** | **577** | **11** | **88** | **257** | **933** |
| | | | | | |
| Amortisation period | 3–5 years | 5–20 years | 5 years | | |

Included in software are IT projects in progress amounting to EUR 9m at 31 December 2011.

## 9 Property, plant and equipment

| 2011<br>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 | **337** | **23** | **54** | **77** | **491** |
| Additions | 6 | 1 | 18 | 57 | 82 |
| Disposals | (1) | 0 | (7) | 0 | (8) |
| Transfers | 74 | 5 | 33 | (112) | 0 |
| **Cost at 31 December** | **416** | **29** | **98** | **22** | **565** |
| | | | | | |
| Depreciation at 1 January | **96** | **8** | **23** | **0** | **127** |
| Depreciation for the year | 17 | 4 | 20 | 0 | 41 |
| Write down for the year | 6 | 0 | 0 | 0 | 6 |
| Reversal of amortisation on disposals in the year | 0 | 0 | (3) | 0 | (3) |
| Transfer | 0 | 0 | 0 | 0 | 0 |
| **Depreciation at 31 December** | **119** | **12** | **40** | **0** | **171** |
| | | | | | |
| **Carrying amount at 31 December** | **297** | **17** | **58** | **22** | **394** |
| | | | | | |
| Depreciation period | 20–40 years | 3–10 years | 3–5 years | | |

Write down of property, plant and equipment is related to the planned closure of the factory in Varde, Denmark.

## 10 Investments in subsidiaries

| mEUR | 2011 | 2010 |
|---|---|---|
| Cost at 1 January | 1,262 | 1,263 |
| Exchange rate adjustments from conversion to EUR | 2 | (1) |
| Additions | 506 | 0 |
| Disposals | 0 | 0 |
| **Cost at 31 December** | **1,770** | **1,262** |
| | | |
| Value adjustments at 1 January | 17 | (348) |
| Exchange rate adjustments | 18 | 42 |
| Profit shares for the year after tax | 185 | 318 |
| Changes in equity | 1 | 19 |
| Dividend | (135) | 0 |
| Disposals | 0 | 0 |
| Amortisation of goodwill | (14) | (14) |
| **Value adjustments at 31 December** | **72** | **17** |
| | | |
| **Carrying amount at 31 December** | **1,842** | **1,279** |
| | | |
| Remaining positive difference included in the above carrying amount at 31 December | 166 | 180 |

The legal entities in the Vestas Group are listed on pages 105–107 in the consolidated accounts.

## 11 Inventories

| mEUR | 2011 | 2010 |
|---|---|---|
| Raw materials and consumables | 3 | 1 |
| Work in progress | 0 | 0 |
| Finished goods | 0 | 0 |
| | **3** | **1** |

## 12 Prepayments and accrued income

Prepayments and accrued income comprise prepaid membership fees and rent.

## 13 Deferred tax

| mEUR | 2011 | 2010 |
|---|---|---|
| Deferred tax at 1 January | (16) | (68) |
| Deferred tax on profit for the year | 113 | 54 |
| Tax on entries in equity | 8 | (6) |
| Change in corporate tax rate | 0 | 0 |
| Adjustment relating to previous years | 34 | 4 |
| **Deferred tax at 31 December (net)** | **139** | **(16)** |

## 14 Warranty provisions

| mEUR | 2011 | 2010 |
|---|---|---|
| Warranty provisions at 1 January | 276 | 328 |
| Warranty provisions for the year | 144 | 191 |
| Used warranty provisions for the year | (165) | (243) |
| **Warranty provisions at 31 December** | **255** | **276** |
| | | |
| The warranty provisions are expected to be payable as follows: | | |
| 0–1 year | 140 | 166 |
| 1–5 years | 115 | 110 |
| | **255** | **276** |

The product warranties, which in the great majority of cases cover both 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. To the customer, the specific warranty period and the specific warranty terms are part of the basis of the individual contract.

Warranty provisions only include standard warranty, whereas services purchased in addition to the standard warranty are included in prepayments from customers. See note 2 to the consolidated accounts for further information on Vestas' warranty provisions.

In addition to the above, provisions are made for upgrades of wind turbines sold due to type faults, etc. where Vestas has a warranty obligation at the date of provision. 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 identified type faults, etc. may lead to adjustments of previous estimates, upwards as well as downwards, affected by factual information about population size, costs of repair and the timing of such repair.

## 15 Other provisions

| mEUR | 2011 | 2010 |
|---|---|---|
| Other provisions at 1 January | 4 | 6 |
| Other provisions for the year | 0 | 0 |
| Used other provisions during the year | 0 | (2) |
| Adjustment relating to previous years provisions | 0 | 0 |
| **Other provisions at 31 December** | **4** | **4** |
| | | |
| Other provisions are expected to be payable as follows: | | |
| 0–1 year | 4 | 1 |
| > 1 year | 0 | 3 |
| | **4** | **4** |

## 16 Long-term debt

| mEUR | 2011 | 2010 |
|---|---|---|
| Short-term share of long-term debt breaks down as follows: | | |
| Mortgage debt | 0 | 0 |
| Debt to credit institutions | 0 | 0 |
| | **0** | **0** |
| | | |
| Long-term debt breaks down as follows: | | |
| 1–5 years | 898 | 904 |
| > 5 years | 4 | 5 |
| | **902** | **909** |

## 17 Mortgages and security

As security for the company's mortgage loans, mortgage deeds registered to the mortgagor and all-money mortgages have been secured on land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment.

Furthermore, the company has issued mortgage deeds registered to the mortgagor and all-money mortgages secured on the above-mentioned properties. These mortgage deeds and all-money mortgages are all in the possession of the company.

| mEUR | 2011 | 2010 |
|---|---|---|
| Total mortgage loans | 7 | 8 |
| | | |
| Mortgage deeds and all-money mortgages relating to the company's mortgage loans: | | |
| Nominal value of mortgage deeds and all-money mortgages | 10 | 10 |
| Carrying amount of pledged assets | 18 | 19 |
| | | |
| Other mortgage deeds and all-money mortgages in the possession of the company | 104 | 104 |
| | | |
| Provided work and payment guarantees | 345 | 293 |

## 18 Contractual obligations

| mEUR | 2011 | 2010 |
|---|---|---|
| The lease obligation relating to operating leases falls due: | | |
| 0–1 year | 2 | 2 |
| 1–5 years | 0 | 0 |
| > 5 years | - | - |

Operating leases comprise irrevocable operating leases regarding buildings and cars. The main obligations relate to buildings.

## 19 Contingent liabilities

| mEUR | 2011 | 2010 |
|---|---|---|
| Guarantees for bank debt of subsidiaries | 45 | 35 |

In addition to this, the parent company provides performance bonds in connection with project supplies in subsidiaries, and their warranty obligations to customers.

The company is of a joint taxation 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 see note 37 to the consolidated accounts.

## 20 Related party transactions

For transactions with related parties see note 33 to the consolidated accounts.

## 21 Currency and interest rate risks and the use of derivative financial instruments

For the use of derivative financial instruments and risks and capital management see note 38 to the consolidated accounts.

## 22 Subsequent events

For subsequent events see note 39 to the consolidated accounts.

# GRI overview

| GRI Indicator | Subject | Page | Global Compact principles |
|---|---|---|---|
| | **STRATEGY AND PROFILE** | | |
| 1.1 | Management statement[1)] | 4 | |
| 1.2 | Description of key impacts, risks and opportunities[1)] | 7, 19 | |
| 2.1–2.10 | Organisational profile, structures, markets[1)] | 6, 16, 18, 22, 24, 36, 53, 105, 123 | |
| 3.1–3.13 | Report parameters | 2, 6, 32, 33, 109 | |
| 4.1–4.10 | Corporate governance[1)] | 35 | 1–10 |
| 4.11–4.13 | Commitments[1)] | 18 | 1–10 |
| 4.14–4.17 | Stakeholder engagement[1)] | 18, 19, 22, 32 | |
| | **ECONOMIC PERFORMANCE INDICATORS** | | |
| Management approach | | 18, 29 | |
| EC1 | Direct economic value generated and distributed[1)] | 53 | |
| EC3 | Coverage of benefit plan obligations | 85 | |
| EC4 | Significant financial assistance received from government | 79, 94 | |
| | **ENVIRONMENTAL PERFORMANCE INDICATORS** | | |
| Management approach[1)] | | 25 | 7–9 |
| EN1 | Materials used | 7 | 8 |
| EN3, EN4, EN6 | Energy[1)] | 7, 26 | 8, 9 |
| EN8 | Water[1)] | 7, 26 | 8 |
| EN16 | Emissions[1)] | 7, 25 | 8 |
| EN21 | Waste water[1)] | - | 8 |
| EN22, EN23 | Waste[1)] | 7, 26 | 8 |
| EN26 | Products and services[1)] | 7, 25 | 9 |
| EN28 | Compliance[1)] | - | 8 |
| | **SOCIAL PERFORMANCE INDICATORS** | | |
| | **Labour practices and labour quality** | | |
| Management approach[1)] | | 21 | 1, 3, 6 |
| LA1, LA2 | Employment[1)] | 21 | 6 |
| LA7 | Occupational health and safety[1)] | 9, 21 | 1 |
| LA10, LA12 | Training and education[1)] | - | |
| LA13 | Composition of governance bodies[1)] | 21 | 1, 6 |
| | **Human rights** | | |
| Management approach[1)] | | 22 | 1–6 |
| HR2 | Screening of suppliers[1)] | 27 | 1–6 |
| HR5 | Freedom of association, collective bargaining[1)] | 22 | 1–3 |
| HR6 | Child labour[1)] | 22 | 1, 2, 5 |
| HR7 | Forced labour, compulsory labour[1)] | 22 | 1, 2, 4 |
| | **Society** | | |
| Management approach[1)] | | 22, 29, 41 | 10 |
| SO5 | Public policy[1)] | 29 | |
| SO7 | Anti-competitive behaviour[1)] | - | |
| SO8 | Compliance[1)] | - | |
| | **Product responsibility** | | |
| Management approach[1)] | | 25 | |
| PR5 | Customer satisfaction[1)] | 19 | |
| PR9 | Compliance[1)] | - | |

1) Further information is available on vestas.com.

This index shows where to find information on the GRI G3.0 indicators, as well as the principles of the United Nations Global Compact, in this report. Further information and an extended overview is available at vestas.com.

# Information about the company

## Company reg. No.
10 40 37 82

## Company
**Vestas Wind Systems A/S**
Hedeager 44
8200 Aarhus N
Denmark

Tel: +45 9730 0000
Fax:+45 9730 0001
vestas@vestas.com
vestas.com

## Board of Directors
Bent Erik Carlsen, Chairman
Torsten Erik Rasmussen, Deputy Chairman
Carsten Bjerg
Elly Smedegaard Rex
Freddy Frandsen
Håkan Eriksson
Jørgen Huno Rasmussen
Jørn Ankær Thomsen
Kim Hvid Thomsen
Kurt Anker Nielsen
Michael Abildgaard Lisbjerg
Sussie Dvinge Agerbo

## Executive Management
Ditlev Engel, President and CEO
Henrik Nørremark, Deputy CEO, Chief Operating Officer (COO) and acting Chief Financial Officer
Anders Vedel, Chief Turbines R&D Officer (CTO) and acting Chief Solutions and Services Officer (CSSO)
Juan Araluce, Chief Sales Officer (CSO)

## Lawyers
GORRISSEN FEDERSPIEL
H. C. Andersens Boulevard 12
1553 Copenhagen V
Denmark

Reed Smith LLP
101 Second Street, Suite 1800
San Francisco, CA 94105
USA

## Auditor
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

## Banks
Nordea Bank Danmark A/S
Strandgade 3
0900 Copenhagen C
Denmark

Commerzbank AG
PO Box 52715
30 Gresham Street
London EC2D 2XY
UK

Société Générale
29, Boulevard Haussmann
75009 Paris
France

Banco Español de Crédito
Paseo de la Castellana, 103
28046 Madrid
Spain

Vestas Wind Systems A/S
Hedeager 44 . 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, including (without limitation): (a) changes in demand for Vestas' products; (b) currency and interest rate fluctuations; (c) loss of market share and industry competition; (d) environmental and physical risks, including adverse weather conditions; (e) legislative, fiscal, and regulatory developments, including changes in tax or accounting policies; (f) economic and financial market conditions in various countries and regions; (g) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, and delays or advancements in the approval of projects; (h) ability to enforce patents; (i) product development risks; (j) cost of commodities; (k) customer credit risks; (l) supply of components; and (m) customer-created delays affecting product installation, grid connections and other revenue-recognition factors.

All forward-looking statements contained in this document are expressly qualified by the cautionary statements contained or referenced to in this statement. Undue reliance should not be placed on forward-looking statements. Each forward-looking statement speaks only as of the date of this document. Vestas does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information or future events others than 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.

---