Annual Report 2022

Wind. It means the world to us.™

Vestas Wind Systems A/S – Company reg. no.: 10403782
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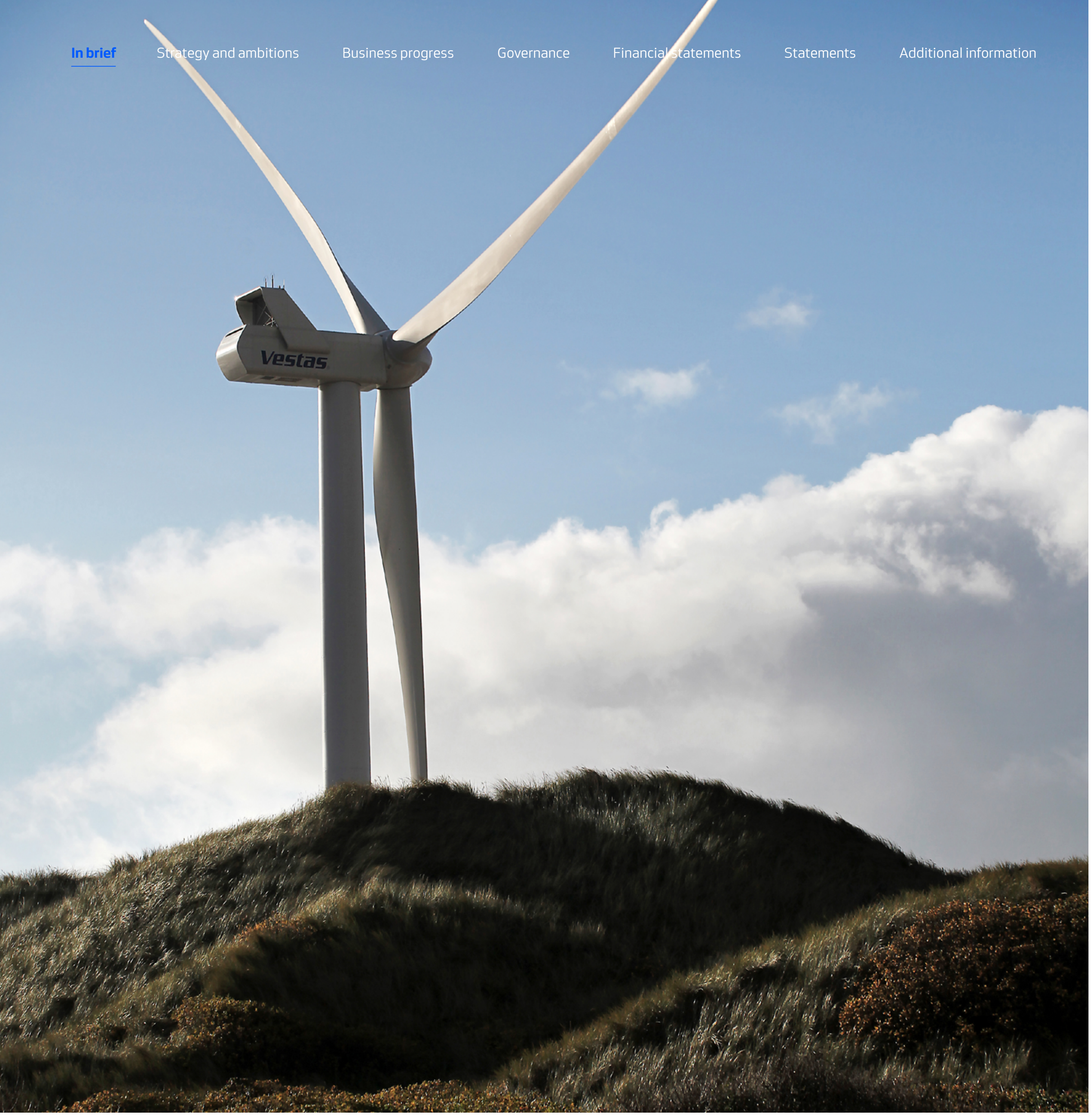
Contents

Front cover: Two Vestas employees inspect the construction process of a 115.5 metre long V236-15.0 MW™ wind turbine blade at the blade factory in Nakskov, Denmark.

In brief

>164 GW

Leading the green energy transformation
Over four decades, we have been leading the energy transformation with installations of more than 164 GW of wind power.



Who we are

Vestas is determined to transform the global energy system. To reach our vision – to become the Global Leader in Sustainable Energy Solutions – we are paving the way for wind energy to play a central role in energy systems across the world, and working to accelerate the expansion of renewables by collaborating closely with key stakeholders across the energy landscape. We do this because we believe in the power of renewables to ensure long-term energy security, and in building a more sustainable planet for future generations.

We are confident that we can succeed with this transformation by leading across our four business areas: Development, Onshore wind, Offshore wind, and Service. Over four decades, we have installed more renewable energy in more countries than anyone else. In that time, we have avoided the emission of more than 1.9 billion tonnes of carbon dioxide into the atmosphere, and our 28,000 employees have dedicated themselves to establishing a strong value chain for wind energy, applying our industry-leading expertise across design, project development, manufacturing, installation, and operations. We are also committed to strengthening the stability and predictability of renewable power generation through digitalisation.

Wind energy is our heritage, and continues to remain at the core of our business. We also know that a truly sustainable energy system requires capabilities beyond power generation. This is why we are committed to exploring and deploying new innovations, from new approaches to improving our own sustainability performance, to new capabilities around power storage, system flexibility, and electrification. Through this, we aim to lead global energy into a new era, and to accelerate worldwide progress towards net-zero. We are proud to offer a solution to the climate crisis, and the need for energy security. With our industry-leading expertise, we are dedicated to strengthening energy systems as a global leader in sustainable energy solutions.

Our business model

Leading the energy transition

Together with our customers, we aim to create a more sustainable planet by delivering sustainable energy solutions

Development
Maximising wind resources by development of new wind energy projects

Onshore and Offshore Power Solutions
Powering the renewable energy transition through innovation and scalable solutions

Service
Maximising sustainable energy generation

Leading sustainability standards

Technology leadership

Unparalleled global scale

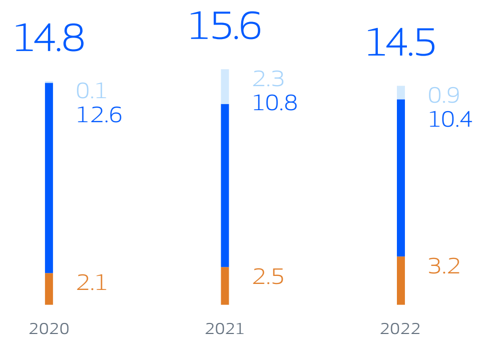
Financial highlights

Although 2022 marked a year where electricity prices soared and the value of our wind turbines' output increased, geo-political uncertainty and high inflation significantly impacted the financial performance. Our Service segment showcased strong performance with 27 percent revenue growth at 21.4 percent EBIT margin, but profitability in the Power Solutions segment decreased to (13.3) percent. As a consequence, Vestas showed the discipline needed and increased the average selling price of our wind energy solutions.

Increased pricing is key to value creation. Both to mitigate cost inflation and to secure a higher share of the increasing value our power solutions create for our customers. Consistent discipline on pricing has brought the average selling price to the highest level in the last decade.

Average selling price (ASP)

mEUR/MW



Revenue

bnEUR

Offshore Onshore Service

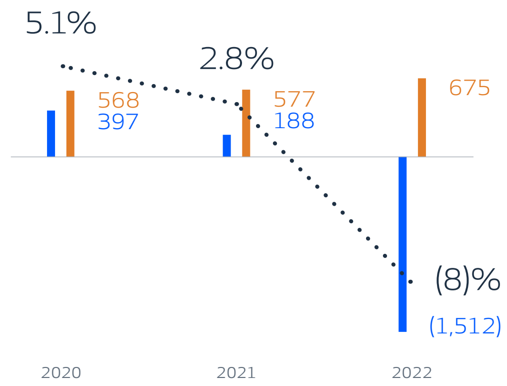
In a very challenging environment causing delays in execution throughout the year, Vestas achieved a total revenue of EUR 11.3bn in the Power Solutions segment. Revenue in the Service segment, however, increased to EUR 3.2bn in 2022.

EUR (953)m

Free cash flow

mEUR

In 2022, free cash flow (excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments), amounted to EUR (953)m, primarily a result of lower operating profits.



EBIT and EBIT margin

before special items

Power Solutions Service Total EBIT margin

Profitability in 2022 was negatively impacted by continued external cost inflation and supply chain disruptions in the Power Solutions segment, resulting in an EBIT margin of (8.0) percent while the strong Service growth reflected increased EBIT for the Service segment.

Operational highlights

During 2022, Vestas saw geo-political uncertainty and high inflation impacting both deliveries as well as order intake in the Onshore business, although the order backlog remained strong. Our Development business continued to show progress and the Service business reached new milestones with 144 GW under service, while the offshore V236 turbine secured 5.1 GW in preferred supplier agreements, highlighting the potential of the Offshore business area.

Development

Development	2022	2021
Projects sold (number)	4	6
Order intake generated (GW)	1.6	1.5
Pipeline of projects (GW)	32.1	24.6

Strong and increasing demand for our fast growing pipeline of development projects

Onshore

Onshore	2022	2021
Deliveries (GW)	12.4	14.6
Order intake (GW)	10.5	13.0
Order backlog (GW)	17.4	19.5

Building out market leadership in Brazil with record order intake of 1.9 GW

Offshore

Offshore	2022	2021
Deliveries (GW)	0.9	2.0
Preferred Supplier Agreements (GW)	5.1	3.5
Order backlog (GW)	2.2	2.4

Development of 15 MW turbine on track with prototype installed and generating electricity

Service

Service	2022	2021
GW under service	144	129
Average backlog contract duration (years)	11	10
Value of order backlog (bnEUR)	30.4	27.8

Step-change in Service revenue driven by higher value of renewable electricity

Sustainability highlights

Our sustainability strategy, "Sustainability in everything we do," consists of four key pillars, and is based on a materiality assessment of critical issues for our stakeholders.

In 2022, we continued to make incremental progress on our de-carbonisation journey for our own operations and managed to reduce our own emissions by 2 percent. And we have continued to improve our material efficiency and recycling rates, working towards our goal of producing zero-waste turbines by 2040. A break-through was made in this area as we discovered a new technology to recycle all existing and new epoxy-based blades.

We are steadily increasing our share of women in leadership positions towards the target of 30 percent by 2030. For the safety targets, while we have successfully reduced our TRIR by almost 69 percent in the past decade, recently, the injury rate has plateaued and in 2023 we will look into ways to continue our safety journey to become the safest company in the energy industry. From 2023, we will furthermore include all contractors under our operational control when tracking injuries.

Additional information is available in our Sustainability Report 2022[1]

Carbon neutral company by 2030 – without using carbon offsets

Own operations Scope 1 & 2 emission
Absolute numbers

2022:
100,000t

2019 baseline:
114,000t

2030 target:
0 t

Supply chain Scope 3 emissions
kg/MWh generated

2022:
6.46 kg/MWh

2019 baseline:
6.82 kg/MWh

2030 target:
3.75 kg/MWh

Producing zero waste turbines by 2040

Material efficiency rate

2022

1.6

2030 target: 0.2

Refurbished component utilisation

2022:

17%

2030 target: 55%

Materials recycled

2022:

55%

2030 target: +94%

The safest, most inclusive and socially responsible company in the energy industry

Share of women in leadership positions

2022

23%

2030 target: 30%

Injury rate
TRIR

2022

3.3

2030 target: 0.6

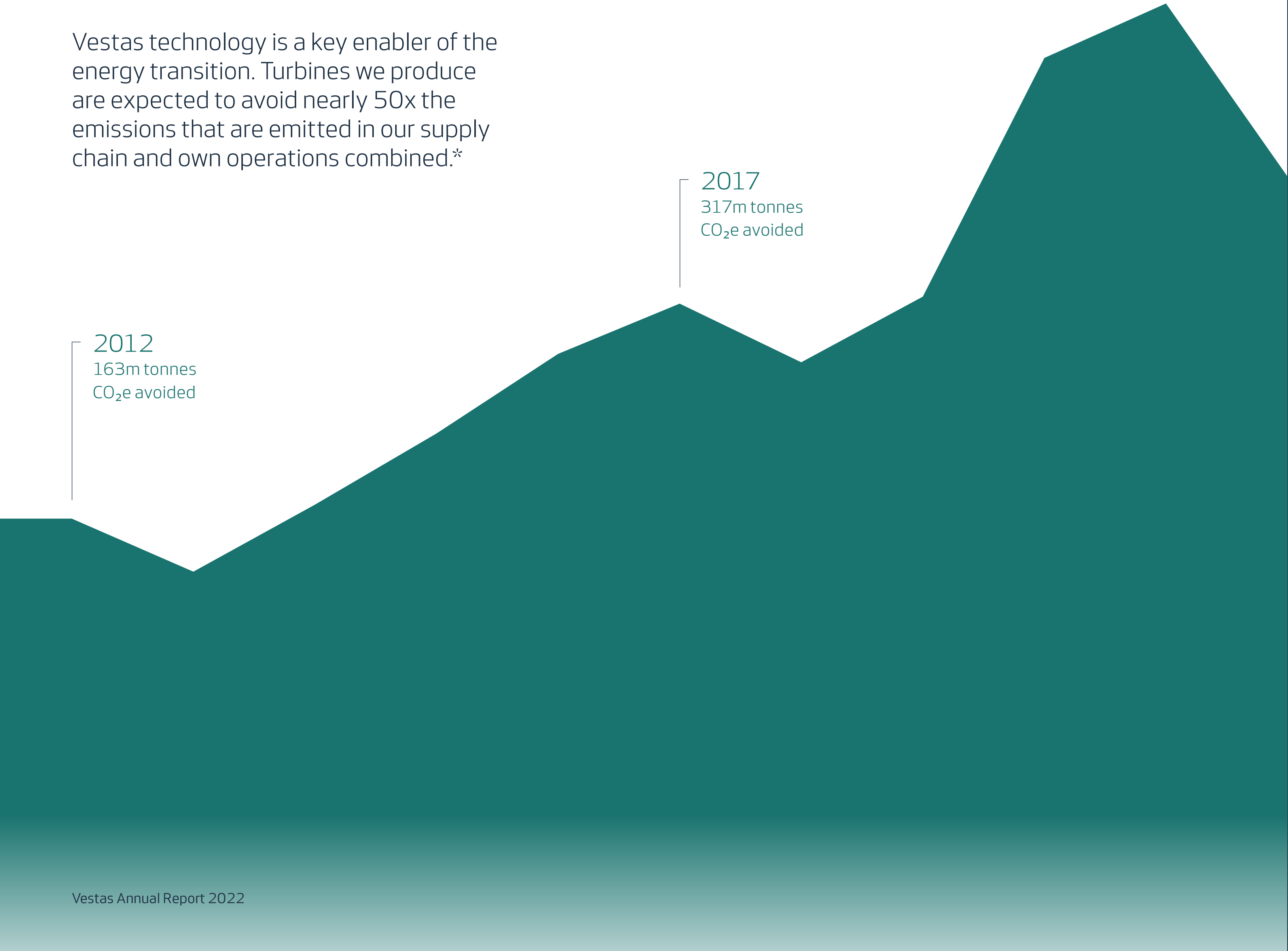
Leading the transition towards a world powered by sustainable energy

- Invested EUR 514m in green energy R&D
- Hosted the North Sea Summit where four Baltic countries and the EU Commission announced coordinated plans to accelerate offshore wind development in the North Sea.
- Committed to procure at least 10 percent near-zero emissions steel by 2030, as part of World Economic Forum's First Movers Coalition

1 See the Sustainability Report at vestas.com/content/dam/vestas-com/global/en/sustainability/reports-and-ratings/sustainability-reports/sustainability-report-2022.pdf.coredownload.inline.pdf

Decarbonising global energy demand

Vestas technology is a key enabler of the energy transition. Turbines we produce are expected to avoid nearly 50x the emissions that are emitted in our supply chain and own operations combined.*



2022

408m tonnes

CO_2e expected to be avoided over the lifetime of turbines produced in 2022.

8m tonnes

In comparison, the sum total of CO_2e emissions from Vestas' own operations (Scope 1 and 2) and supply chain (Scope 3) amounted to 8.28 million tonnes CO_2e in 2022. Thus, the turbines we produced and shipped in 2022 will avoid nearly 50 times more emissions over their lifetime than were emitted in their creation.

* For information on how we calculate emissions avoided, see the Sustainability Report 2022, page 30.

Letter from the Chair & CEO

To accelerate the energy transition, we must become profitable

Dear partner,

The impetus for accelerating the energy transition was strengthened in 2022, continuing the global journey towards a sustainable era. At the beginning of the year, Vestas and the wind industry were set to bid farewell to a highly challenging period, yet also a period in which we had taken strategic steps to underline wind energy's resilience, competitiveness, and sustainability. However, 2022 developed in a way that no one could have predicted. The energy crisis that began to materialise during the pandemic accelerated as war broke out in Europe, and inflation and electricity prices soared. As this perfect storm unfolded, Vestas and the wind industry were ready to provide solutions to address the energy crisis, but were constrained by cost increases, logistical challenges, outdated market designs and permitting processes. The industry's operational and commercial immaturity was also accentuated, which further hampered results.

Under these extremely difficult circumstances, in 2022 our +28,000 Vestas colleagues showed tremendous engagement and commitment to deliver 13 GW and service 144 GW of wind turbines. At the same time, they helped our partners avoid 1.9 billion tonnes of CO_2 and increased the average selling price of our wind energy solutions by 29 percent. During 2022, we made strategic progress across our four business areas: we generated further momentum within Offshore with 5 GW of preferred supplier agreements for the V236-15.0 MW™; we expanded our Development business; and we optimised our Onshore product portfolio and manufacturing footprint to reflect our market outlook, and in January 2023 we were ranked the world's second most sustainable company. Our Service business continued to increase its contribution to our revenue and earnings with a 27 percent growth year-on-year.

Bert Nordberg
Chair of the Board of Directors

Henrik Andersen
Group President & CEO

The Executive Management team and the Board of Directors want to thank all our colleagues and partners for these achievements, and we are pleased with how our mid- and long-term outlook improved in 2022. However, the year ended with an overall loss for Vestas, and we cannot be satisfied with our 2022 results. Based on these results, we want to say a special thanks to our shareholders for their continuous support throughout a challenging 12 months.

The true value of wind energy

Vestas pioneered the modern wind turbine more than 40 years ago. In the early days, wind energy was ridiculed and then heavily opposed before it became widely accepted as a key solution to meeting the world's energy needs. Getting to this point has underlined just how big a revolution the energy transition is. At the time of the Kyoto Protocol in the 1990s, the threat of the climate crisis had been recognised, but progress was hampered by renewables' dependence on subsidies back then. In the 2010s, renewables became cost-competitive in most parts of the world, but it wasn't until 2022, when geopolitical uncertainty and rising prices put energy independence back in the political spotlight, that lofty climate ambitions began to be translated into action.

In 2022, we saw, among other things, the USA introduce the Inflation Reduction Act to speed up the build-out of renewables, and the EU take steps to accelerate permitting. With around 80 GW of wind energy projects currently stuck in permitting in Europe alone, these initiatives are very welcome. They show there is growing political acknowledgement that renewables are a key part of creating sustainable and resilient societies. While this is a positive step forward, in order to address the urgent geopolitical, economic, and climatic challenges facing the world today, we must move faster. We must collectively acknowledge the true value of energy, and in particular renewables, which means developing a more holistic understanding of the advantages and disadvantages of different energy sources. Fossil fuels' price volatility in 2022 accentuated the need to look at energy through a broader lens, for example valuing wind energy not only in terms of output or the avoidance of CO_2 emissions, but in terms of energy independence and resilience as well. Simply put, we are way past the point where energy could or should be priced solely on its marginal cost. Importantly, governments and customers have to appreciate that the ratio in 2022 was often five-to-ten times between the levelised cost of energy (LCOE) of renewable energy solutions and the market price for electricity.

> "We are very pleased with the commercial discipline we have shown in recent years, which has enabled us to raise the average selling price of our wind energy solutions by 45 percent since the end of 2020.

Improving the fundamentals through partnerships

The race to the bottom that energy, and in particular renewables, has been through is not the result of externalities alone, but also the industry's immaturity. As an industry, we rushed to show we could compete head-to-head on cost, and in that process argued that renewables would continue to reduce the LCOE. Considering what has happened since 2020, we can in hindsight conclude that creating the impression that LCOE would continue to decrease wasn't right. However, it is now abundantly clear that we must address, as we have also already done, various market fundamentals if we want to build a sustainable and scalable industry capable of delivering a net-zero future.

To facilitate an industry that is economically and climatically sustainable, we must continue to mature the entire value chain, which starts with prioritising value over volume. To this end, we are very pleased with the commercial discipline we have shown in recent years, which has enabled us to raise the average selling price of our wind energy

"

To facilitate an industry that is economically and climatically sustainable, we must continue to mature the entire value chain, which starts with prioritising value over volume.

solutions by 45 percent since the end of 2020. To fully create the right market fundamentals, we must partner closely across the entire value chain. Through long-term partnerships, we can develop and deliver wind energy projects that are mutually beneficial for our customers and Vestas. Together with our partners in the supply chain, we can industrialise new and existing products through standardisation, modularisation, and servitisation. Strengthening the value chain will also help us address the quality challenges that continued to impact our operations and results in 2022. It will enable Vestas and the industry to make the safety improvements needed to ensure everyone gets home safely from work each day. For this to happen, we need the industry to start introducing products and services at a frequency that enables a sustainable return on investment and allows the value chain to adapt. We will show this leadership and demonstrate through our actions that the time to act is now.

Our ambition to create a healthier industry has been challenging and will continue to be so. We remain adamant that we must address the above-mentioned market fundamentals, and believe that our customer Net Promoter Score, which improved by 43 percent in 2022, shows we are moving in the right direction. We want to continue building a stronger eco-system with renewables, which entails having fewer and larger partnerships that play an integral part in our operations and which are deeply involved in the value creation for you.

We are on the right strategic path

2022 did not evolve as we expected it to, but the year underlined that Vestas is on the right strategic path. To ensure we continue on this path, the Executive Management team and the Board worked closely together during the year to update and execute our strategy, which in 2023 will provide alignment and clear prioritisation in an uncertain operational environment. We must sustain our progress in Service, Development and Offshore, but making our onshore business profitable again will be essential. Our combined order backlog remains solid at EUR 49.5bn, but project profitability will fluctuate in the year ahead as we deliver legacy projects with lower pricing. As a result, keeping our pricing discipline and further improving our operational efficiency will remain key every-day priorities for our global operations and all our employees.

In 2023, we celebrate Vestas' 125-year anniversary. We are incredibly proud of the pioneering role Vestas has played in creating a pathway to a net-zero future through wind energy. The main prerequisite for us to continue leading the way is to make Vestas profitable again. The best way to mark our anniversary is therefore to get back on track towards a double-digit EBIT margin by 2025. This journey starts with becoming profitable in 2023. We want to thank all our employees, partners, customers, shareholders and other stakeholders for their collaboration and support in 2022. We look forward to creating value together and driving the energy transition forward.

Thank you.

→ 30 December 2022, the V236 prototype produced its first kWh of power and will now undergo an extensive test and verification programme to ensure reliability before full type certification and serial production begins.

Financial and operational key figures

Financial key figures

mEUR	2022	2021[1]	2020	2019	2018
Income statement					
Revenue	14,486	15,587	14,819	12,147	10,134
Gross profit	118	1,556	1,538	1,761	1,631
Operating profit before amortisation, depreciation and impairment losses (EBITDA) before special items	(63)	1,342	1,391	1,550	1,394
Operating profit (EBIT) before special items	(1,152)	428	750	1,004	959
Operating profit before amortisation, depreciation and impairment losses (EBITDA)	(437)	1,271	1,382	1,550	1,379
Operating profit (EBIT)	(1,596)	289	698	1,004	921
Net operating profit after tax (NOPAT)	(1,071)	275	619	773	719
Net financial items	(110)	(101)	(95)	(98)	(51)
Profit before tax	(1,696)	224	934	909	910
Profit for the year	(1,572)	143	771	700	683
Balance sheet					
Balance sheet total	20,090	19,648	18,160	14,331	11,899
Equity	3,060	4,697	4,703	3,345	3,104
Investments in property, plant and equipment	371	476	379	451	312
Net working capital	(1,349)	(1,049)	(1,127)	(1,583)	(2,040)
Capital employed	5,487	6,133	6,057	4,165	3,602
Interest-bearing position (net), at the end of the period	46	1,200	1,920	2,452	3,046
Interest-bearing debt, at the end of the period	2,427	1,436	1,354	820	498
Cash flow statement					
Cash flow from operating activities	(195)	956	743	823	1,021
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(758)	(773)	(687)[2]	(729)	(603)
Free cash flow before acquisitions of subsidiaries and financial investments	(953)	183	56[2]	94	418
Free cash flow	(874)	57	476	332	(69)

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Financial ratios[3]	2022	2021[1]	2020	2019	2018
Gross margin (%)	0.8	10.0	10.4	14.5	16.1
EBITDA margin (%) before special items	(0.4)	8.6	9.4	12.8	13.8
EBIT margin (%) before special items	(8.0)	2.8	5.1	8.3	9.5
EBITDA margin (%)	(1.2)	8.0	9.3	12.8	13.6
EBIT margin (%)	(11.0)	1.9	4.7	8.3	9.1
Return of capital employed (ROCE) (%)	(18.5)	4.5	13.5	19.7	20.4
Net interest-bearing debt/EBITDA before special items	NA[4]	(0.9)	(1.4)	(1.6)	(2.2)
Solvency ratio (%)	15.2	23.9	25.9	23.3	26.1
Return on equity (%)	(43.9)	3.6	21.4	22.1	22.6
Share ratios					
Earnings per share (EUR)	(1.6)	0.1	0.8[5]	3.6	3.4
Book value per share (EUR)	3.0	4.7	4.7[5]	16.8	15.1
P/E ratio	(17.4)	200.2	49.6	25.4	19.3
Dividend per share (EUR)	-[6]	0.1	0.23[5]	1.06	1.00
Payout ratio (%)	-[6]	36.0	30.0	30.0	30.0
Share price at the end of the period (EUR)	27.2	26.9	38.7[5]	90.1	65.9
Number of shares at the end of the period	1,009,867,260	1,009,867,260	1,009,867,260[5]	198,901,963	205,696,003

Operational key figures

	2022	2021[1]	2020	2019	2018
Order intake (bnEUR)	11.9	11.6	12.7	13.8	10.6
Order intake (MW)	11,189	13,896	17,249	17,877	14,214
Order backlog – wind turbines (bnEUR)	19.1	18.1	19.0	16.0	11.9
Order backlog – wind turbines (MW)	19,623	21,984	24,630	20,974	15,646
Order backlog – service (bnEUR)	30.4	27.8[7]	23.9	17.8	14.3
Produced and shipped wind turbines (MW)	13,106	17,845	17,055	12,618	10,676
Produced and shipped wind turbines (number)	3,126	4,456	5,239	4,185	3,729
Deliveries (MW)	13,328	16,594	17,212	12,884	10,847

2 Comparative figures have been restated to reflect change in classifications of investments. Comparative figures from 2018 to 2019 have not been restated.
3 The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios).
4 The ratio of net interest-bearing debt to EBITDA cannot be calculated as at 31 December 2022 as the EBITDA is negative.
5 As of 28 April 2021, a share split at a ratio of 1:5 of the Vestas share was carried out. Comparative figures for 2020 have been restated. Comparative figures from 2018 to 2019 have not been restated.
6 Based on proposed dividend.
7 The number disclosed in the 2021 annual report for the Service order backlog has been corrected from EUR 29.2bn to EUR 27.8bn.

Sustainability key figures

Environmental	2022	2021	2020	2019	2018
Utilisation of resources					
Consumption of energy (GWh)	641	738	621	638	614
– of which renewable energy (GWh)	231	283	295	258	211
– of which renewable electricity (GWh)	187	233	261	227	178
Renewable energy (%)	36	38	48	40	34
Renewable electricity for own activities (%)	100	100	100	82	68
Withdrawal of fresh water (1,000 m^3)	341	378	421	473	470
Waste					
Volume of waste from own operations (1,000 t)	47	70	89	85	81
– of which collected for recycling (1,000 t)	26	35	46	43	42
Recyclability rate of hub and blade[1] (%)	42	42	41	42	-
Material efficiency (tonnes of waste excl. recycled per MW produced and shipped)	1.6	2.0	2.5	3.3	3.6
CO_2 emissions					
Direct emissions of CO_2e (scope 1) (1,000 t)	98	99	83	66	69
Indirect emissions of CO_2e (scope 2) (1,000 t)	2	3	14	48	61
Indirect emissions of CO_2e from the supply chain (scope 3)[1] (million t)	8.18	10.56	10.59	7.83	-
Indirect emissions of CO_2e from the supply chain (scope 3)[1] (kg per MWh generated)	6.46	6.65	6.63	6.82	-
Products					
Expected CO_2e avoided over the lifetime of the capacity produced and shipped during the period (million t)	408	532	493	322	275
Annual CO_2e avoided by the total aggregated installed fleet (million t)	219	210	186	154	134

1 Data only available from 2019 onwards.

2 The most recent data will reflect a status quo, where the final substantiation rate can only be seen in connection with full-year reporting the following year. The cases not registered as either substantiated or unsubstantiated at the end of the year were still under investigation at the time of reporting.

For definitions and accounting policies for the Sustainability key figures, see the Notes on pages 151-153.
Comments to the development can be found in the Sustainability Report 2022, with commentary specifically to the sustainability strategy targets and performance on pages 8-9.

Social	2022	2021	2020	2019	2018
Safety					
Total Recordable Injuries (number)	200	201	185	213	210
– of which Lost Time Injuries (number)	73	67	65	67	80
– of which fatal injuries (number)	0	0	0	1	0
Total Recordable Injuries per million working hours (TRIR)	3.3	3.1	3.3	3.9	4.0
Lost Time Injuries per million working hours (LTIR)	1.2	1.0	1.2	1.2	1.5
Employees					
Average number of employees (FTEs)	28,779	29,164	26,121	24,964	24,221
Employees at the end of the period (FTEs)	28,438	29,427	29,378	25,542	24,648
Diversity and inclusion					
Women in the Board and Executive Management team at the end of the period (%)	25	27	27	23	15
Women in leadership positions at the end of the period (%)	23	21	19	19	19
Human rights[1]					
Community grievances (number)	13	17	20	10	-
Community beneficiaries (number)	7,572	8,236	14,770	6,093	-
Social Due Diligence on projects in scope (%)	65	0	78	32	-

Governance	2022	2021	2020	2019	2018
Whistle-blower system					
EthicsLine cases (number)	539	465	287	226	173
– of which substantiated (number)	137[2]	129	65	58	48
– of which unsubstantiated (number)	358[2]	336	222	168	125

Outlook for full year 2023

In 2023, we expect high inflation levels throughout the supply chain and reduced wind power installations to impact revenue and profitability negatively. The lower level of installations is caused by slow permitting processes in Europe as well as dampened activity levels in the USA due to a steep ramp-up ahead of a busy 2024 driven by the Inflation Reduction Act. Increasing prices on our order intake is an offsetting factor, but still leaves Vestas challenged on profitability in 2023. We remain adamant that to improve industry profitability we must continue to strengthen our commercial discipline and the value chain together with our partners.

Revenue for full year 2023 is expected to range between EUR 14.0bn and 15.5bn including Service revenue, which is expected to grow min.5 percent. Vestas expects to achieve an EBIT margin before special items of (2)-3 percent with a Service EBIT margin of approx. 22 percent. Total investments[1] are expected to amount to approx. EUR 1bn in 2023. It should be emphasised that, similar to the preceding years, there is greater uncertainty than usual around forecasts related to execution in 2023, and the outlook seeks to include the current situation and challenges.

The outlook for 2023 includes the impact of the sale of Vestas' converter factories announced on 10 August 2022 with an expected impact on EBIT before special items of approx. EUR 150m.

Vestas' Development business continues to grow, and to reflect the business area's increasing financial and strategic importance, income related to sale of Development projects from joint ventures and associates is included as part of normal operations from 1 January 2023. The impact on EBIT before special items from this change is expected to reach a lower double-digit mEUR amount in 2023.

In relation to forecasts on financials from Vestas in general, it should be noted that Vestas' accounting policies only allow the recognition of revenue when the control has passed to the customer, either at a point in time or over time. Disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may thus cause delays that could affect Vestas' financial results for 2023. Further, the full-year results may also be impacted by movements in exchange rates from current levels.

Outlook 2023

Revenue (bnEUR)	14.0-15.5
EBIT margin (%) before special items	(2)-3
Total investments[1] (bnEUR)	approx. 1

1 Excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments.

Long-term ambitions

Financial ambitions

Wind power has outcompeted fossil fuel alternatives in most parts of the world, and the prospects for the coming years are promising, with wind power's increasingly central role as critical infrastructure. Consequently forecasts indicate average annual growth in total wind power capacity of 9 percent towards 2030.[1]

Onshore

The demand for onshore wind power globally is expected to decline in 2023. But from 2024, a new phase of growth is expected driven by new increased ambitions for renewable energy, increased electrification, and corporate ambitions and activities. Adding to that, Vestas expects to see increasing contributions from its Development activities. On this background, Vestas maintains its long-term ambitions to grow faster than the market and be market leader in revenue within Onshore wind.

Offshore

The projections for the offshore business continue to build, and the long-term potential for the market remains very attractive. Based on the order backlog, Vestas expects to see a decline in activity towards 2025, while necessitating to invest heavily both in the organisation, supply chain, and technology. By 2025, upon the steep increase in annual offshore installations and Vestas' new platform gaining traction in the market, Vestas aims to be a leading player in offshore wind power.

Based on these assumptions, Vestas has an ambition to achieve revenue in the Offshore business area of EUR +3bn by 2025, with an EBIT margin on par with the Onshore business.

Service

The wind power service market is expected to grow at a high single-digit rate, and Vestas maintains its ambitions for the long term for the Service revenue to grow faster than the market. In the longer term, the Service EBIT margin is expected at a level of around 25 percent, taking into account the integration of the Offshore business, which currently generates lower margins than Onshore.

General ambitions

Our industry needs structural change to increase profitability, especially within the wind turbine segment. The structural changes primarily entail strengthening the commercial discipline in customer dialogues, lowering the frequency of new technology introductions as well as maturing the assessment of risk.

In 2022, the gap between our financial results and our long-term financial ambitions increased, but the year underlined that Vestas is on the right strategic path to improve the industry structurally and build the commercial and operational maturity to achieve our financial ambitions. In that context, a 10 percent EBIT margin in 2025 remains realistic, although external headwinds from a challenging business environment continues to cloud near-term visibility and create uncertainty.

Long-term financial ambitions

Revenue	Grow faster than the market and be market leader in revenue
EBIT margin before special items	At least 10 percent
Free cash flow[2]	Positive
ROCE	20 percent over the cycle

1 Forecast excluding China. Source: Wood Mackenzie: Global wind power market outlook update, Q4 2022. November 2022.
2 Excl. acquisitions of subsidiaries, joint ventures, and associates, and financial investments.

Sustainability ambitions

Vestas is committed to achieving carbon neutrality across our own operations by 2030 – without using carbon offsets, requiring that all of our offices, factories, vehicles, vessels, and other operations are fully decarbonised through our own actions. At the same time, we are working to decarbonise the entire wind energy supply chain by working with strategic suppliers to lower the carbon intensity energy produced by our turbines by 45 percent by 2030.

Within circularity, we are committed to creating zero-waste wind turbines by 2040. Through our industry-leading Circularity Roadmap, we have outlined our pathway and interim targets towards this goal, one of which is to increase our material efficiency rate to 0.2 percent by 2030.

We are committed to enhancing our commitment to safety by reducing our injury rate to 0.6 by 2030. To build a more inclusive energy sector, we have committed to increase the share of women in leadership positions to 30 percent by 2030.

→ Read more about the Sustainability strategy and all targets in our Sustainability Report, pages 8-10.

Long-term sustainability ambitions	2025	2030
Reduce scope 1 & 2 emissions*	↓25%	↓100%
Reduce scope 3 emissions*	–	↓45%
Increase material efficiency rate	to 1.2	to 0.2
Increase share of women in leadership positions	to 25%	to 30%
Reduce injury rate (TRIR)	to 1.5	to 0.6

* Baseline year 2019.

Strategy and ambitions

The V236-15.0 MW™ prototype was successfully installed at the National test centre in Østerild, Denmark during 2022

→ **Strategy**

From energy crisis to sustainable and resilient societies

We mature the industry to improve value capture and scalability

We strengthen our core to become the global leader in sustainable energy solutions

→ **In focus:** From energy policy to security policy

→ Capital structure strategy

From energy crisis to sustainable and resilient societies

Renewables are the obvious way to reach climate targets and ease pressure on fossil-based energy demands. Removing bottlenecks to wind energy expansion can help countries achieve energy independence – in a cost-efficient, sustainable, and resilient manner.

The wind industry as we know it was born from the oil shock of the 1970s, when the need for commercially viable alternative energy became too pressing to ignore. Fifty years on, the fragility of the fossil-based energy system has been re-exposed by global events. During COVID-19, renewables played a key role in maintaining critical infrastructure. In 2022, as the pandemic faded, the re-emergence of geopolitics, spurred by the war in Ukraine, created another global crisis. This new crisis led to fossil fuel volatility, driving up energy prices and threatening energy security in many nations.

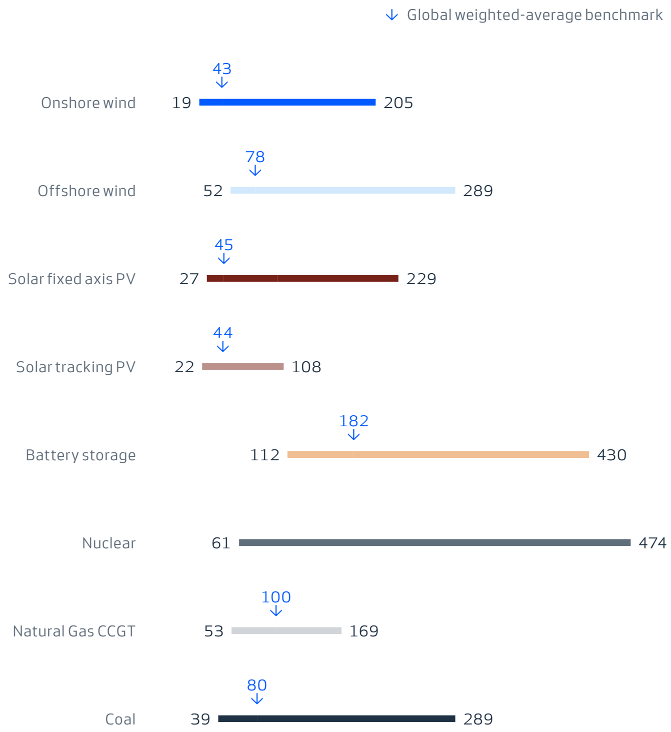
The global and regional events of the early 2020s have demonstrated that the true value of renewables is not only their ability to reduce costs and emissions. It is their potential to build resilient, sustainable, and prosperous societies. Initially, the driver for a sustainable energy system was the need to address the climate crisis, most notably through the Kyoto Protocol in 1997, the Paris Agreement in 2015 and COP26 in Glasgow in 2021.

Since then, sustainable energy such as wind and solar have driven down costs to a point where renewables are the most sustainable and cost-efficient energy sources available.[1] Lastly, many nations around the world are now looking to become energy independent to ensure energy security and supply. If we want our energy to be sustainable, affordable, and independent, renewables are the only answer.

Today, progress is being made towards the creation of sustainable energy systems. Most of the world's major economies, including the USA, China, India, the EU, and Japan, have already announced climate targets. We are also seeing targets being converted into policy with the Inflation Reduction Act (IRA) in the USA and the Fit-for-55 package in the EU. These are all positive developments, and as a result outlooks for the installation of renewables, especially offshore wind, continue to increase. However, given the current pace of policy development and installation, we are still not on track to achieve the 1.5°C scenario.[2]

How to read the chart: Depending on country and site, the Levelised Cost of Energy for onshore and offshore wind ranges between 19-205 and 52-289 USD per MWh, respectively, compared to for instance 39-289 USD per MWh for coal.

Renewables continue to outperform fossil fuels
USD/ MWh



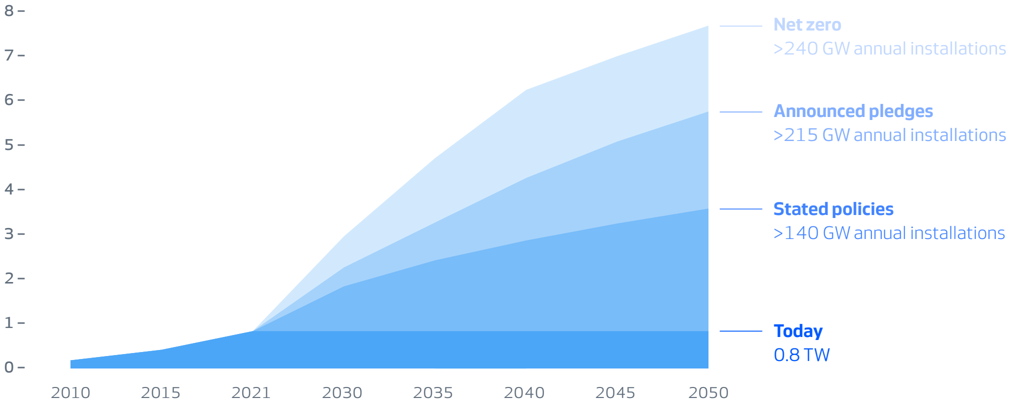
Source: Bloomberg New Energy Finance: 2H 2022 LCOE Update. December 2022.

The COVID-19 pandemic showed how, when governments, companies and universities collaborate towards a common goal, societies can regroup and develop new solutions. Yet trade barriers, localisation, lack of investments, and slow permitting processes continue to present physical and administrative bottlenecks to the energy transition. If we can overcome these barriers, we have the energy solutions to change our trajectory and create a sustainable planet for future generations.

1 Source: Bloomberg New Energy Finance: 2H 2022 LCOE Update. December 2022.
2 Source: International Energy Agency: World Energy Outlook 2022. October 2022.

To reach net zero, we estimate that annual wind power installations will need to increase to more than 240 GW. Even as stated policies and announced pledges indicate significant increase compared to current levels, the discrepancy is still striking.

Global wind energy capacity scenarios
Terawatt (TW)



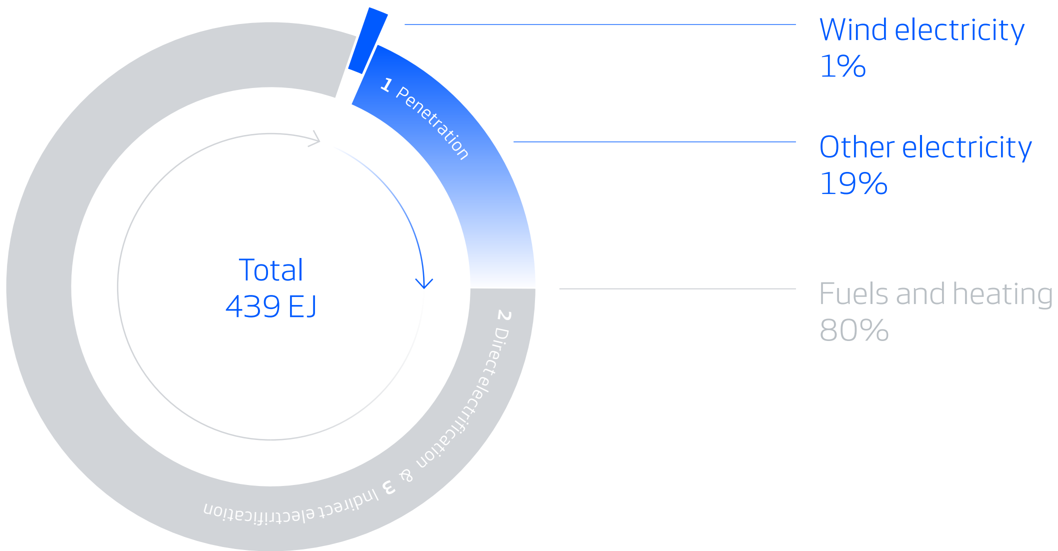
Source: The illustration is based on data from International Energy Agency's report "World Energy Outlook 2022" from October 2022 and Vestas' own estimates.

Northwester 2 is a 219 MW offshore wind farm located in the North Sea, off the coast of Ostend, Belgium, featuring 23 V164-9.5 MW™ turbines. The wind farm was developed by a joint venture between Parkwind and Sumitomo Corporation.

We mature the industry to improve value capture and scalability

To meet growing global energy demand, we are rapidly expanding our capacity with a resource-efficient and circular approach. Through incremental innovation and modularisation, we will support the transition from fossil-based to renewable energy. Key partnerships will also bolster our scaling, quality and operational resilience.

Decarbonisation of the future energy mix
Percent and Exajoule (EJ)



Source: International Energy Agency: World Energy Outlook 2022 (dataset). October 2022.

If we are to address the climate crisis and reach net zero by 2050, we need to expand wind energy from around 830 GW of installed capacity by 2021, to more than 3,000 GW by 2030.[1] According to the International Energy Agency (IEA), this figure needs to increase further to 7,800 GW by 2050.[1] In addition, energy demand is expected to grow as billions of people in developing economies gain access to services such as air conditioning and refrigeration. In total, global electricity consumption is anticipated to more than double towards 2050 in the net zero Scenario.[1] As a global leader in sustainable energy, Vestas is fully focused on creating sustainable and resilient energy systems that can help build prosperous societies. We do this by building sustainability into everything we do and leading the industry in three key areas:

1. Accelerating the penetration of renewables to increase share of the electricity system
2. Direct electrification
3. Developing and implementing solutions for indirect electrification

Building sustainability into everything we do is a prerequisite for Vestas to succeed within these three areas. It is an essential element of the industry maturing to deliver on climate targets. We must develop our products and solutions with sustainability in mind, ensuring that a carbon-neutral energy system is also resource efficient and circular. Our operations, whether in our factories, at our sites or in between, must be safe and carbon neutral. Our blades must achieve

In 2022, the first V236 blade was manufactured at the blade factory in Nakskov, Denmark. The rotor of the V236 spans an area of more than 43,000 m^2.

> Despite the growth in renewable energy installations in the recent decade, wind power still only serves one percent of the total energy consumption, leaving tremendous opportunities for future growth.

circularity; we must produce zero-waste turbines, and we have to maintain an inclusive culture where everyone can be their true self.

Creating value for customers by partnering across the value chain
To build a sustainable and scalable industry capable of delivering a net-zero future, we must also address some key fundamentals. As the leader in wind energy, we have a clear goal to create partnerships with companies that share our ambition. By partnering with our customers and suppliers, we intend to strengthen commercial discipline, creating an industry where risk and reward are shared across the value chain and profits are re-invested in new technology and scale. Strong partnerships are also key to heightening quality standards and building operational resilience. They ensure the right pace of development, allowing the industry to industrialise and optimise existing solutions before introducing new technologies.

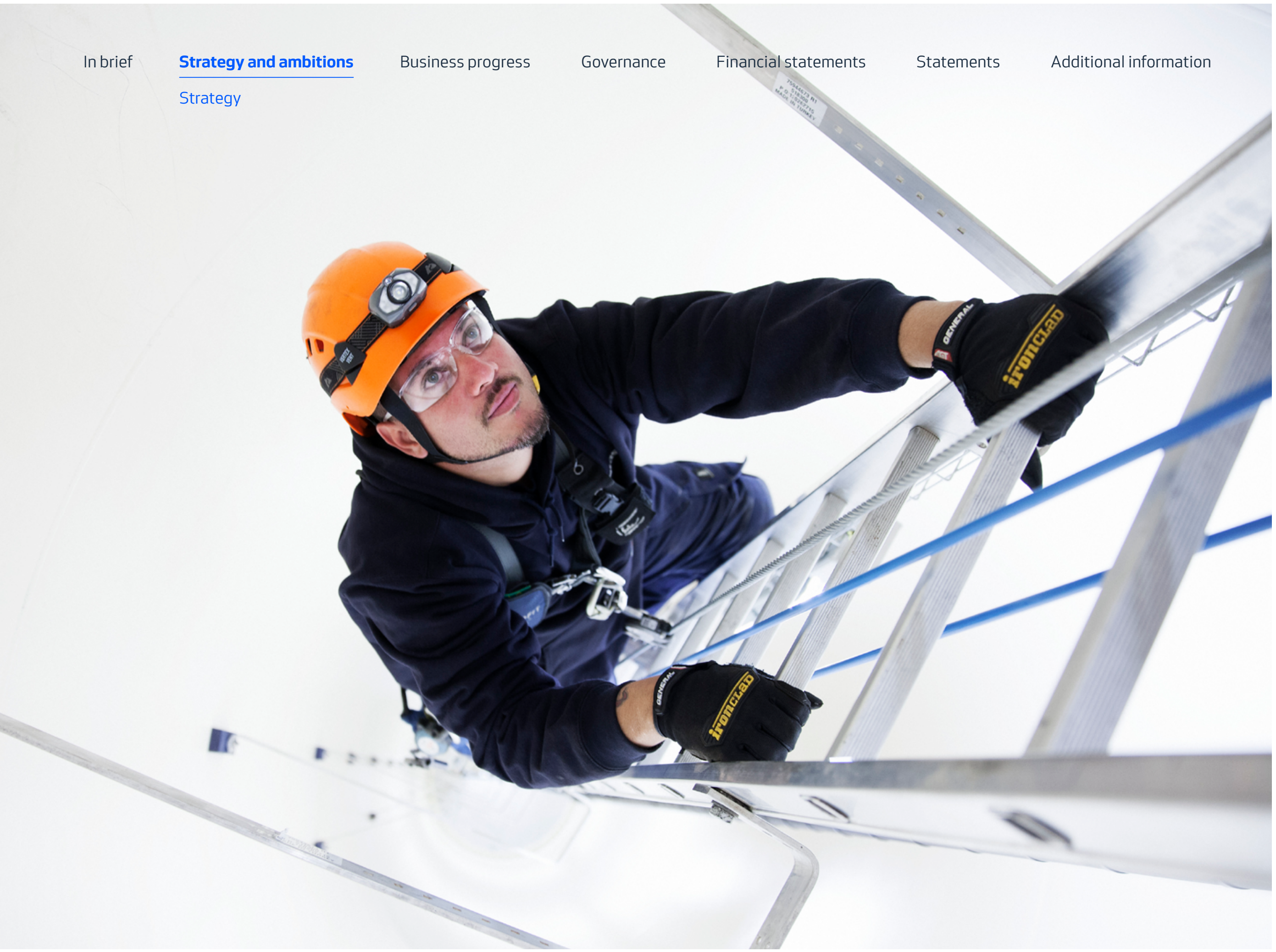
For Vestas, a partnership is characterised by a shared ambition to achieve mutual and individual objectives with a significant business impact for both parties through exchanging, sharing and/or creating resources. Partnerships are key across the entire value chain and a prerequisite to ensure the industry can become profitable in a way that enables key players to scale with demand. To that end, Vestas seeks to partner with customers to create a strong pipeline of projects that provide sustainable returns for both parties across the projects' entire lifetime. We want to work closely with customers to ensure the value of renewable energy assets is increased to benefit all parties and reflect the true value of renewable energy as critical infrastructure. Furthermore, we partner with customers and suppliers to develop technology and make the industry more sustainable and scalable. Key to these efforts are close collaboration characterised by a high level of trust, a clear line of sight on strategic priorities, and an acknowledgement that we win together, and we lose together.

Partnerships are also key for Vestas and the industry to achieve the needed industrialisation to deliver meet the expected exponential demand in the latter part of this decade. To build the technological foundations to support customer-focused solutions and scale, we also continue to lead the way in modularisation. Combining customisation and standardisation, modularisation makes it possible to serve broad market requirements, while industrialising our supply chain and ensuring competitive costs. We will continue to work towards our end-goal of a completely modular portfolio and fully optimised value chain.

Wind energy is already sustainable, affordable, and resilient. The fastest and most efficient way to build out electricity capacity and replace fossil fuel generation is to deliver incremental innovation, industrialisation and optimisation. Through this approach, we protect value creation within the industry, allowing for further investment in sustainability, quality, operational resilience, and the creation of shareholder returns. These outcomes are essential for a successful transition from fossil fuel dependence and climate crisis to sustainable energy solutions and energy security.

The need for talent
The energy transition is expected to generate 10.3 million net new jobs around the world by 2030.[2] To help drive the energy transition, Vestas needs to attract the right talent at the right time. However, the growing momentum within renewable energy is attracting new organisations to the industry, which is making the battle for talent tougher. A diverse workforce is paramount to ensuring we have the right talent and skills to succeed in a fast-changing environment. We therefore have a strong strategic focus on talent development, succession planning, and digital employee experiences.

1 Source: International Energy Agency: World Energy Outlook 2022 (dataset). October 2022.
2 Source: World Economic Forum: How many jobs could the clean energy transition create? Online article published 25 March 2022.



We strengthen our core to become the global leader in sustainable energy solutions

We are accelerating the deployment of wind energy by strengthening the core of our business model – Development, Onshore Wind, Offshore Wind, and Service. Through these key areas, we aim to help drive the energy transition and achieve a sustainable future.

With more than 40 years of experience in wind energy, we have established a leadership position within the wind power industry. This puts us in the driver's seat for accelerating the deployment of renewables to increase the share of the electricity system; driving direct electrification; and developing and implementing solutions for indirect electrification.

By leveraging our existing capabilities and developing new solutions, we aim to drive the energy transition forward within these areas. Our goal is to replace fossil fuel power plants with wind energy solutions, replace fossil fuel use in industry, heating and transport with green electricity, and replace non-electrifiable fossil fuel use with e-fuels.

The core of our business model is aligned with the industry's value chain and consists of Development, Onshore Wind, Offshore Wind, and Service. Through these business areas, we accelerate the deployment of wind energy through project development, wind turbine manufacture and installation, and wind energy fleet servicing.
To ensure our core business becomes fully sustainable and continues to grow, we have developed three strategic enablers: Power-to-X, Service adjacencies, and Vestas Ventures.

Development: accelerating the energy transition by expanding our project pipeline

In the last five years, we have built a 30+ GW project pipeline in our Development business to help accelerate the energy transition. A key challenge for ramping up renewables is the number of available projects. By engaging in project development, we are expanding the addressable market for our wind energy solutions, helping customers grow their business, and generating orders for Vestas.

Development covers the phase of creating a power plant from initial planning through to installation. Key activities include securing land rights and appropriate permits, designing sites, ensuring grid connection, and securing project offtake agreements, including financing.

Expectations and strategic priorities

With our strong project pipeline and the political momentum around renewable energy, the outlook for our Development business continues to improve. The demand for high-quality projects is growing, together with the range of potential investors. However, short-term uncertainty and slow permitting processes remain key challenges.

To continue growing our Development pipeline and business profitably, our strategy focuses on the origination of new pipeline; the improvement of project quality, scalability and efficiency; and levers to maximise value. Our focus on origination entails leveraging our capabilities and experience to grow our pipeline in existing and new markets, while also using Repowering and Power-to-X as key enablers. We also seek to improve our success rate further and ensure we have the right resources at the right time during project development. To maximise the value we generate, we continue to strengthen commercial and financial discipline. We are also enhancing our capabilities to de-risk projects, while building our network among potential investors.

In addition to our own development business, Vestas has a 25 percent ownership in Copenhagen Infrastructure Partners (CIP). Through this partnership we can accelerate our own wind site development but also gain access to enabling technologies which will be a crucial part of future infrastructure investments for CIP.

Onshore wind: sustaining our global leadership to increase renewable penetration

Onshore wind energy is the backbone of the future sustainable energy system. Due to its highly competitive cost and independence, onshore wind offers affordable electricity, which is key to building sustainable and prosperous societies. By displacing hundreds of millions of tonnes of CO_2 equivalents each year, and with clear targets for zero-waste turbines and carbon neutrality, onshore wind energy will soon become fully sustainable. Vestas remains the global leader in onshore wind with 164 GW of installed capacity. We aim to continue our leadership by maturing the industry through timely and customer-centric technology introductions, strengthening commercial discipline, and capturing the true value of our onshore wind energy solutions and services.

Expectations and strategic priorities

In the short term, the continued expansion of onshore wind requires grid infrastructure to be expanded and permitting to be simpler and faster. Larger and more efficient storage and balancing solutions are also required. Onshore wind's position in the future energy system continues to strengthen in outlook, with ~587 GW new wind capacity outside China projected to be added by 2030.[1] In particular, these projections are linked to new policy frameworks in the USA, Germany, Spain, and Brazil. Indeed, due to the need to accelerate the energy transition and create new, long-term green jobs, key markets such as the USA and Australia are moving towards bigger onshore projects of 1 GW or more. Power-to-X also offers interesting opportunities for onshore wind energy towards 2030, with green hydrogen becoming increasingly competitive and in most cases outside the grid.

Our experience and global presence provide us with a unique foundation from which to reap the benefits of future growth. However, our future ambitions depend on our – and the industry's – ability to improve some of the fundamentals in onshore wind. This means we must continue to restore and improve profitability through value pricing. A key aspect of value pricing is offering competitive solutions that meet customer needs and enable us to achieve the return on investment required to finance new technology, partnerships, and supply chain scalability.

Core

Development
Unique presence and knowledge drives growing pipeline of attractive, undiscovered wind projects

Onshore
Undisputed market leader within the onshore wind market

Offshore
New technology platform in place to become a market leader

Service
Undisputed market leader with expanding scale and capabilities servicing onshore and offshore

Key enablers

Service adjacencies
Bolt-on acquisitions and new revenue streams to accelerate service growth

Power-to-X
Indirect electrification to further accelerate Onshore and Offshore growth

Vestas Ventures
Accessing adjacent and promising technologies to optimise wind turbine technology

Business area growth expectations

Onshore

Market expectation 2022-25
New installations (GW)*

CAGR:

↑8-10%

Restarting growth
- Declining activity expected in 2023
- Increase in 2024 and 2025 driven by the USA, Europe, and Africa

Offshore

Market expectation 2022-25
New installations (GW)*

CAGR:

↑35-40%

Global expansion
- Strong expansion in Europe and new markets such as the USA and South Korea and broader Asia Pacific
- Growth to accelerate post 2024

Service

Market expectation 2022-25
New installations (GW)*

CAGR:

↑8-10%

Solid growth
- Solid growth from high base
- Power price increases and electricity shortage to drive higher need for output optimisation

Development

Vestas' expectation 2022-25
Order intake generated (GW)

CAGR:

>10%

Foundation in place
- Ambition in Development to outgrow the total onshore market in firm order intake generated
- Own developed projects to further leverage side deals

* Source: Wood Mackenzie: Global Wind Power Market Outlook Update, Q4 2022. November 2022. The forecasts do not include China.

← Transportation of the nacelle of the V236-15.0 MW™ prototype turbine that was installed successfully in December 2022.

Offshore wind: becoming a global leader in a high-growth industry segment

In the last five years, offshore wind has experienced a meteoric rise. From a distant opportunity, it is now a key part of our energy systems from 2025 and beyond.[1] The growing strategic importance of offshore wind paved the way for our re-entry into the segment in 2020. Since then, we have seen offshore wind continue to occupy a central role in the energy transition, in particular creating new opportunities within floating wind energy solutions, Power-to-X, and sustainability – for instance, through electric service vessels and marine biodiversity.

Expectations and strategic priorities
The growing demand and political momentum around offshore wind energy continues to drive market forecasts. Compared to an expected installation level of around 5 GW in 2022, in 2030, offshore installations are expected to reach close to 40 GW – only last year, this estimate was close to 30 GW.[1] Unlike onshore wind, where we have installed turbines in more than 80 markets, offshore wind remains focused in key markets, meaning that the top 10 markets account for around 80 percent of volume. Offshore wind is also being expanded through the development of floating solutions, which are applicable for deep sea areas. The growing magnitude of offshore projects and the growing presence of oil majors and institutional investors necessitates strong partnerships to balance risk and address potential supply constraints.

To continue growing our presence in offshore wind and position Vestas as strongly as possible for the future, we remain focused on partnering with our offshore customers. Through these partnerships, we aim to secure preferred supplier agreements and orders for our V236-15.0 MW™ turbine, whose production we hope to serialise by 2024. To deliver on these customer commitments and our ambitions, we must build our internal competences, while ensuring operational readiness through partnerships and an efficient, resilient, and profitable manufacturing footprint.

Service: providing resilience and stability in a fluctuating environment

Vestas is the global leader in wind energy service solutions, with more than 144 GW under service, equivalent to almost 56,000 turbines. Growing and developing our service business will strengthen the stability and integration of renewables within the energy system. This will be increasingly important as the penetration of renewables grows, providing predictable and high-margin business for Vestas.

Our size and scale remain a key differentiator to provide customer-centric solutions and improve efficiency and profitability. The continued expansion and simplification of our service business remain paramount to releasing our full potential in this area. Our service business' growth also remains closely connected to annual new capacity volumes, while providing opportunities within sustainability, digitalisation, and online commerce as we strive to make our operations more efficient and carbon neutral by 2030.

Expectations and strategic priorities

The global market value for service solutions is expected to grow at an average of 8 percent per year to 2030.[2] This growth will primarily be driven by the increase in global installed volume, as well as the higher value of offshore service solutions. At the same time, we see an increasing number of assets reaching 20 years of operation,[1] which is driving larger demand for repowering, retrofitting, and sustainable decommissioning. Together with a growing need for digital solutions and cyber security, these developments require new models for collaboration and risk-sharing. We also need to consider how to address offshore customer service needs efficiently, given that such needs often differ in scope compared to those of onshore customers.

To fortify and extend our leading position in wind energy service solutions, we sustain a strategic focus on maximising our customers' returns and energy production when electricity demand is highest. To achieve this goal, we are employing an incremental approach to scaling our operations efficiently, which enables us to reap the full benefit of our unparalleled service backlog and prepare for expected growth, onshore and offshore.

Key enablers to power our core business and the energy transition

Renewables have come a long way in the last 50 years. However, although wind power plants today can compete with fossil fuel plants on both cost and capacity factor,[3] we must evolve our core business and develop new solutions to create carbon-neutral energy systems. To drive this development, we have established very ambitious sustainability targets, as outlined in our sustainability strategy, and three strategic enablers: Service adjacencies, Power-to-X, and Vestas Ventures.

Service adjacencies

There are several opportunities within Service beyond the core business of operating and maintaining turbines. These opportunities are driven by the optimisation and retrofitting of turbines as they age, increased digitalisation, and the growing need for improved balancing of wind power plants. Key initiatives, closely related to our increased focus on digital solutions, include Covento, a digital platform providing a marketplace to efficiently connecting buyers and sellers of parts and services, and enhanced cyber security to address the risks both we and our customers face.

Power-to-X

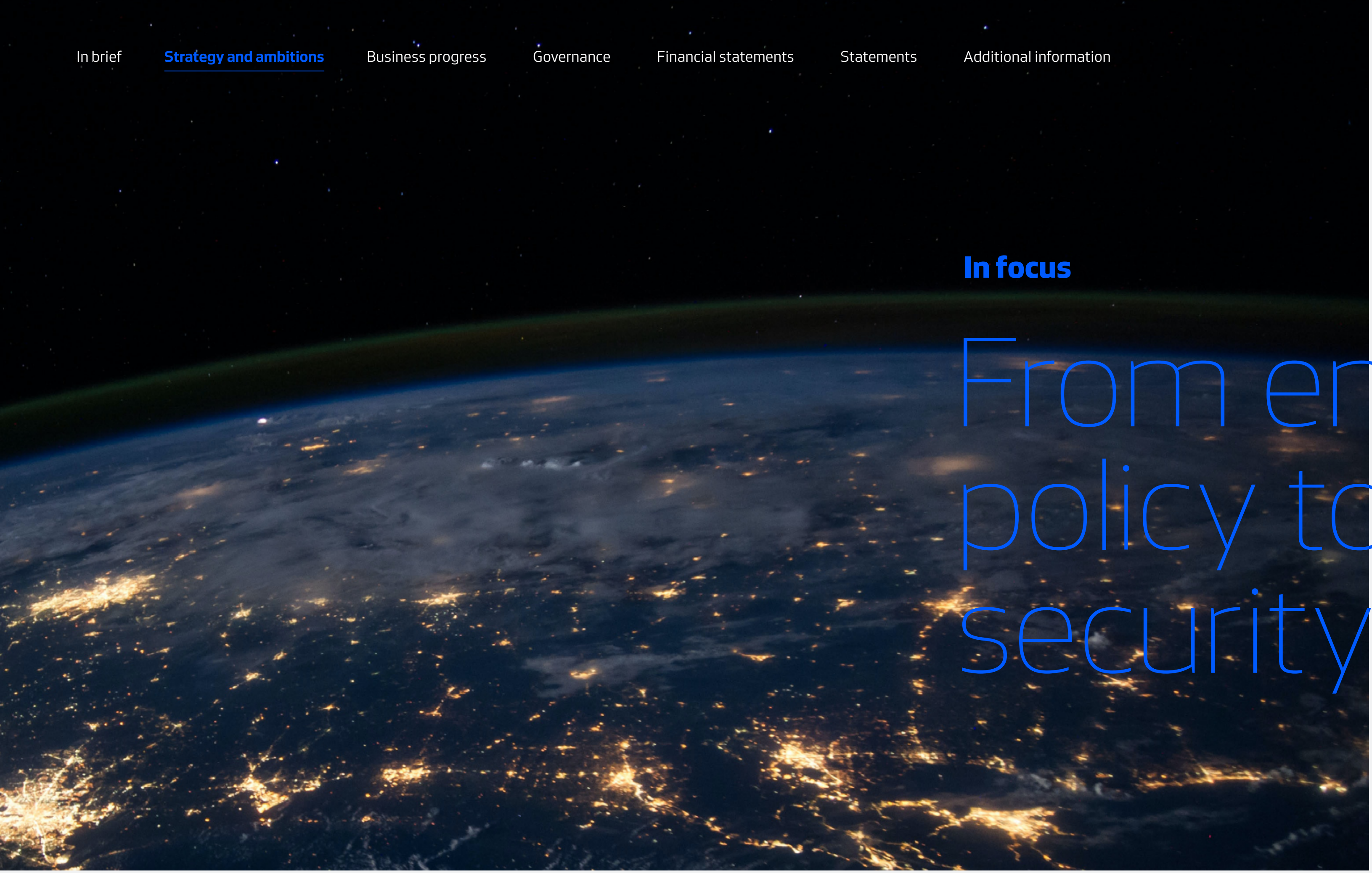
As renewables replace fossil fuel power plants and electrification accelerates and expands, innovative solutions are needed to ensure stability and enable indirect electrification. Key to these efforts are the commercialisation and scaling of Power-to-X solutions. One of the main challenges of the future will be to decarbonise the hard-to-electrify sectors, such as industry, heavy transport, and agriculture. Indirect electrification through hydrogen produced by wind energy will be a vital lever, and we intend to support this development via technology that helps to make green hydrogen competitive. A major challenge for this competitiveness though is the rapid increases in power prices across all continents. The evolution of Power-to-X offers an expansion in scope of wind energy solutions, constituting a new channel for turbine sales and service.

Vestas Ventures

To support the development of new sustainable energy solutions, we have established a corporate venture that seeks to invest in and partner with innovative start-ups. Aiming to help make the world more sustainable and build a carbon-neutral or negative energy system, Vestas Ventures will continue to make strategic investments within four key areas: long duration energy storage and flexibility solutions; Power-to-X; high-value-generating wind solutions; and sustainable and advanced materials for turbines. To date, Vestas Ventures has invested in Modvion™, a pioneer in wooden wind turbine towers; Salamander, a crane solutions company that reduces installation times and carbon footprint; Northvolt®, a European-based leader in battery storage solutions; and Hysata, the creator of a revolutionary high-efficiency electrolyser for green hydrogen production.

↑
Vestas now services close to 56,000 wind turbines. Our 8,500+ dedicated service technicians across 77 countries work committedly to maintain and support wind farms with a total capacity of 144 GW.

1 Source: Wood Mackenzie: Global Wind Power Market Outlook - Q4 2022. 21 November 2022.
2 Source: Vestas' estimate based on Wood Mackenzie's reports "Global Onshore Wind Power O&M 2022" from Q3 2022 and "Global Bottom-Fixed Offshore Wind Operations & Maintenance 2021" from February 2021.
3 Source: International Energy Agency: International Energy Agency: Offshore Wind Outlook 2019. November 2019.



In focus

From energy policy to security policy

In early 2022, global fossil fuel supply was thrown into disarray. Triggered by Russia's invasion of Ukraine, and the ripple effects that followed, Europe fell into an energy crisis. With energy supply hampered, energy bills across Europe skyrocketed and economic instability became widespread. At the time of writing, many European member states continue to grapple with the threat of severe energy shortages.

The ongoing energy crisis has intensified the global spotlight on fossil fuel volatility, and highlighted the risks associated with overdependence on these fuels. As geopolitical undercurrents continue to shift, energy supply is being disrupted and restricted, placing an increasing strain on European energy markets.

Politicians have sought to intervene with urgent measures. From emergency market interventions that seek to cap revenues for energy suppliers, to discussions around ramping up local fossil fuel projects, governments are trying to limit the negative impact on vulnerable consumers.

Building resilience by scaling renewables

The challenges experienced on the power markets in 2022, which look set to extend into 2023 and beyond, were caused by an imbalance in supply and demand. Put simply, energy and electricity were and continue to be in high demand, but very short supply.

"

Today's challenges are caused by an imbalance in supply and demand – energy and electricity are in high demand, and short supply.

To curb the impact of the current crisis, policy and market interventions must directly address this imbalance.

Scaling up renewable energy is the most direct route to building resilience and reducing our vulnerability to geopolitical shifts. With more installed renewable capacity, we can move towards energy independence and increase access to energy systems that are decarbonised, cost-effective, and resistant to supply disruptions. These conditions are key to building long-term energy security, while also ensuring that European member states stay on track with shared climate goals.

Removing permitting delays
At present, permitting bottlenecks stand in the way of countless European renewables projects, bloating timelines on developments that could be completed in just a couple of years. While ambitions to accelerate renewable installed capacity were stepped up in 2022 in response to the energy crisis, at present the EU has approximately 80 GW of wind capacity caught in permitting delays, four times more wind capacity than under construction.[1] And despite constant talk from policy makers about expediting the permitting process, bottlenecks persist.

Of course, certain key adjustments would help. More resources, increased digitalisation, and a clear streamlining of responsibilities among different authorities would deliver more efficiency and speed. In many countries, permitting processes are often delayed by long decision-making processes, spanning across a multitude of input providers. To overcome this, we must adjust decision-making procedures to allow central governments to play a larger role, offer more support to local authorities and build speed and consistency in the approach to permitting, aligned with renewable energy targets.

While the impact on local environments must be respected, it is now imperative to focus on the issues that most greatly impact public interest, with energy security being the most urgent priority. With these adjustments in place, the overall permitting process should be brought closer to a timeline of two years, as opposed to up to a decade where it currently stands.

Beyond accelerating the permitting process, it is also crucial that our energy infrastructure supports a long-term exit from our global addiction to fossil fuels. Alongside strong foundations for the expansion of renewables, we must nurture power system flexibility by implementing storage solutions and developing smarter grid systems.

Accelerating the energy transition
Overall, addressing the energy crisis calls for governments to think beyond short-term interventions, and prioritise building long-term energy security through a drastic scale-up of renewables. Unlocking the tens of gigawatts of wind capacity that are currently waiting in the wings across Europe is the first step. Strengthening our energy infrastructure to ensure we can add more capacity is the second.

Wind energy has become the most competitive source of power generation in many countries. However, beyond its impact on levelised cost of energy (LCOE), wind can also drive cleaner, greener, safer, and more secure energy systems. These additional benefits are often overlooked, but must be included in the valuation of wind energy if we are to build a scalable renewables industry. For example, adjusting auction designs to focus on non-price criteria and broader value creation could help to prevent a race to the bottom on pricing between developers. This would also pave the way for renewables to capture more value, and reinvest this back into building scale.

Although broadly referred to as an 'energy crisis', the current global situation is in fact a 'fossil fuel crisis'. By successfully removing the bottlenecks that currently restrict the expansion of renewable energy, we can end the vicious cycle of fossil fuel volatility – and in doing so, accelerate our journey towards a more secure and sustainable global energy system.

1 Source: WindEurope: "Emergency measures on permitting are a step backwards". Press release 22 November 2022.

Capital structure strategy

The Board and Executive Management regularly assess whether Vestas' capital structure, i.e. how the company funds its overall operations and growth, is in the shareholders' best interest. The ongoing assessments also include the ways in which it supports our corporate strategy.

Financial management
In relation to financial management, our objective is to create the necessary flexibility and stability to implement strategic development work, while achieving Vestas' financial ambitions in the long term. At the same time, we aim to have the most effective cost of capital.

In March 2022 we issued two sustainability-linked eurobonds, each of EUR 500m. We used the proceeds of these bonds to strengthen our liquidity and financial flexibility. This supplements our existing EUR 2,000m sustainability-linked revolving credit facility, signed in April 2021, with a six-year duration and option to extend the maturity by one year. Vestas has a credit rating from Moody's Investors Service, currently with the rating Baa1 with a negative outlook.

Our current liquidity reserve is based on a diversified composition of funding and credit facilities, providing the financial stability and flexibility to execute our corporate strategy.

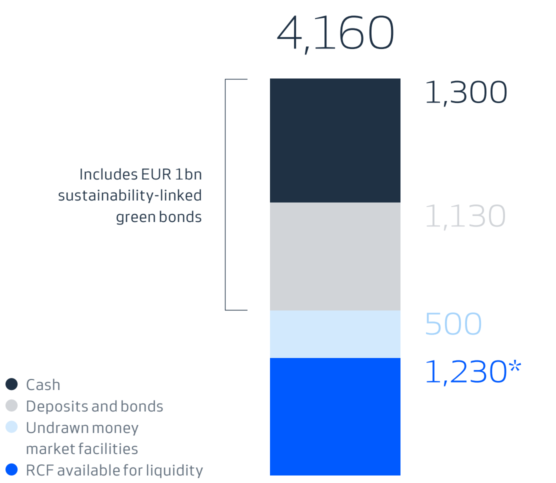
Capital structure targets
As a key player in a market where projects, customers, and wind energy investors are increasing in size and number, we want to be a strong financial counterparty. We aim to maintain capital resources to ensure we operate within our capital structure target of net interest-bearing debt to EBITDA below 1x. Although, as 2022 demonstrated, due to short-term impacts of EBITDA being close to zero, we may see periods of high volatility and risk of exceeding that target, without losing our position as a strong financial counterparty.

Capital allocation priorities
We apply the following principles to capital allocation:

- Allocate the investments and R&D required to realise our corporate strategy and long-term vision of being the Global Leader in Sustainable Energy Solutions.
- Make bolt-on acquisitions to accelerate or increase profitable growth prospects. All investments in organic growth and acquisitions must support our long-term financial ambition of achieving return on capital employed. We will also explore divestments of non-core assets to strategic owners that support the scaling of the industry.
- Pay shareholder dividends based on the Board's intention to recommend 25-30 percent of the company's annual net result after tax, which will be paid out following shareholder approval at the annual general meeting.
- From time to time, initiate share buy-back programmes to adjust the capital structure. Any decision to distribute cash to shareholders will be based on the capital structure target and availability of excess cash. The level of excess cash will be determined in line with our growth plans and liquidity requirements. Share buy-back programmes, if any, will likely be initiated in the second half of the year based on performance. In 2022, we decided not to initiate a share buy-back programme.

The Board and Executive Management consider that our current capital and share structure serves the interests of our shareholders and Vestas well. It also provides strategic flexibility to pursue our vision to become the Global Leader in Sustainable Energy Solutions.

Liquidity reserve composition
mEUR



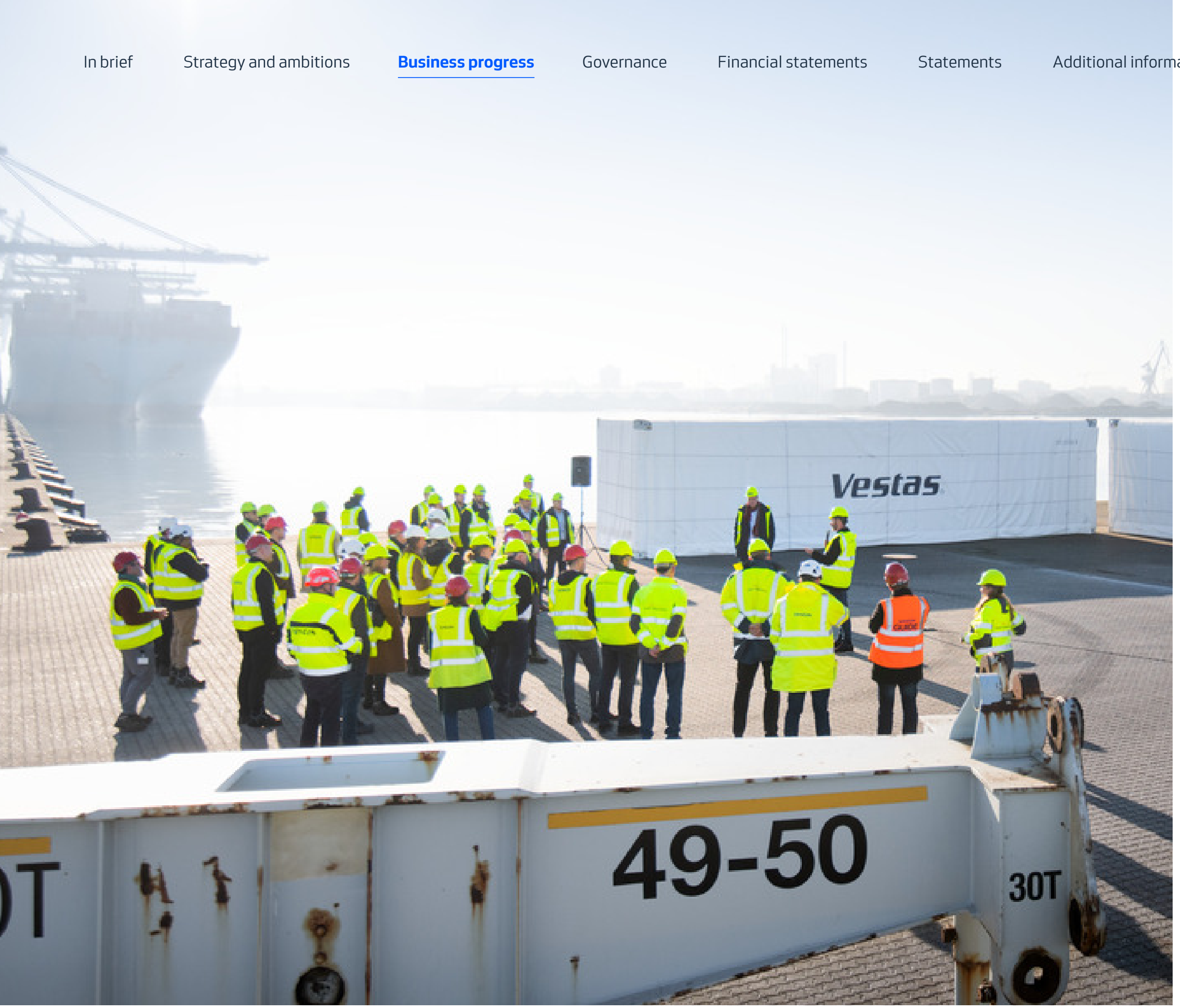
* The total RFC amounts to EUR 2bn, of which EUR 770m is reserved for bonding purposes.

Business progress

- → Building one winning team
- → Performance on the global market
- → Learnings from supply chain disruptions
- → Delivering the energy solutions of today and tomorrow
- → Maturing and industrialising our supply chain network
- → Building a leading position in offshore wind
- → Expanding the renewable market through project development
- → Building a scalable foundation for a growing Service business
- → Accelerating our digital journey

↑4%-points

Over the past four years, the share of women in our leadership positions across the company has increased by 4%-points.



Building one winning team

In 2022, we undertook a number of initiatives to strengthen our culture. These included increased attraction efforts, the gathering of employee feedback, and investments in people development. We also launched a new employee ambassador programme, expanded our diversity, equity, inclusion, and belonging agenda, and maintained focus on inclusive leadership as the backbone of our organisation.

At Vestas, we are defined by sustainability and a passion to do better for both our planet and our people. It is the reason why our more than 28,000 colleagues go to work every single day, with a need and urge to create a more renewable future. It is in our DNA, and it shapes our culture.

We believe our people are the most vital resource to succeed on our journey to become the global leader in sustainable energy solutions. Without their passion, talent, and dedication, we would not be able to provide the solutions to accelerate the energy transition. Therefore, we continue to invest in our people to create and sustain a culture in which we win together, as one team.

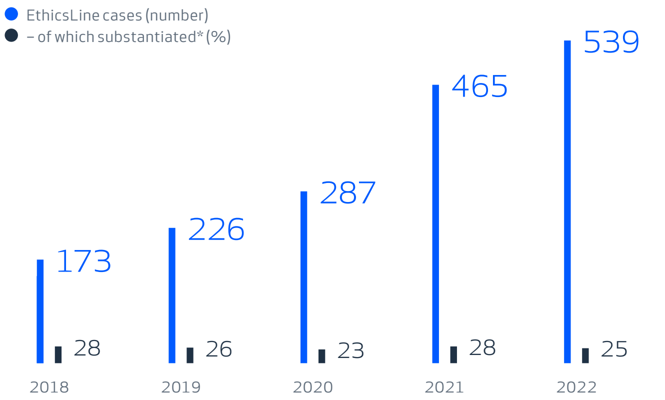
Building for the future

To continuously build and grow our organisation, we must further develop our employer brand to attract top talent. To this end, we launched a new Employer Value Proposition (EVP) in 2021, with the overall narrative that, at Vestas, we "Power the Solution". We are continuously working towards anchoring the EVP on a global scale, and to do so, we established a Regional Culture Task Force in January 2022. The task force is a cross-functional collaboration between regional Communications and Talent Acquisition representatives. It functions as a knowledge- and idea-sharing forum designed to strengthen our ability to attract talent across our regions. For example, the task force produces employee stories based on our EVP. It also plans and participates in events and operates as an ambassador for the EVP internally and for Vestas externally.

To ensure a robust talent pipeline, we have been working towards building a stronger presence in schools and universities globally, an effort we will continue in 2023. As a recognition of our efforts with working conditions and employee wellbeing regionally, we have received Great Place To Work certifications for the year 2022 in Brazil, India, and Portugal.

Also in 2022, we focused on attracting Service Technicians by producing relevant tailored content and increasing the number of targeted social media campaigns. To further increase our capability to attract, develop, and retain Service Technicians, we also initiated a cross-functional pilot project in the Asia Pacific region. Through the pilot, we aim to identify shortcomings and strengths via surveys, focus groups, and the monitoring of related key figures. If relevant, we will extend the project to additional regions in the year ahead.

EthicsLine cases and substantiation rate



* Substantiation rate for 2022 is a status end year. Forty four of the 539 cases are still under investigation and will only be settled in the full-year 2023 reporting.

Listening to our employees and acting on their feedback

Throughout the year, we continued to listen to our employees via our Employee Engagement Survey, which we conduct twice a year. The survey allows our people to make their voices heard and provide feedback, which we use to create the best possible workplace, together. In the second half of 2022, the survey showed an overall satisfaction score (eSat) of 73, stable from 2021.

We also encourage the use of our whistleblower platform, EthicsLine. Using EthicsLine, employees (or external third parties) can report suspected unethical conduct or potentially unacceptable behaviour. In 2022, 539 cases or questions were raised through EthicsLine, of which 137 were substantiated. For more information, see the Sustainability Report 2022, page 42.

Investing in our people

We aim to bring out the best in our people and allow them to fulfil their potential so we can grow together, both as individuals and as a company.

The development journey starts from day one. To ensure our employees feel welcome and included from the beginning, in February 2022 we began creating an engaging end-to-end onboarding journey for all new employees, starting with a new e-learning. We also invested in development opportunities by launching a global Learning & Development portal. By using the portal, employees can power their own development through blended learning offerings. By the end of 2022, more than 13,000 employees had visited the portal, accessing educational games, visiting our Power Your Development Library with audio learnings and e-books, and joining the Power Your Development Community. Since April 2022, 5,000+ employees have completed one or more games, and since its launch in February 2022, close to 5,000 employees have downloaded content from the Power Your Development Library.

To support the development of our employees in our factories and on sites, we are working closely with educational institutions in several markets. Through this work, we aim to influence curricula to suit the needs of our industry, and to provide development opportunities for our apprentices to futureproof our organisation. As an example, we have initiated an updated progression plan in the USA to create high-performance teams. This involves providing our factory employees with the skills and behaviors required to welcome, upskill, and guide new joiners, helping us create a prepared workforce ready to scale.

↑ Vestas delivered an innovative battery concept to power six of Lukas Graham's concert shows – replacing traditional diesel generators as power source for the lights and sound during the concerts.

In 2022, we also continued our focus on building a stronger pipeline of successors for our corporate leadership positions. To this end, we implemented succession planning and validation as a core part of our annual People Review process. Having recently recruited three members of Executive Management internally, we remain committed to building a stronger management pipeline through our global talent programmes.

The Energiser Programme: strengthening our culture
In March 2022, we launched our new voluntary employee ambassador programme, Energisers. The Energiser programme is an attempt to encourage and enable employees to bring good energy to work and share positive stories. This is done through an Energiser e-learning and themed calls that take place every two-to-three months. Examples of Energiser initiatives include social media training to brand personal achievements, concrete tips and tricks on how to contribute to an inclusive culture, and learning and development opportunities within Vestas. The programme also includes initiatives such as virtual coffee chats between colleagues. By the end of the year, more than 700 employees have signed up to become an Energiser.

Engaging our factory employees
In 2021, we launched MyVestas, a mobile app for our factory employees, with the intention of enabling them to connect, engage, and receive relevant news. The app has been used to disseminate the Energiser programme to many of our factory-based employees who do not have access to PCs. Throughout 2022, we expanded the app to additional factories in Denmark, the UK, the USA, and Italy, reaching a total of 11 factories and more than 6,000 employees.

Our factory employees use their own mobile phones to access the app, and it is completely voluntary to join. Of the users, 96 percent say they are satisfied with the app. Going forward, we will expand the app to additional factories to ensure we continue to offer the best and most engaging form of communication to all employees.

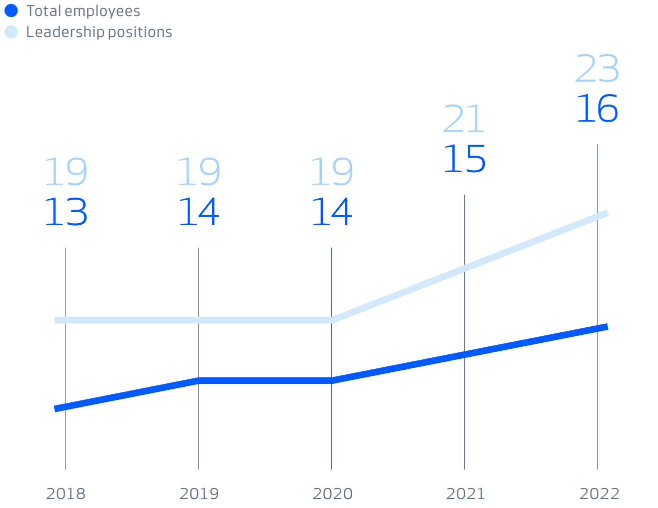
Building a diverse and inclusive Vestas
We want to ensure an inclusive work culture where everyone thrives because of – rather than in spite of – their differences. We believe that a diverse team is fundamental to creating innovative and forward-thinking solutions, enabling us to accelerate towards a brighter future.

As a first step to creating a more diverse and inclusive workplace, we have committed to increasing the gender balance in leadership positions at Vestas. We aim to reach 25 percent female representation in leadership positions by 2025, and 30 percent by 2030. In 2022, we continued to focus on gender balance as a strategic priority. We increased the female representation in our employee stories, published both internally and externally. We also began an assessment of our recruitment and promotion processes to identify any potential structural changes. By the end of 2022, this resulted in 16 percent female employees across the entire organisation, while the share of female representation in leadership positions increased from 21 percent in 2021 to 23 percent.

We are aware that gender is only one dimension of diversity, and that creating a diverse culture requires a broader agenda. To show our commitment to diversity in all its different facets, we will select a 'diversity awareness-raising focus' on an annual basis, enabling us to address specific inequalities and known problem areas. Read more in our Sustainability Report 2022, pages 50-52.

Continued focus on leadership
We believe that strong and inclusive leadership is fundamental to creating a healthy organisation where people thrive and goals are reached. In 2022, we continued to promote inclusive leadership by providing our people managers with tools, knowledge, and skills to lead their teams in the most fruitful way. Going forward, inclusive leadership training will be mandatory for all people managers, helping to ensure they can lead their teams in an equitable manner and foster a safe and inclusive culture for all.

Share of women in workforce
Percent



In 2021, we successfully executed our first Vestas Leadership Forum (VLF). In 2022, we continued this success with VLF 2022, which was held in September. A two-day event for our most senior leaders globally, VLF is vital to ensuring strategic alignment across functions and regions. It also helps to ensure that all leaders have the knowledge, tools, and commitment to lead their teams towards a stronger Vestas. The theme of VLF 2022 was a continuation of the previous year's theme, 'One Winning Team', which emphasises the importance of a united Vestas to the realisation of our vision. In support of this theme, day one of VLF 2022 was dedicated to Partnerships, while day two focused on Inclusive Leadership. Importantly, the participants are held accountable for bringing their VLF learnings home to their teams, thereby cascading the vision, strategy, and culture throughout the organisation for the benefit of all employees.

Performance on the global market

Severe uncertainty negatively impacted both deliveries and order intake in 2022, but easing towards the end of the year, strong average selling prices and legislative action signal an improving momentum. Our Service business accelerated as the increasing energy prices drove up demand.

In 2022, the renewable energy industry was impacted by high volatility. Geopolitical tensions, amplified by the war in Ukraine, showed that energy policy has fast become security policy, with energy dependence easily leveraged as a powerful weapon. Ambitions for renewable and independent energy assets increased significantly around the world, elevating the medium- and long-term prospects for wind energy. However, in the short term, demand continued to be curtailed by red tape, chiefly in permitting, and by changes in energy policy. The unstable environment also negatively affected decision making processes with a volatile spot and offtake market, rapid inflation, and rising interest rates. At the same this led to a need for Vestas to increasingly share certain risks with customers along side raising prices to match cost inflation.

Despite the challenges facing the industry and our increasing, industry-high selling prices, we managed to maintain our market leadership with an order intake of 11 GW, with all regions contributing. Collectively, the USA, Brazil, Australia, and Germany accounted for approx. 54 percent of the total order activity. The year concluded with a sustained high level of deliveries, 13 GW, despite the decline in the USA; for an overview, see page 148.

The supply chain disruptions caused by COVID-19 continued in 2022. These disruptions were then exacerbated by the war in Ukraine, making the operating environment fragile and unstable. However, through dedicated efforts and close collaboration, we were able to mitigate the challenges and deliver on customer commitments, although some projects were inevitably delayed.

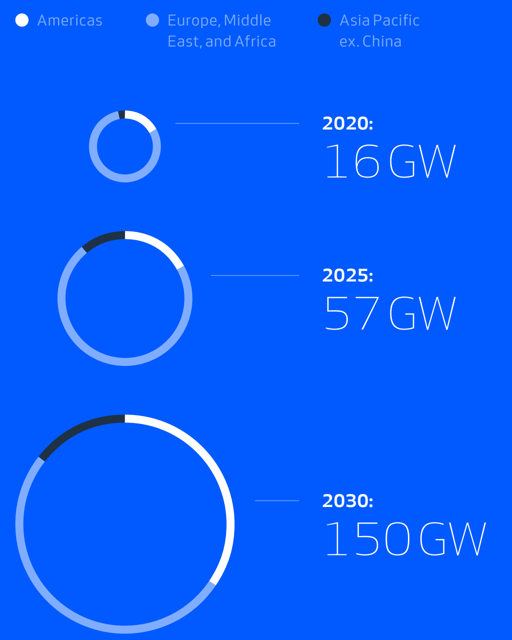
During the year, we made preferred supplier agreements for 5 GW for our new offshore V236-15.0 MW™ turbine, spanning three continents. The technology is proving commercially attractive for customers and is on track for installation in 2025.

Our Development business holds significant potential over the long term, and we are already starting to see this potential materialise. In 2022, our project pipeline expanded to 32 GW, up from 25 GW at the end of 2021.

Subdued order momentum, but exits the year in positive trend
Brazil continued to be one of our main volume drivers in 2022, with positive momentum generated by new projects awarded through auction. We announced a 1.9 GW order intake and achieved 1.5 GW of deliveries in the country, leveraging the solidly established manufacturing hub for V150 turbines. We also surpassed 8 GW in total order intake on the V150-4.2 MW™ turbine in the country.

The USA had another subdued year, as the uncertainty around the passing of new Production Tax Credit (PTC) legislation stalled the market. Following the passing of the Inflation Reduction Act (IRA) in August, with strong incentives for renewable energy, the long-term prospects for wind in the USA have never been better. However, short-term order intake was impacted by initial uncertainty around the details of the Act. During the year, we received orders of 2.0 GW, compared to more than 2.6 GW in 2021, while deliveries reached

Ageing of the installed onshore base (>20 years) towards 2030



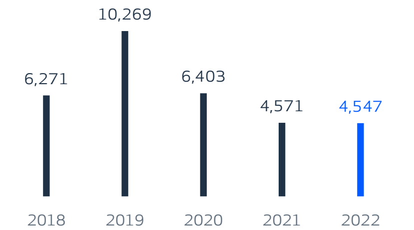
Source: Wood Mackenzie: Global Wind Power Market Outlook Update, Q4 2022. November 2022.

An ageing fleet calls for repowering
Towards 2030, the USA and several core European markets with older installed fleets will likely see a significant share of new installations being realised through repowering. As installed fleets continue to age, the repowering market is expected to become a major driver of medium-and long-term demand.

In 2022, 450+ MW of our order intake came from repowering projects. In Germany, repowering projects accounted for 20 percent of the orders.

Americas

Order intake
MW



Deliveries
MW

4,520 YoY ↓21%

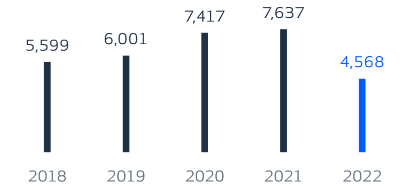
Top three markets:

USA: 2,275 **MW**
Brazil: 1,528 **MW**
Canada: 325 **MW**

Total order backlog
Power Solutions and Service
(bnEUR)

Europe, Middle East and Africa

Order intake
MW



Deliveries
MW

7,467 YoY ↓13%

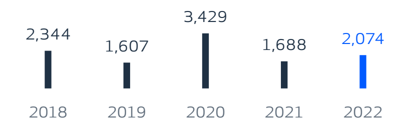
Top three markets:

Finland: 1,185 **MW**
France: 1,002 **MW**
Poland: 957 **MW**

Total order backlog
Power Solutions and Service
(bnEUR)

Asia Pacific

Order intake
MW



Deliveries
MW

1,341 YoY ↓40%

Top three markets:

Japan 399 **MW**
Australia: 376 **MW**
Vietnam: 179 **MW**

Total order backlog
Power Solutions and Service
(bnEUR)

2.3 GW. Of the order intake, 400 MW came from our own development activities in the country.

In Europe, Germany continued at a high level of awarded volume in onshore wind auctions. Combined with several new initiatives to accelerate the permitting process, Germany is leading the European market and took an important step towards reaching its ambitious renewable energy goals. Overall, Germany continued to be one of the largest drivers of our order intake, with 1.0 GW of orders.

Along with other Northern European markets like Finland, Germany continues to be one of the major adopters of the recently launched EnVentus™ platform. On a global level, in 2022 EnVentus™ orders constituted 29 percent of our total wind turbine order mix.

Within Asia Pacific, Australia continues to be an important market. The country is one of the frontrunners in exploring the role of renewables in grid stabilisation and increased electrification, with Power-to-X as an example. During 2022, we received 1.1 GW of order intake in Australia, driven by the largest order at 756 MW. In total, deliveries reached 1.3 GW in the Asia Pacific region, a decrease of 0.9 GW compared to 2021.

A step-change in Service growth
Our Service segment not only continued its positive growth momentum but also saw a strong acceleration, partly driven by effective indexation levers in the contracts, securing profitability despite high inflation. We also experienced strong general demand as high electricity prices generated higher-than-normal activity to maximise wind turbine uptime.

In 2022, our global serviced volume reached 144 GW, while the year concluded with an all-time high order backlog of EUR 30.4bn. The average contract length in the Service order backlog continues to increase, standing at approximately 11 years at the end of 2022. The increasing duration of service contracts highlights customers' confidence in our solutions across the full asset lifecycle. We have also further expanded our Service offering to other turbine types, with the total number of multibrand service contracts reaching close to 9 GW in 2022.

Learnings from supply chain disruptions

In 2022, a series of global factors significantly affected the accessibility and cost of components. Due to the complexity of our work, a company like Vestas is particularly exposed in such situations, spurring us to review and strengthen our supply chain.

The geopolitical uncertainties and continued supply chain disruptions of 2022 had a major negative impact on the costs of executing our order backlog. Nevertheless, despite the challenging conditions, we once again delivered on our customer commitments and continued to accelerate the energy transition, together with our partners. Having installed more than 164 GW of wind turbines in 87 countries, we understand the importance of operating a resilient supply chain, as well as anticipating and mitigating operational risk. However, we know there are things we need to evolve in order to better mitigate the cost impact of supply chain shocks.

→

A turbine blade under transportation to the construction site of one of the wind farms in the Fosen Wind park (1 GW) in Norway. The wind park was commissioned during 2018-2020.

We have continuously developed our approach to handling the diverse risks inherent in building wind farms with long project lifecycles. From sourcing the many different raw materials and main components, to ensuring the right components arrive on site at the right time, our work is deeply complex and multifaceted. Furthermore, the interlinked value chain that makes our work possible is exposed to the domino effect of supply disruptions and shortages. For example, delayed component delivery can lead to significant additional crane costs at an installation site.

Evolving our risk management approach
In 2022, we took concrete actions to refine our approach to managing supply chain risks. These actions drew on our strong heritage as the industry leader, combined with more recent learnings from COVID-19 disruptions, geopolitical uncertainties, and the 2021cyber-attack.

During the year, logistical challenges such as global container shortages, port congestion and increased trade barriers affected our operations. In turn, these impacts led to adjustments within our risk mitigation strategy. For example, we ramped up our strategic partnership with Maersk on all containerised transport, helping to secure customer deliveries and minimise cost increases. The agreement with Maersk will help strengthening our ability to cope with fluctuations in the transport market.

Shortages or delays of goods for the manufacture, delivery, and installation of wind turbine projects were another key supply chain risk. In response, we remained focused on developing partnerships and strengthening our resilience through proactive risk management, comprehensive quality assurance, and integrated mitigation planning. As an example, stronger partnerships with semiconductor suppliers helped us secure enough microchips to deliver on our customer commitments. Read more about strong partnerships as key lever to mitigate supply chain disruptions on page 39.

Another focus area was how to increase risk sharing with our customers. This is done in several ways, such as increasing the level of indexation clauses where possible, and shortening the validity period of our offers to lower the impact of volatility in raw materials and other costs. We also developed our approach to pricing the risk we take on behalf of the customer.

Balancing our supply network to market needs
To further address the challenging business environment, we reprioritised select markets and balanced our production capacity. These measures helped us to increase production of our main components closer to key markets.

As part of this process, we ceased the manufacturing of blade production in Tianjin, China, and Ahmedabad, India. While the global demand for renewables remains solid, we need to ensure that our production capacity is built up in such a way that products can be delivered at the lowest total cost for our customers. Therefore, we are continually adjusting manufacturing capacity both upwards and downwards to meet market needs and not least local demands.

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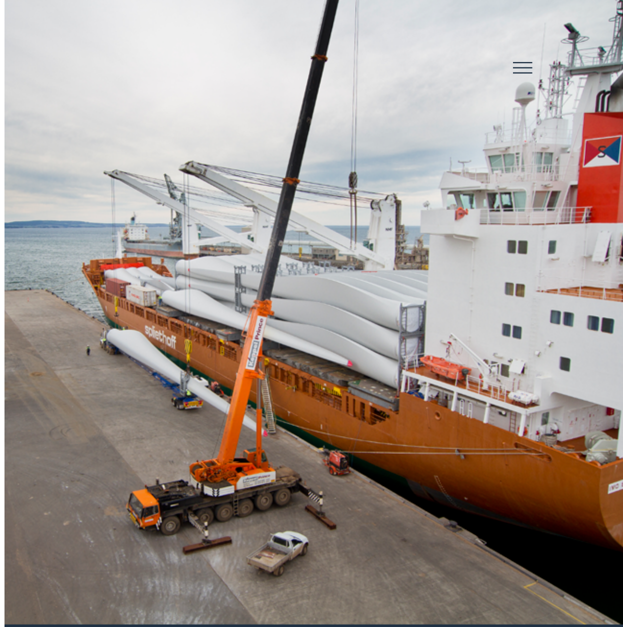
In 2022, we refined our approach to managing supply chain risks. As an example, partnering with Maersk on all containerised transport will help secure customer deliveries and execution timelines.



Complexity at a glance 2022
A global value chain

57,200 unique materials from

13,000 suppliers totalling

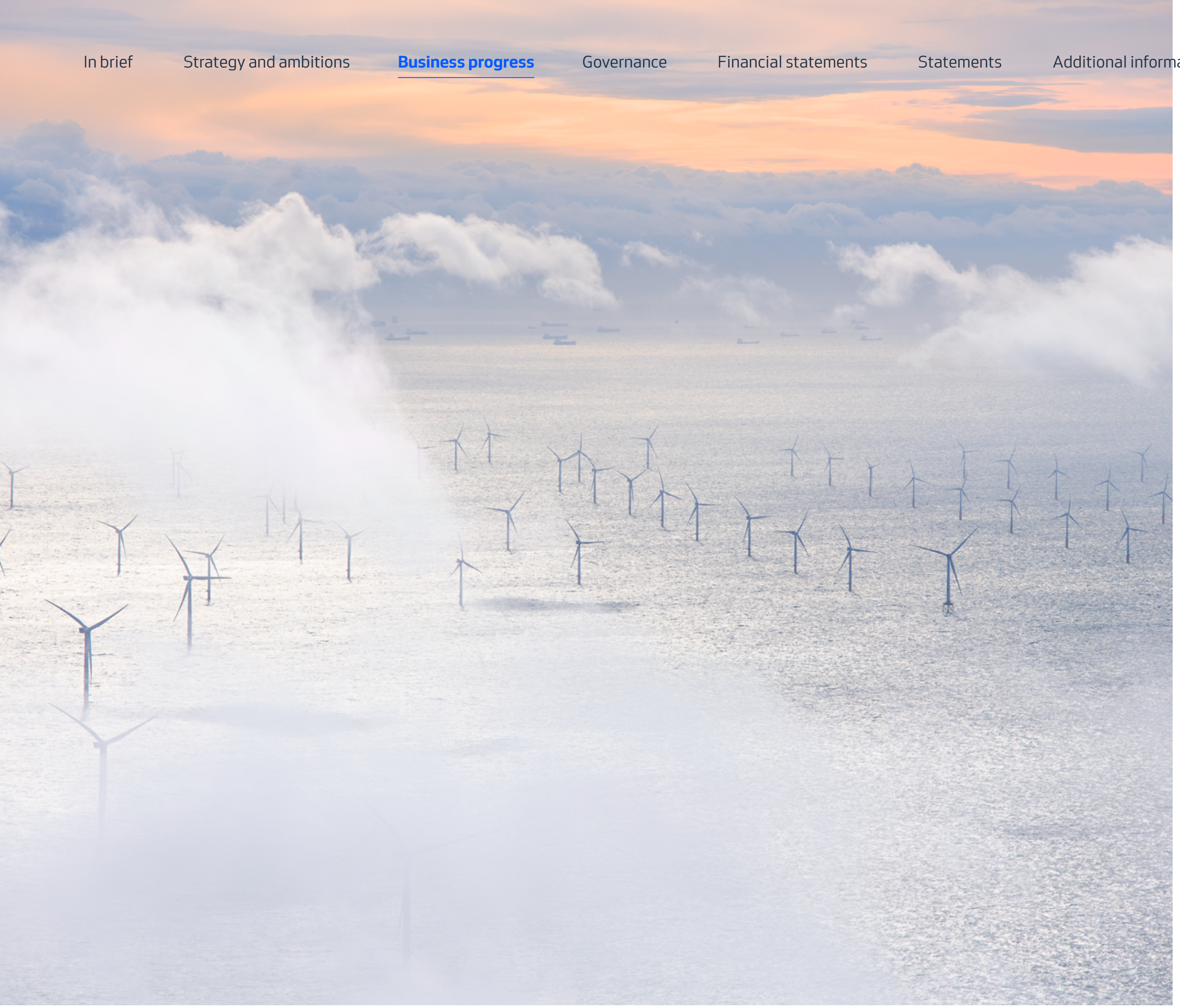
275,000 shipments to

62 factories (own and 3rd party) producing main components to projects in

21 countries leading to

26,000 main crane lifts and finally delivery of

3,300 turbines



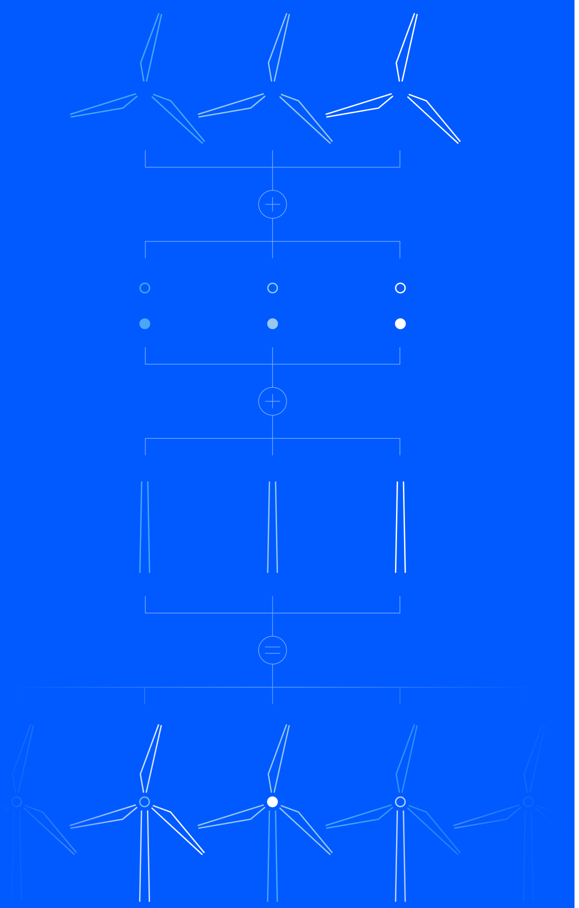
Delivering the energy solutions of today and tomorrow

As the market leader in the wind power industry, Vestas is uniquely positioned to meet the accelerated global demand for renewable energy. With wind farms becoming an increasingly important part of energy infrastructure, it is critical to ensure reliability, durability and quality of output as we deliver these in-demand solutions.

At Vestas, we are focused on creating an energy solution that enables significant value creation for our customers over the lifetime of their assets. Our deep knowledge of wind and turbines, combined with the breadth of our product catalogue, allow us to help customers design power plants that yield the highest possible annual energy production. Our increasingly modular design also enables us to offer these customisable solutions without adding complexity to the production setup. By taking into consideration all factors impacting a given customer solution, such as wind speeds and intensity, turbine or connectivity constraints, animal life and local content, we can build long-term partnerships with our customers and local communities.

Quality: the key to value creation

High growth, shorter time-to-market and value chain immaturity present challenges to quality. This in turn impacts the energy production of our customers and our financial results. We cannot let scaling challenges be a barrier to future growth. We are therefore using the current lower growth market conditions as an opportunity to prepare Vestas for the expected high growth in Onshore and Offshore over the coming years – and to ensure the reliability of our installed fleet.



The modular approach
By dividing the turbine into manageable modular building blocks, Vestas takes advantage of industrial standards rather than challenging them, taking the entire value chain into account. Modularisation is hence key to enable building the needed scale to meet the future energy demand.

Pushing for a better tomorrow

Sustainability is integrated into everything we do. From our sustainability demands for suppliers to our targets on emissions, waste, and circularity, we want to be at the forefront of industry efforts and to keep pushing standards. We are in a good position, and in January 2022 we were ranked as the most sustainable company in the world, followed by a number two ranking in January 2023.[1] However, we want to do more and encourage the industry to adopt an even faster pace of change – a topic that increasingly comes up in our discussions with customers.

The reliability of our solutions is our qualifier for driving growth and building scale, both for our own presence and for the renewables industry more broadly. In 2022, we brought Vestas closer together, enabling short-term wins and long-term improvements to meet customer expectations. We are moving from quality control to quality assurance, focusing on maturing our processes. This shift will lead to a more proactive approach to securing quality, compared to the more reactive approach we have taken in the past.

Powering a brighter future through innovation and partnerships

As a global leader in sustainable energy, we have a responsibility to carve out a reliable, scalable, and sustainable pathway for our industry. Critically, we must do this without compromising safety, which is a core value at Vestas. To this end, we innovate to drive Vestas and the industry forward. Examples of innovation include our blade circularity project; our launch of the world's first hydrogen-powered crew transfer service vessel; and our modular approach to wind turbine design. We also have a growing number of strong partnerships in our supply chain. Looking ahead, we need to keep taking our customer relations to the next level, as we did in 2022 in several of our strategic and key accounts. In practice, this means growing together with the largest and most ambitious customers to generate value for all parties.

The scale of renewable projects will continue to grow and require further collaboration on technology, service solutions, and sustainability, underscoring the need to move from transactional relationships to robust and reliable partnerships. In 2022, we increased our focus on partnerships through open dialogue and formal agreements. We believe investing to build strong, long-term customer partnerships is the only way to power a brighter future through sustainable energy solutions. After many years of declining average selling prices, as the technology progress made the levelised cost of energy decrease and thereby increased the competitiveness against other energy solutions, we are now in the process of making the value we create clearer to our customers. During 2022, the value of our solutions created for customers increased substantially. We continue to develop our sales toolbox to put us in the best possible position when discussing wind farm design opportunities and the value we create for our customers. We must have a fair share of that value.

A vestas employee at the factory in Nakskov closing the mould for the V236 blade with a controller. The final glue is then to cure before the blade can be demoulded.

1 Ref. the Corporate Knights ranking of the World's Most Sustainable Corporations 2022 and 2023.

Maturing and industrialising our supply chain network

The renewables industry is still relatively young, and its supply chain has a long journey ahead. This journey will be driven by scale, but is challenged by varying maturity among suppliers and siloed operations across OEMs. A shift towards increased collaboration is therefore essential.

Scaling with our partners
Over the past years, we have taken steps to scale our business and to strengthen the industry's supply chain foundations. Going forward, partners are hence expected to participate in this scaling as well as maintaining a strategic focus on our core business, supporting the long-term efficiency of the supply chain. A current very long-term partner is ZF Wind Power, which has been a strategic partner to Vestas for decades. ZF has played a key role in our modularisation journey, and has evolved from being a pure gearbox supplier of ours to supplying the full powertrain of our EnVentus platform. In addition, ZF and Vestas are working closely on co-developing the gearbox and powertrain for Vestas' latest V236-15.0 MW™ offshore turbine.

In August 2022, Vestas signed an agreement with the Danish company KK Wind Solutions (KK) for the acquisition of our converters and controls business. This business includes three converters and control panels factories in Denmark, India, and China, plus associated staff functions.

As part of the agreement, KK will exclusively supply converters and control panels to Vestas from the three factories. The partnership also provides the potential for local expansion and job growth, extending the use of converter technologies in areas adjacent to our core business. Furthermore, the agreement includes the joint development of converters, with an engineering team at Vestas fully dedicated to the partnership. These developments build on years of collaboration with KK, most recently exemplified in the localisation of offshore power conversion modules and low voltage cabinets in Taiwan.

In blade production, we also took a step towards improved utilisation of the industry's supply chain assets in 2022. During the year, we partnered with the company LM Wind Power for blade production in Brazil for the V150-4.2 MW™ turbine. We also tasked the company with designing the blade for the V172-7.2 MW™ EnVentus turbine to our quality standards and interfaces.

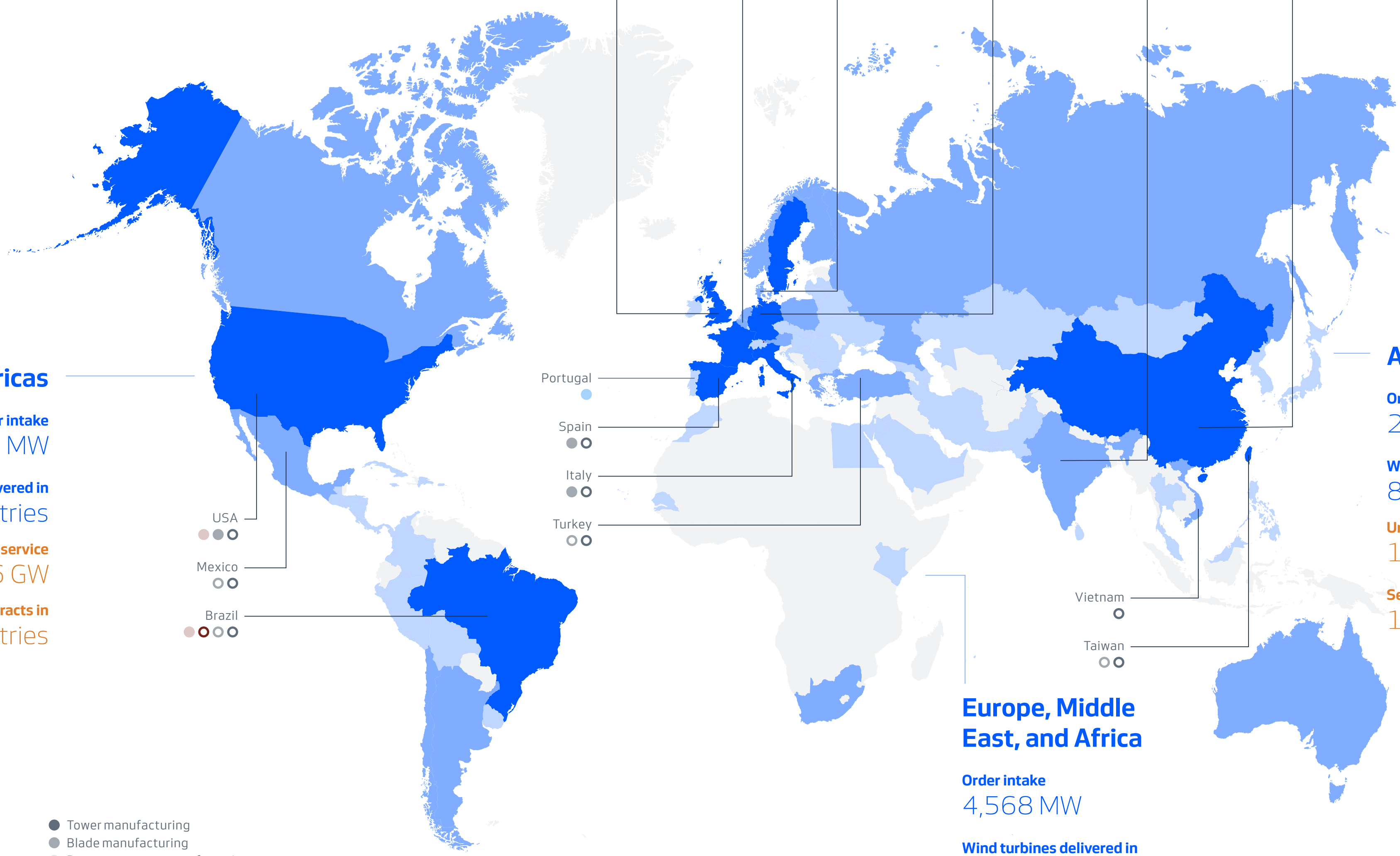
Improving quality as the supply chain matures
Along with safety, quality has always been a top priority at Vestas. Maturing our supply chain will be a key enabler for quality improvements, as more mature and robust long-term partnerships will support our efforts in this area. Achieving increased focus on quality assurance is the overarching driver behind our approach to quality enhancements, with the ultimate aim of improving the Lost Production Factor. Besides various quality initiatives in all our global functions and regions, global Quality Must-Win Battle projects have matured our setup significantly. For instance, we have improved our early detection of quality issues, strengthened technical risk management to prevent failure, and leveraged lessons from systemic root-cause analysis. We have also enhanced our product defect management in terms of processes, systems, and people. In the future, these developments will have significant impact for us, for life cycle management, and for our customers' experience, when doing for instance repair, upgrades, repowering, or maintenance.

Processes and systems are one aspect of our quality journey. However, to truly drive sustainable solutions we need a culture that encourages teams and individuals to adhere to processes; to do things right first time; and to learn when things go wrong. We need a culture that reflects the desire to always deliver the expected quality to our customers, and where people speak up and share their concerns.

Industrialising the supply chain
Optimising the complete value chain calls for increased focus on improving our existing platforms. We believe strongly in this approach, because introducing new platforms too fast obstructs supply chain industrialisation. As turbine components become larger and more efficient, they also create logistical challenges to the expansion of wind power around the world. For this reason, we are paving the way for scale through modularisation and optimising how our products are designed and produced. We consider the entire value chain in product development, execution, and operation, while securing bespoke solutions for customers.

As an example, our latest modularised nacelle is designed to correspond to general logistical standards, for instance regarding shipping containers. This way, we take advantage of industrial standards rather than challenging them, enabling the entire supply chain to scale for future growth.

Our footprint



Americas

Order intake
4,547 MW

Wind turbines delivered in
9 countries

Under service
56 GW

Service contracts in
22 countries

Asia Pacific

Order intake
2,074 MW

Wind turbines delivered in
8 countries

Under service
19 GW

Service contracts in
12 countries

Europe, Middle East, and Africa

Order intake
4,568 MW

Wind turbines delivered in
22 countries

Under service
69 GW

Service contracts in
38 countries

Cumulative capacity installed per country:

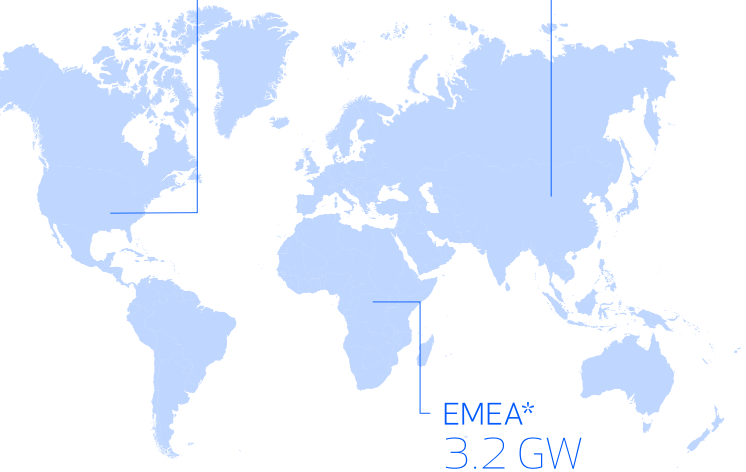
- 1-999 MW
- 1,000-4,999 MW
- 5,000 MW and above

- Tower manufacturing
- Blade manufacturing
- Power converter manufacturing
- Generator manufacturing
- Powertrain manufacturing
- Hub and nacelle assembly
- Research and development

- Vestas facility
- Vestas partnership

Building a leading position in offshore wind

Commercial progress of the V236 turbine
Preferred Supplier Agreements since launch in 2021



* Includes one conditional contract

Building on our scale and technology leadership in onshore wind, we want to position ourselves to meet future demand for offshore wind power. Realising this goal will require smart and sustainable product development.

By 2030, almost all net growth in the energy sector will come from renewables,[1] driven by climate change, political support, public opinion, and strong customer desire to limit their CO_2 footprint. Besides the strong growth expected in onshore wind, offshore wind power will experience a significant step-up in installations from 2025 onwards.[2] Offshore wind is expected to at least quadruple by 2030,[2] with the EU alone declaring ambitions to add 60 GW by 2030 and 300 GW by 2050.[3] Strong market potential has also encouraged many new companies to invest in offshore. What is required now is a sustainable offshore wind power industry that is resilient, ready to scale, and capable of meeting demand for decades to come. To ensure this, we must capture the full synergies with our established onshore wind business, utilising the global and regional setup, and deliver the value needed by customers investing across all renewable solutions.

Developing a scalable offshore solution
In 2022, we took a major leap forward by signing Preferred Supplier Agreements for a total of more than 5 GW for offshore wind projects on three continents. We also prepared the ground for further growth in 2023. These projects will feature the V236-15.0 MW™, which we are preparing for serial production. In 2022, we also successfully completed the manufacturing and installation of the V236-15.0 MW™ prototype turbine. It is now spinning at the Østerild National Test Centre for large wind turbines in Denmark.

Having declared our ambition to be a leading player in offshore wind by 2025, we aim to develop a competitive long-term value proposition for our partners and customers. We believe our current offshore offering is competitive on both fixed and floating foundations. Additionally, its advanced modular design prepares it for scalability and longevity.

For example, we are taking the next step in our modularisation journey with our new nacelle. The modularised nacelle is divided into a main nacelle house, and one or more side-compartments depending on configuration. The main nacelle house contains the powertrain, conditioning system, and hydraulic unit, while the power system, including converter and transformer, is placed in the side-compartment. Underlining the central role of modularisation in our strategy across all platforms, the modular nacelle is already part of the V236-15.0 MW™ offshore turbine, and will be applied to the next generation of EnVentus™ variants.

The modular approach also means that several of our manufacturing facilities can be used for building both on- and offshore turbines. This is especially important for our offshore business, as local content production is a key element in many auctions, in turn helping us utilise our manufacturing footprint and strengthen profitability. We expect the nacelle factory that we plan to establish in Poland to demonstrate the commercial viability of this approach.

Designing an efficient and profitable industry
Optimising the complete offshore value chain calls for a smarter and more responsible approach to product development. This to achieve shorter project execution time, utilisation of existing transport vessels, and more secure business cases for our customers.

The levelised cost of energy has been brought down by accelerated technology development and product launches. However, continued rapid product introductions challenge the industry's ability to scale efficiently and optimise turbine performance. They also undermine efforts to establish sustainable and efficient supply chains. We therefore want to take responsibility for enabling the build-out and maturity required to create a sustainable offshore wind power industry and realise the energy transition.

1 Source: International Energy Agency: World Energy Outlook 2022 (dataset). October 2022.
2 Source: Wood Mackenzie: Global Wind Power Market Outlook Update: Q4 2022. November 2022.
3 Source: European Commission: Offshore Renewable Energy - EU strategy on offshore renewable energy (online article).

Expanding the renewable market through project development

To further accelerate the energy transition and achieve our vision, we must address a larger part of the renewable energy value chain. This includes playing a more active role in project development.

In order to reach evermore ambitious renewable energy targets, the renewable industry is attracting more and more capital. However, insufficient volume of high-quality renewable energy projects is creating a major bottleneck, slowing down the energy transition, making it difficult to reach the UN's global net zero target by 2050, and creating unnecessary competition where the focus should be on securing enough projects towards the ambitious global targets. To address the need for high-quality development projects and ensure we leverage our unrivalled wind expertise, we have established a dedicated Development business within Vestas.

Accelerating the energy transition
Through our development activities, we aim to leverage our stakeholder network and expertise to attract new investment into renewable energy, as well as create new project opportunities for existing customers. By increasing our presence across an expanding renewable energy value chain, our goal is to optimise projects from inception, tailoring our technology to site conditions. In this way, we seek to increase quality and control risks throughout the project lifecycle.

Ramping up our commitment to development will enable us to fully support the lifecycle of our projects, from greenfield development to long-term value creation. Through the Vestas Development unit, we will play a more influential role in progressing the deployment of renewable energy across energy systems, as well as expanding our presence across a larger part of the value chain.

Strong momentum, bright future
Our 25 percent ownership in Copenhagen Infrastructure Partners is further fuelling our wind site development work. Besides the financial benefit of the investment, which can be seen in the increasing assets under management (up EUR 4bn since the investment), we can also accelerate many projects as a result of this mutually beneficial shared experience.

In June 2022, we sold the 183 MW Delta wind power project in Mississippi, USA, to The AES Corporation, a global energy company. The project is developed by Steelhead Americas, our North American development arm, and it is it is the state's first wind project, demonstrating Vestas' role in unlocking new wind markets across the USA.

The Delta project further supports our development capabilities and puts our newest business area on the map, helping us to progress sustainable energy deployment. Through our development activities, we aim to enable the future growth of renewable energy assets in North America, with over 5 GW of renewable energy projects in the pipeline.

The opportunities for Vestas to capture growth in the development space are significant. We have the global and local understanding to find fitting sites, and we can add value in the origination and development of projects. In 2022, we achieved significant development milestones for several projects in our pipeline, especially in relation to projects being developed in Brazil, Australia, Spain, Italy, South Korea, and the USA, and we sold four projects.

Despite good progress within the pipeline of projects, the contribution from Development to EBIT before special items was negative EUR 60m driven by delays in a few projects. Until now, our Development projects have provided a total order intake of more than 6 GW. We currently have around 170 projects under development, and by the end of 2022 we had a pipeline of 32 GW.

Our Development projects will eventually cover wind, solar, hybrid, and Power-to-X. This expansion is necessary if we are to meet the ambitious timeline of global climate goals, and progress on our commitment to the green energy transition. This is also highlighted in our partnership with CIP which paves the way for both accelerating our own wind site development as well as a better understanding of enabling technologies. Our shareholding in CIP contributed with EUR 30m to the net profit in 2022.

←
By entering projects at different stages of maturity, from greenfield to late stage, we make best use of Vestas' capabilities and – when developing alongside others – our partners' expertise as well.

Development highlights 2022

Projects sold
4

Order intake generated
1,599 MW

Pipeline of projects
32,142 MW

Contributions from CIP*
EUR 30.2m

* As realised in net profit.

Building a scalable foundation for a growing Service business

Ensuring a scalable Service business is key as we look to expand our already leading position. To support this, a digitalisation of our Service operations, along with strengthening our solutions offering will be crucial in continuing to deliver market-leading value for our customers.

Expanding our leadership position in Service
Over the coming decade, global renewable installed capacity will grow rapidly to meet the demands of the energy transition. At Vestas, our goal is to propel this journey through our unparalleled expertise and scale. This includes continuing to expand our position as the global leader in Service solutions.

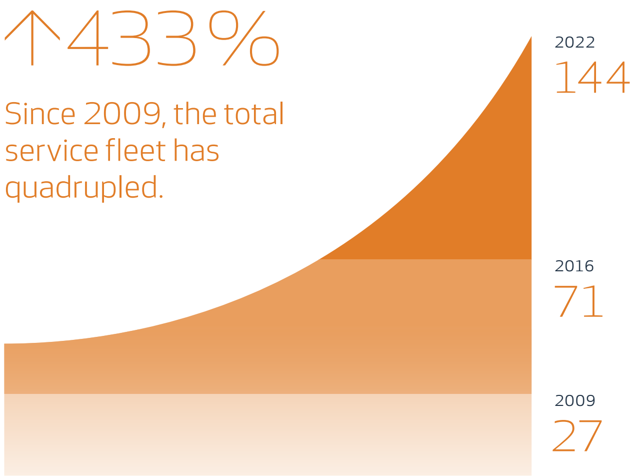
To fulfil this goal, it is crucial for our Service business to develop in line with changing customer expectations, and the shifting demands of an evolving global energy system. We need to build scalability into the foundation of our business, ensuring that we can create value at every customer touchpoint. We also need to expand our value proposition, through digital solutions, sustainable operations, and our ability to operate integrated assets.

Market presence and focus

As the largest Service business in the industry, we can leverage our global presence and expertise to maximise value and business case certainty for our partners. Having the industry's largest fleet under service also means more experience and more data points, which are key to optimising wind farm performance.

In 2022, we reached 144 MW under service. Our ability to create value for our partners is evidenced by the steadily increasing average length of our service contracts, which reached 11 years in 2022.

Wind turbines under Vestas service (operations & maintenance)
GW



In line with our aspiration to expand our leadership position alongside the organic growth of the renewables market, we have a strong focus on strengthening our core business areas, and ensuring a robust foundation to support our growth journey. This includes continuing to build out our offshore Service footprint, which grew steadily in 2022. We currently operate 7.5 GW under service in our offshore business, with a vision to grow significantly alongside our onshore ambitions.

Exploring new growth areas

Beyond our core business, we have successfully nurtured select areas of innovation, to explore potential new revenues streams and growth opportunities. These areas range from new commercial offerings, to the digitalisation of our operations, or nurturing upcoming renewable technologies. As an example, our burgeoning suite of digital solutions, developed through Utopus Insights, has grown to include predictive and prescriptive maintenance technology. This signals a future where renewable technologies can be pre-emptively serviced, and the cost of operations and maintenance significantly lowered through reduced service visits.

In 2022, we took further steps to improve operational efficiency for the renewable energy industry by running the first pilot on the digital marketplace, Covento. Covento is a technology solution that creates a space for vetted buyers and sellers across the renewable landscape to easily connect and collaborate. The solution offers a simplified approach to source minor components, through advanced search, real-time purchasing, and the ability to significantly simplify the purchasing process. The pilot was offered to small and medium buyers across five European countries. In this initial launch phase, we are focusing on components that cover five turbine OEMs and 61 turbine types.

Our foundation

Growing alongside a rapidly accelerating energy transition would not be possible without the unparalleled talent and dedication of our colleagues across the Service business. As our business grows, we are working to ensure that our people grow with it, by creating opportunities for long-term career development.

In support of our Sustainability strategy, Sustainability in Everything We do, we support market-leading repowering initiatives. With global installed capacity growing rapidly from year to year, we are committed to ensuring that the lifetime of ageing fleets can be extended wherever possible. In 2022, the order intake from repowering projects amounted to 650+ MW.

We are also striving to reduce carbon emissions from our Service footprint in support of our ambition to become carbon neutral by 2030, without the use of offsets. In 2022, we added 76 sustainably fuelled service vehicles to the fleet. We have also begun piloting sustainably fuelled offshore service vessels, signalling the beginning of our journey to eliminate carbon emissions from offshore service. Carbon emissions associated with offshore operations currently account for one third of our Scope 1&2 emissions.

Looking ahead

Scalability is a key priority in our journey to enhance value creation, and will continue underpin every area of the Service business as we move froward. In product development for example, we are ensuring that serviceability is considered at every stage by baking the Service perspective into our modularisation approach. Each stage of our modular product development framework is shaped by a strong interface between our Service business and Power Solutions.

We are also working to enhance scalability across our operations and customer relationship management, ensuring that we can continue to deliver efficiency and market-leading insight throughout the customer journey as we grow.

Accelerating our digital journey

While the green energy transition holds huge growth potential, cyber security constitutes a constant risk. Our customers and partners require secure and data-driven digital solutions for optimal return on their investments, which is why we are now accelerating our digital journey.

The world is becoming increasingly digital, and our application of digital solutions is becoming a major competitive advantage. As we grow, it is essential that we have digital enablement across our business and scalable, secure, and coherent digital foundations on which we can build. Over the coming years, we will therefore be accelerating our digital journey by further digitalising our core processes, enabling us to innovate faster for our customers.

This journey will take us to the next level as a market leader in data-driven solutions, connecting us with our customers, suppliers, and partners across project lifecycles. Through more aligned, modern, and simpler systems and processes, we will be able to offer a seamless, efficient, and engaging digital experience for our employees.

A new digital strategy and business area
To drive our digitalisation journey, in July 2022 we established Digital Solutions as a functional area, represented in the Executive Management team. The new organisation brings together digital capabilities from across Vestas, anchoring our new digital strategy and enabling us to kick-start our digital transformation.

Improved customer experience
In 2022, we implemented new ways of working across our Sales and Service divisions to improve the customer journey. Based on Sales-Force technology, we now have one shared set of customer data across project sales, marketing, ShopVestas and service contracts. This gives us a full overview of our engagement with the customer, resulting in a seamless experience and ensuring we deliver on our promises.

Improving our resilience to cyber-attacks
On 19 November 2021, we were impacted by a cyber security incident. External attackers gained unauthorised access to some of our IT systems, enabling them to steal and leak Vestas data. Working with external partners and experts, we undertook extensive investigations and restoration activities and strengthened our IT systems and infrastructure. As a result of these activities, we emerged from the crisis stronger, putting in place processes and protection mechanisms to help mitigate similar incidents in the future.

Being part of the energy industry, cyber security constitutes a constant risk. Throughout 2022, we therefore worked systematically on improving our maturity and resilience. Key measures included further securing our interfaces with customers, suppliers, and partners, investing in additional improvements to our network and access controls, and moving systems and data into future proof cloud structures. We also worked hard to raise employee awareness of digital issues and cyber security. More information on how Vestas handles cyber security risks can also be found in Risk management, page 52.

Creating a stronger and simpler digital backbone
Throughout the years, Vestas has grown steadily. As the industry is expected to take a leap forward, we need to ensure we have a scalable, secure, and coherent digital backbone that allows us to be a digitally driven company. We are therefore simplifying, modernising and centralising our digital infrastructure, looking to create a clean and connected core. By the end of 2022, close to 40 percent of our system landscape has already been moved to cloud-based platforms including the first parts of our High Performance Computing cluster. However, this is just the start of the journey, and there are many further changes and innovations to come.

Being a global leader in sustainable energy solutions means we possess the most extensive knowledge about wind power in the industry. By leveraging our Cloud solution and using machine learning, we have been able to significantly improve the value of our data and consequently the quality and performance of our digital products and services.

Strong cross-functional collaboration over the past year has resulted in improvements and innovations in the digital space, like the development of the next generation Intelligent Energy Optimisation Solution. These innovations allow our customers to make better decisions and optimise their annual energy production based on data. Collaboration between our renewable energy analytics company, Utopus Insights, and the Power Solutions and Service teams have shown we can help our customers optimise output and simplify operations and maintenance.

> "This journey will take us to the next level as a market leader in data-driven solutions, connecting us with our customers, suppliers, and partners across project lifecycles.

Governance

A diverse and inclusive Vestas
The diversity and inclusion journey is a continuous one and we strive to become better every single day.

In focus

From corporate crisis to energy crisis: Ten years as Vestas Chair

In 2012, Bert Nordberg was elected as Chair of the Board. Since then, he has been on the Vestas 'bridge', guiding us on our journey to become the Global Leader in Sustainable Energy Solutions.

Rebuilding trust in Vestas
Bert Nordberg does not shy away from a challenge, but he would probably not be described as someone who creates drama wherever he goes. Nonetheless, his tenure as Chair of Vestas Wind Systems A/S' Board of Directors began in uncharacteristically dramatic fashion as the calm Swede replaced his predecessor, Bent Carlsen (1996-2012).

"Confidence in Vestas had hit rock bottom when I joined. Our shareholders were understandably unhappy with how we had managed the potential and responsibility that comes with being the leader in wind energy. So the task was clear. As Chair I had to help create the organisational foundation and financial stability that would enable us to live up to our promises, grasp the opportunities ahead of us, and make Vestas the place where the best talents go to have a positive impact on our planet," says Nordberg.

With Ditlev Engel (2005-2013) and Anders Runevad (2013-2019) as CEOs, Vestas successfully avoided bankruptcy and returned to profitability. But this required tough decisions, including divesting the offshore business, discontinuing products, and reducing the company's footprint. In the beginning, Nordberg was very hands-on in rebuilding trust among stakeholders; a process that included securing credit facilities with banks. But as the steady haul towards profitability progressed, Nordberg and the Board began setting long-term ambitions for the company. As Nordberg explains:

"When you're losing money, it's easier to make decisions, because you have one objective and that's becoming profitable. With renewable energy becoming a very attractive investment, we needed to make strategic decisions on what kind of company Vestas should be in 2030 and beyond, and how we could remain a leader in the energy transition. In that respect, our business model and strategic objectives are today very clear, but we've had to adjust our plans due to the pandemic, the war in Europe, and the energy crisis."

Preparing for the future
During his 10 years as Chair, Nordberg has contributed to several major strategic decisions. These include spearheading the 'servicification' of Vestas, and developing Vestas from a leader in onshore wind to a leader in sustainable energy solutions. As

part of this strategic evolution, Vestas has reinforced its succession planning; bought its offshore business back from the joint venture with Mitsubishi Heavy Industries; established a development business while competitors divested theirs; and positioned itself to exploit future opportunities in the Power-to-X market.

"This is a remarkable industry with unparalleled potential to positively impact future generations. When I joined Vestas, the appeal in selling wind turbines was clear, but as the industry and technology matured, new strategic opportunities have emerged. Our ability to build a strong service business, welcome offshore back, and establish a fast-growing development business is very pleasing to the Board. These developments will provide us with steady cashflow and exciting opportunities to benefit from the industry's expected growth from 2025 and beyond," says Nordberg.

During the last 10 years, wind energy technology has evolved fast, making wind cost-competitive across the globe as turbines have become bigger, increasingly autonomous, and more efficient. Establishing wind energy on a par with fossil fuels has been a strategic priority during Nordberg's tenure, and in recent years Vestas has also pioneered full turbine modularisation, a concept that will be key to creating a sustainable and profitable energy sector.

Nordberg has helped the company to achieve the stability he targeted when becoming Chair. Vestas still needs to strengthen its foundation to be fully ready for expected growth, but since the start of 2020, the external environment has increasingly impacted Vestas. As Nordberg observes:

"I started in Vestas when the world was still recovering from the financial crisis, and in the last couple of years inflation, logistics, and mobility have all been impacted. Now we have an energy crisis, and the winter has been a wake-up call for everyone. But this crisis has also created unity in the Western world that we haven't seen in a long time. It will be a long haul to build energy security and a sustainable energy system, but with the progress we've seen in the last 10 years and the political momentum we have now, I think we have the solutions and togetherness needed to fix the energy system." ●

A ten-year journey, one step at a time

2012
Achieved 50 GW of installed capacity

2013
Launched new operating business model

Founded Offshore joint venture

2014
Launched profitable growth strategy

2015
Acquired UpWind Solutions, Inc.

2016
Acquired independent service provider Availon Holding GmbH

2017
Introduced the vision to become Global Leader in Sustainable Energy Solutions

2018
Achieved 100 GW of installed capacity

2019
Launched new modular platform

2020
Invested in CIP

Introduced an ambitious sustainability strategy

Acquired the Offshore business

2021
Implemented robust circularity roadmap

Launched Development as a stand-alone business unit

2022
Named the most sustainable company in the world

"

This is a remarkable industry with unparalleled potential to positively impact future generations.

Bert Nordberg — Chair of the Board of Directors

Risk management

Risk management contributes to the steady and sustainable enhancement of our value and fulfilment of our strategy. It supports our short- and medium-term objectives and helps to establish the necessary foundations for business decisions, including balancing risk and opportunity appropriately.

Enterprise Risk Management

As a global company, we face various risks inherent to the industry and countries in which we operate. The aim of Enterprise Risk Management (ERM) is to manage these risks, support our operational and strategic objectives, protect and create shareholder value, ensure risk awareness, and balance risk against reward.

The broad spectrum of risks we face includes operational risks relating to the design and manufacturing of wind turbines; execution risks relating to the transportation, installation, and servicing of wind turbines; commercial risks; and risks of a macroeconomic and regulatory nature. We strive to ensure that such risks are understood, monitored, and managed with a view to preventing or minimising any negative impact on our strategic and financial ambitions.

Risk management is an integral part of the decision-making process at Vestas and is supported by our corporate ERM framework. The ERM framework provides a holistic and transparent view of our strategic and operational risk position, with the aim of continuously assessing and adjusting our overall risk exposure.

Our risk governance and reporting structure

Risk management at Vestas is decentralised in accordance with our organisational structure, whereby all parts of the organisation engage in risk management as part of their daily operations. Risk management roles and responsibilities are illustrated in the box to the right.

We regularly identify, record, assess, monitor, and manage all types of risk. Key risks are reported biannually by appointed risk officers and owners throughout the organisation. Once they are reviewed, these risks are challenged and consolidated by Global Risk Management and presented to and discussed by the Risk Committee.

The aim of this process is to drive understanding and improvements across our value chain and identify opportunities. The Risk Committee consists of all members of the Executive Management team, with the exception of the Group President & CEO. It is chaired by the Executive Vice President & CFO.

To ensure that we work systematically with the various types of risks identified, whether they are short-term, medium-term, or strategic risks, we follow the framework of the Vestas ERM annual wheel. The illustration of the annual wheel on page 51 shows the frequency of our Risk Committee meetings and higher-level reporting on ERM.

Strategic risks

In accordance with the ERM annual wheel, we conducted a strategic risk review in the first quarter of 2022. We engaged appointed strategy anchors in all parts of the organisation to obtain the company-wide perspective on our strategic risk exposure. The input was processed and consolidated in collaboration with our Corporate Strategy team, and was the key focus for the Risk Committee meeting in the first quarter. Discussing the strategic risk landscape and its development enables alignment with our corporate strategy process. It also supports calibration with cross-functional priorities in our strategic Must-Win Battles.

Our risk management and reporting structure

Audit Committee and Board
- Review the enterprise risk profile of Vestas every half year
- Oversee the effectiveness of Enterprise Risk Management in Vestas

Risk Committee
- Challenges and agrees on the enterprise risk profile of Vestas
- Allocates accountability for risks to risk owners
- Discusses, commits, and executes on risk mitigations
- Approves information to Audit Committee and Board of Directors every half year

Enterprise Risk Management
- Responsible for the continuous development of the ERM framework
- Planning and facilitating Risk Committee meetings
- Communication of feedback to risk owners and Risk Officers
- Promotes risk awareness and risk capabilities across organisation

Appointed risk owners & Risk Officers (within each Region/Group function)
- Implement Risk Management reporting flow across area of responsibility
- Half-year briefing to Group ERM on new risks, trends, and changes
- Risk Officers act as primary reporting line to Group ERM
- Risk owners coordinate mitigation of allocated risks across the organisation

Our strategic risks are associated with current and future business plans and directly linked to the execution of our strategy. They are defined as future uncertainties (internal and external) that could significantly affect our ability to achieve our long-term vision – for example, risks that have: substantial negative impact on Vestas; a reasonable likelihood of materialising; potential to impact Vestas in the long term; and a requirement for executive attention.

Among the most significant strategic risks are geopolitical tension and protectionism, commodity and transport price, scalability, cyber risks, and talent attraction and retention. As reported on the next page, there is an overlap between these top strategic risks and the main risks identified in this report. In response, we have initiated specific preventive and reactive measures to mitigate the potential long-term effects of these risks.

Main risks in 2022

The five main risks for Vestas identified in 2022, based on their potential impact and probability, are described on page 52. For each of these risks, we report on expectations regarding the general direction in which they are developing. We also explain their impact and the mitigation actions we deployed in 2022.

These five main risks differ to those selected and reported on in 2021. This is a natural reflection of the rapid changing risk landscape we have been exposed to in 2022, which was characterised by supply chain and transport disruptions, the ongoing impact of COVID-19, and geopolitical tensions.

The macroeconomic developments were expressed in high inflation rates in most regions and continued volatility in raw material cost, while the conflict in Ukraine, led to a decision to withdraw from the Russian market.

Climate risks

Transparency around sustainability is essential in order to maintain the trust of our external stakeholders. Furthermore, there is increasing urgency around climate risks and how they are managed, and a need to accelerate efforts to reduce emissions and adapt to a changing climate. Through extreme weather events and temperatures, climate change has the potential to impact our assets, operations, and supply chains. The transition to a low-carbon economy also brings change through extensive policy, legal, technology, and market developments. We therefore assess and monitor the associated risks and opportunities, and have integrated climate change scenarios into our risk management processes.

We address climate-related risks and opportunities as an integral part of our daily business, as they are directly linked to our business model and strategy. Our processes for identifying and assessing these risks follow the same procedure as for any other risks.

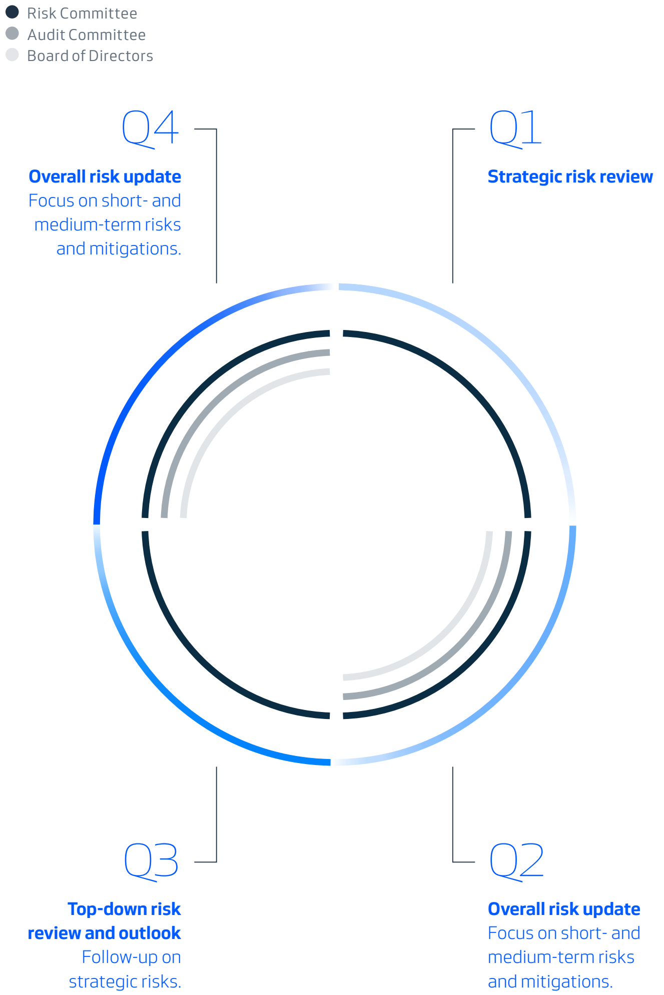
In our approach to climate risks, we follow recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). We report on climate risks and opportunities annually through the Dow Jones Sustainability Index (DJSI) and the Carbon Disclosure Project (CDP)[1], and we are in the process of implementing requirements of the EU's new Corporate Sustainability Reporting Directive (CSRD). For an overview of where relevant information can be found, see page 150.

Financial risks

Financial risks, including risks related to currency, interest rates, tax, credit, and commodity exposures, are addressed in the notes to our Consolidated financial statements. For more information, see the list of contents on page 71.

1 The Carbon Disclosure Project, Climate Change Questionnaire 2022, available on our corporate website.

Enterprise Risk Management annual wheel



Our main risks identified in 2022

	Geopolitical environment & macroeconomy	Supply chain disruptions	Regulatory pace & scalability	Cyber risks	People risks
	Trend: ↑	Trend: ↑	Trend: →	Trend: →	Trend: ↑
Risk & impact	As a global organisation, Vestas experiences the effects of increasing geopolitical tensions as well as actual armed conflicts, most recently the Russian military actions against Ukraine. Local content requirements and other trade protectionist measures, such as the imposition of tariffs and duties on traded goods and commodities, continued to create barriers to global trade in 2022. Macroeconomic changes, partially driven by same causes and expressed in high inflation rates and higher cost of capital, affect our ability to deliver cost efficiently on our order backlog. As reported, the decision to leave the Russian market had financial consequences, but also meant human consequences to employees in Russia and Ukraine.	Our truly global manufacturing set-up and supply chain were exposed to certain volatilities experienced in 2022. Transport congestions, highly volatile transport, energy and raw material costs, and the rapid increase in inflation rates in key markets, directly affect our ability to manage a cost-efficient supply chain. The energy crisis creates uncertainties regarding the general security of supply for Vestas and our supplier base.	Fast-paced introductions of new wind turbine configurations, and a focus on reducing the Levelised Cost of Energy (LCOE), are industry challenges. They create the risk of OEMs not being able to deliver sufficient quality on time. We see short and inefficient product lifecycles as a barrier to achieving the scale required to meet ambitious political targets set for the industry, most prominently in the USA and the EU. The regulatory permitting pace is insufficient to facilitate the build-out of wind power and the general infrastructure needed to meet political ambitions.	We are dependent on our commercial, technical, and operational IT infrastructure. A cyber security event, whether caused by malicious activities, unintentional human error, or system failure, can have significant impact on our operations and our customers' operations. Theft of intellectual property and/or personal data could potentially affect our ability to meet contractual obligations, impacting our operations and resulting in a loss of business opportunities.	The energy transition towards renewables has created increased competition for talent among industry players, including new entrants to the sector. In certain job functions, we experience relatively high employee attrition rates, and we expect this trend to continue in coming years. The personal safety and security of our employees remain a key priority. Our global workforce is exposed to various risks in the execution of daily tasks. Individual safety measures must be tailored to local circumstances, which vary across different geographies and operational tasks.
Mitigating measures	We continuously monitor and challenge local content regulations, as well as trade tariffs and duties, via our global public affairs efforts. The growth in the offshore wind power market has increased the need to assess the implications of partially localised manufacturing and engage in dialogue about implied cost inefficiencies. We are continually adjusting global manufacturing capacity both up- and downwards to meet market needs. As an example, we decided to end the production of blades at our factories in Tianjin, China, and Ahmedabad, India, in 2022. We also continuously monitor our funding needs. In first half of 2022, we secured EUR 1.5bn of long-term funding by issuing two EUR 500m sustainability-linked bonds. We also closed a EUR 475m green loan with the European Investment Bank (EIB).	Supply chain volatility is mitigated through a combination of disciplined sales pricing and financial hedges, long-term supply commitments and indexation of procurement and sales contracts. We leverage our global footprint, buying power and procurement options, while ensuring the highest possible flexibility in the value chain. We are convinced that the entire industry supply chain needs to be matured further, through supplier consolidation and standardisation as our partnership with LM Wind Power exemplifies.	We continue to execute on our strategy to modularise our product offering and enable a broader range of product configurations by re-using components, tools, design, and value chain concepts. Modularisation accelerates market development, cost-effectiveness, and product quality and execution at project sites. We run a comprehensive quality assurance programme that enables early identification and correction of potential quality issues, from design through to product, construction, and service. We continuously optimise our organisation and key systems. For example, we recently established a Digital Solutions organisation to drive end-to-end digitalisation across the Group.	We have based our cyber risk management disciplines on international frameworks and standards. We also continue to invest in medium- and long-term deliveries, addressing cyber risks at Vestas and in the markets where we operate. These efforts will be further strengthened by our new Digital Solutions organisation.	Bi-annual employee satisfaction measurements enable us to create awareness and lay the foundations for employee engagement and motivation. Further, we support employee engagement and retention through people development programmes, with a focus on diverse and inclusive leadership. We maintain a relentless tracking and reporting of recordable injuries and we investigate incidents to determine the root causes, to help prevent re-occurrence. In 2023, we will use the retrieved data and information to focus our efforts. Furthermore, we will expand our external reporting to include sub-contractor employees under our operational control.

Trend

↑ Increasing → Unchanged ↓ Decreasing

The Board of Directors

The Board is leading us on our journey to become the global leader in sustainable energy solutions, as it has responsibility for the general and strategic management of Vestas' affairs. It is therefore crucial we have the right board members at the helm.

Our shareholders represent the supreme governing body of Vestas Wind Systems A/S. They have decided that the company must be managed by a board composed of five to 10 members, elected by the shareholders. In addition, the Board of Directors (Board) includes members elected by our employees under the relevant provisions of the Danish Companies Act, equalling half of the shareholder-elected members.

Board composition

The eight board members elected by the Annual General Meeting (AGM) in April 2022 all received 92-99 percent of the valid votes. They will each serve for a one-year term.

Employee representatives are elected every four years and the next ordinary election will take place before the Annual General Meeting 2024.

For information on each of the board members, see pages 55-56.

←
The first 115.5 metre-long Vestas V236-15.0 MW™ wind turbine blade is transported by road from the port of Hanstholm to the Østerild Wind Turbine Test Centre in Northern Jutland, Denmark.

Our governance structure

Our management structure reflects how we, as a global and listed company, are managed to ensure Simplicity, Collaboration, Accountability, and Passion. Our two-tier governance structure provides a clear, transparent, and effective separation between the responsibilities of the Board and the Executive Management team, and between the Executive Vice Presidents and their management of the company's affairs.

The Board delegates day-to-day management to the Executive Management team, save for those matters that are reserved for the Board's approval. The Board retains responsibility for – and regularly monitors – the execution of this delegation of authority, taking action to update it, as required.

The delegation of authority within the company, including a description of who has the authority to approve transactions towards a third party, is outlined in an internal policy. Some matters are specifically reserved for decision by the Board and therefore cannot be delegated, for example large global purchase agreements, framework agreements, and the signing and approval of large mergers and acquisitions. The report on the Board's work in 2022 provides examples of such decisions made during the year, see pages 57-58.

Quorate

The Board is quorate when more than half of its members are present. Issues considered by the Board are passed by a simple majority of votes. In the event of equality of votes, the casting vote is held by the Chair – or, in the Chair's absence, by the Deputy Chair.

Board committees

In order to support the Board and to benefit from individual members' competences, the Board has established three committees. Although not authorised to make independent decisions, these committees prepare reports and recommendations for the Board's approval. The members of these committees are elected by the Board from among its members. For additional information about the committees and their work, see pages 60-62.

Board remuneration

In compliance with applicable law, we have prepared a separate Remuneration Report describing the remuneration awarded or due during 2022 to the Board and Executive Management registered with the Danish Business Authority. The Remuneration Report will be submitted to the AGM for an advisory vote.

In 2022, our shareholders decided to increase the board fee by 2 percent, in line with market norms for similar companies.

Additional information is available in our Remuneration Report 2022.[1]

Board diversity

In February 2021, the Board set a gender distribution target of 37.5/62.5 percent to be reached no later than 2022, among the board members elected by the AGM. This corresponds to equal gender distribution as defined by the Danish Business Authorities.

On 5 April 2022, our shareholders elected three female and five male board members, thereby fulfilling the Board's gender diversity ambition.[2] Furthermore, all three board committees also reached equal gender distribution. With the inclusion of employee-elected members, the overall composition of the Board is now five female and seven male board members.

The Board also aims to achieve diversity in terms of nationalities represented amongst its members[3], reflecting our global presence. After the 2022 AGM, four nationalities were represented in the Board.

Diversity in the broadest sense remains a key focus for the Board, including in board member searches. Board members are chosen for their overall competencies, while the benefits of board diversity in terms of gender, education, working experience, and other factors are fully recognised.

Additional information on diversity is available in our Sustainability Report 2022.

Diversity in the Board, en of year	2022	2021
Nationalities, all board members		
Danish	6	6
Swedish	4	4
American	1	1
Japanese	1	1
Age, all board members		
40-49 years	1	1
50-59 years	5	5
60-69 years	6	6
Gender, board members elected by shareholders		
Women	3	2
Women (%)	37.5	25
Men	5	6
Men (%)	62.5	75
Gender, all board members		
Women	5	4
Women (%)	41.7	33.33
Men	7	8
Men (%)	58.3	66.67
Tenure, all board members		
1-5 years	9	7
6-10 years	1	2
More than 10 years	2	3

1 See the Remuneration Report at vestas.com/content/dam/vestas-com/global/en/investor/reports-and-presentations/esg/remuneration-reports/Remuneration_Report_2022.pdf.coredownload.inline.pdf

2 In 2022, the Danish Parliament passed a bill that will contribute to increased gender balance in Danish companies at board level and the two management levels below the Board. This amendment entered into force on 1 January 2023. No target for Vestas' Board is needed, as we have reached equal gender distribution. In compliance with the new regulations, we have set a target for the two management levels below the Board for 2025 which is to reach a gender distribution across these management levels of 25/75 percent. The two management levels below the Board comprise the Executive Management team and employees of Vestas Wind Systems A/S who report directly to a member of the Executive Management team and who have managerial responsibilities. We will report on the progression towards the target on an annual basis.

3 Due to EU GDPR, we are not allowed to inquire about or register the ethnicity of our board members and employees – instead, we use nationality as a proxy.

Mr Bert Nordberg
Chair

Born: 1956
Nationality/residence: Swedish/Sweden
Position: Professional board member

Position with Vestas Wind Systems A/S
First elected: 2012
Term: 2023
Positions: Chair of the Board and chair of the Nomination & Compensation Committee. Member of the Audit Committee.
Independence: Considered independent.

Positions and management duties
Chair of the boards of Sigma Connectivity AB and Axis Communications AB. Member of the boards of Essity AB[1] and Saab Group AB[1].

Special competencies
Restructuring, services and infrastructure business; several years of international business experience; development market knowledge.

Education
Courses in International Management, Marketing and Finance at INSEAD University (1986), Engineer in the Swedish Marines from Berga (1980), and Degree in Electronic Engineering (1979).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 73,000[2]

Mr Anders Runevad
Deputy Chair

Born: 1960
Nationality/residence: Swedish/Sweden
Position: Professional board member

Position with Vestas Wind Systems A/S
First elected: 2020
Term: 2023
Positions: Deputy Chair of the Board. Chair of the Technology & Compensation Committee. Member of the Nomination & Compensation Committee.
Independence: Not considered independent – as he was the Group President & CEO of Vestas from 2013 to 2019.

Positions and management duties
Chair of the boards of Peab AB[1] and PGA Sweden National AB. Member of the boards of Copenhagen Infrastructure Partners GP Interests Holding K/S, Copenhagen Infrastructure Partners Holding P/S, and Schneider Electric SE[1].

Special competencies
In-depth knowledge of the renewable energy industry. Experience from leading an international listed company. Knowledge in International business, strategy development and implementation, corporate management, sales, product development, and operation.

Education
MBA studies, University of Lund (1989) and Master of Science in Electrical Engineering, University of Lund (1984).

Holdings in Vestas securities
Trading in Vestas shares, 2022: -20,000, +20,000
Number of shares, end 2022: 40,480

Mr Bruce Grant

Born: 1959
Nationality/residence: American/USA
Position: Executive Chair, Applied Value LLC

Position with Vestas Wind Systems A/S
First elected: 2019
Term: 2023
Positions: Member of the Board and the Technology & Compensation Committee.
Independence: Considered independent.

Positions and management duties
Chair of the boards of Applied Invest LLC, Applied VenCap LLC, and Human Care Corporation. Deputy chair of the board of CosmosID, Inc. Member of the boards of RiverMeadow LLC and Swedish-American Chamber of Commerce, Inc.

Special competencies
In-depth knowledge of strategy and turn-around implementation in the renewable industry and large, global industrial companies. Expert on sourcing the steel market and in-depth knowledge of the US market.

Education
PhD Cand. Industrial Management, Chalmers University of Technology (1984) and MSc., Business Economics, University of Gothenburg (1981).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 0

Ms Eva Merete Søfelde Berneke

Born: 1969
Nationality/residence: Danish/France
Position: Chief Executive Officer, Eutelsat SA

Position with Vestas Wind Systems A/S
First elected: 2019
Term: 2023
Positions: Member of the Board, the Nomination & Compensation Committee, and the Audit Committee.
Independence: Considered independent.

Positions and management duties
Member of the boards of École Polytechnique and LEGO A/S. Chair of the audit committee of École Polytechnique. Member of the audit committee of LEGO A/S.

Special competencies
In-depth and international knowledge of corporate management including knowledge of strategy execution, management of a listed company, digitalisation, and IT.

Education
MBA program, INSEAD University (1995), Master of Mechanical Engineering, Technical University of Denmark (1992), and Master studies, Economics, École Centrale Paris (1991).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 17,295[2]

Mr Kentaro Hosomi

Born: 1957
Nationality/residence: Japanese/UK
Position: Executive Vice President and Chief Regional Officer, Europe, Middle East & Africa, Mitsubishi Heavy Industries, Ltd.

Position with Vestas Wind Systems A/S
First elected: 2021
Term: 2023
Positions: Member of the Board.
Independence: Considered independent.

Special competencies
In-depth knowledge of power systems and energy industries. Wide experience in business development and sales of power systems ranging from thermal, nuclear and renewable energy.

Education
Earned Bachelor of economics degree from University of Tokyo (1980).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 0

Ms Lena Olving

Born: 1956
Nationality/residence: Swedish/Sweden
Position: Founder & Partner of Olving & Ohberg AB

Position with Vestas Wind Systems A/S
First elected: 2022
Term: 2023
Positions: Member of the Board and the Technology & Manufacturing Committee.
Independence: Considered independent.

Positions and management duties
Chair of the boards of Akind Universe AB and ScandiNova AB. Member of the boards of Assa Abloy AB[1], Investment AB Latour[1], NXP Semiconductor NV[1], and Stena Metall AB. Chair of The Royal Swedish Opera.

Special competencies
In-depth knowledge of managing international high-tech companies, including strategy, sales and services, re-structuring, product development, and supply chain management.

Education
Master of Science, Mechanical Engineering, Chalmers University of Technology (1981).

Holdings in Vestas securities
Trading in Vestas shares, 2022: + 350
Number of shares, end 2022: 350

Mr Karl-Henrik Sundström

Born: 1960
Nationality/residence: Swedish/Sweden
Position: Professional board member

Position with Vestas Wind Systems A/S
First elected: 2020
Term: 2023
Positions: Member of the Board. Chair of the Audit Committee.
Independence: Considered independent.

Positions and management duties
Chair of the boards of Boliden AB[1] and Mölnlycke Health Care AB. Member of the boards of NXP Semiconductors N.V.[1] and Ahlström Munksjö Oyj.

Chair of Climate Leadership Coalition. Member of the board of the Marcus Wallenberg Foundation.

Special competencies
In-depth knowledge of sustainability, strategy, accounting and finance. International experience of marketing and sales of capital goods.

Education
Advanced Management Program, Harvard Business School (1997), Trainee Financial Management, LM Ericsson Group (1987), Business Administration, specialising in Finance and Accounting, Uppsala University (1985), and Royal Coast Artillery, Rank Master Sergeant and Boat Chief, Military Service (1981).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 8,200

Ms Helle Thorning-Schmidt

Born: 1966
Nationality/residence: Danish/UK
Position: Professional board member

Position with Vestas Wind Systems A/S
First elected: 2019
Term: 2023
Positions: Member of the Board and the Nomination & Compensation Committee.
Independence: Considered independent.

Positions and management duties
Member of the boards of Carsøe Group A/S, DJE Holdings Limited, SafeLane Global Limited, and Vista Equity Partners.

Chair of the Danish Football Union (DBU)'s Governance and Development Committee. Co-Chair of The Oversight Board. Member of the boards of Islamic Development Bank and Schwab Foundation for Social Entrepreneurship. Member of the advisory boards of The Atlantic Council, Council on Foreign Relations, and US Council on Foreign Relations. Member of the councils of 21st Century Council – The Berggruen Institute and European Council on Foreign Relations.

Special competencies
In-depth knowledge of governmental affairs and political environments as well as strategic management of international and political organisations.

Education
Master's Degree in European Studies from the College of Europe in Bruges (1993) and Master's Degree in Political Science from the University of Copenhagen (1994).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 2,770

Mr Claus Skov Christensen

Employee representative

Born: 1968
Nationality/residence: Danish / Denmark
Position: Lead Technician - Shop Steward for Danish Service Technicians, Vestas Northern Europe A/S

Position with Vestas Wind Systems A/S
First elected: 2022
Term: 2024
Positions: Member of the Board.
Independence: Not considered independent due to employment in Vestas.

Positions and management duties
Member of the board of DM Skjern-Ringkøbing P/S.

Special competencies
In-depth knowledge of service processes and human resources of the Vestas Group.

Education
Industry technician trainee, Rubens Maskinfabrik A/S (1989).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 500

Ms Sussie Dvinge

Employee representative

Born: 1970
Nationality/residence: Danish / Denmark
Position: Management Assistant, Power Solutions, Quality Improvements, and Processes, Vestas Wind Systems A/S

Position with Vestas Wind Systems A/S
First elected: 2005
Term: 2024
Positions: Member of the Board.
Independence: Not considered independent due to employment in Vestas.

Special competencies
In-depth knowledge of Quality, HSE, project management, and organisational structures including human resources and staff development.

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

Holdings in Vestas securities
Trading in Vestas shares, 2022: +2,000, -1,250
Number of shares, end 2022: 3,250

Ms Pia Kirk Jensen

Employee representative

Born: 1966
Nationality/residence: Danish / Denmark
Position: Global Travel Manager, People & Culture, Vestas Wind Systems A/S

Position with Vestas Wind Systems A/S
First elected: 2020
Term: 2024
Positions: Member of the Board.
Independence: Not considered independent due to employment in Vestas.

Special competencies
In depth insights into the mobility patterns of the organisation and the supporting processes across functions.

Education
Language secretary, English, Open education at HIH Herning (1994) and Office assistant (1989).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 790

Mr Michael Abildgaard Lisbjerg

Employee representative

Born: 1974
Nationality/residence: Danish / Denmark
Position: Skilled Worker – Production and Shop Steward, Vestas Manufacturing A/S

Position with Vestas Wind Systems A/S
First elected: 2008
Term: 2024
Positions: Member of the Board.
Independence: Not considered independent due to employment in Vestas.

Positions and management duties
Deputy chair of the boards of DM Skjern-Ringkøbing P/S and DMSR af 24. oktober 2016 ApS.

Special competencies
Knowledge of production processes and human resources, etc. of Vestas.

Education
Quality Optimization with Six Sigma, Erhvervsakademi MidtVest (2017), Economy Erhvervsakademi MidtVest (2015), Logistics, Erhvervsakademi MidtVest (2014), Project Management, Erhvervsakademi MidtVest (2014), Leadership in Practice, Erhvervsakademi Sjælland (2013), Produktion optimization, Erhvervsakademi MidtVest (2013), Project management, Erhvervsakademi MidtVest (2011), Higher Preparatory Course - single subject (1998), Military service, Royal Danish Life Guards (DK) and discharged as technical sergeant (1999), and Auto Mechanic (1995).

Holdings in Vestas securities
Trading in Vestas shares, 2022: None
Number of shares, end 2022: 4,170

1 Stock exchange listed company.
2 The number of shares includes both own and closely related parties' total shareholdings.

Report on the Board's work in 2022

"2022 was a challenging year, as reflected in our financial reporting and guidance. It was a year characterised by geopolitical risks and opportunities and supply chain disruptions, requiring Vestas to navigate a highly complex business environment."

Bert Nordberg — Chair of the Board of Directors

The roles and responsibilities of the Board of Directors (Board) are set out in our board charter, which is reviewed annually, taking into account relevant regulatory changes and recommended best practice. The Rules of procedure for the Board can be found at vestas.com.

Duties

The Board's most important duties are, among others: appointing the Executive Management team; laying down guidelines for and overseeing the work performed by the Executive Management team; ensuring professional and adequate organisation of the company's business; defining the company's corporate and sustainability strategies; ensuring satisfactory financial organisation and reporting; ensuring the necessary procedures for risk management and internal controls; and ensuring that an adequate capital and share structure are in place at all times.

The Board's rolling agenda is structured around four pillars: updates from the business, strategy updates, financial performance, and people/governance. The CEO and CFO are invited to participate in all board meetings, while other members of the Executive Management team attend when requested. Every year in February, the auditors meet with the entire Board.

The target is for all members of the Board to achieve an attendance rate of 80-90 percent, but it is expected they attend all meetings. For this reason, the Board schedules its meetings for at least two years in advance.

Focus areas for 2022

In addition to standing matters, in 2022 the Board dedicated time to the following:

- **Geopolitical risks and opportunities**
  2022 was characterised by geopolitical uncertainty that created barriers to free trade and triggered an energy crisis. Following Russia's military actions against Ukraine, the Board decided that Vestas should pull out of Russia and temporarily cease all service and construction activities in Ukraine.

- **Product and technology development and competitiveness**
  Bringing the right technology to the market remains critical to the success of our business and the renewable energy transition. During the year the Board discussed this topic and concluded that, with the opportunities that lie ahead, we must put product quality at the centre of technology development to secure a sustainable and scalable industry overall.

- **Review of individual markets, including market outlook and renewable policy development across key markets**
  Reaching net zero will require a tremendous build-out of renewable energy in the decades to come, requiring contributions from all regions. In the short term, however, we also have to adjust our manufacturing footprint to be regionally (and in certain cases locally) present in the market where demand is focused. In 2022, the Board decided to close our blade factories in China and India.

- **Securing the right manufacturing footprint to support Vestas' operations**
  The Board assessed our manufacturing footprint to ensure it is in line with our ambition to be the Global Leader in Sustainable Energy Solutions.

- **Supply chain disruptions, including logistical challenges and cost inflation**
  The Board closely monitored the challenging supply chain situation in 2022, with continued supply chain instability and increasing costs in raw materials, components, transportation, and logistics. The Board further reviewed mitigations being put in place to manage this difficult and volatile situation. The combination of increasing costs, impact of Russia's military actions against Ukraine, and legacy quality issues, led to adjustments of the full-year guidance.

- **Review and post-mortem of cyber security incident**
  Following a cyber security incident in late 2021, the Board dedicated significant time in 2022 to the strengthening of our cyber security systems and governance.

- **Expanding the Executive Management team to include Digital Solutions and Development**
  The Board decided that the functions Digital Solutions and Development should be represented in the Executive Management team. This move is to enable the leveraging of digitalisation at the core of all of our activities. It is also recognition of the successful roll-out of Vestas' wind power project development strategy.

Sustainability continued to be a key area of focus for the Board in 2022. Among other key activities, the Board and board committees reviewed the following:

- Our sustainability strategy
- The ambitions for sustainability at Vestas, including sustainability in our supply chain
- Compliance and governance requirements in general, as well as the tracking of EthicsLine cases
- Safety issues
- Our sustainability reporting, including a follow-up on diversity
- Compliance with applicable ESG regulation and forthcoming disclosure requirements

Priorities for 2023

In 2023, the Board's focus areas will be:

- Vestas' longer-term strategy
- Talent management and leadership development, employee retention, motivation, and Vestas working culture
- Product quality, with specific focus on the quality of new products and our supply chain
- Cash and inventory levels with a specific focus on reducing the inventory level and realise cash flows
- Cyber security risk management

Meetings of the Board	Meeting attendance in 2022[1]	Attendance rate
Number of meetings, incl. a strategy seminar	12	
Elected by the shareholders:		
Bert Nordberg	12/12	100%
Anders Runevad	12/12	100%
Eva Merete Søfelde Berneke	12/12	100%
Bruce Grant	11/12	92%
Kentaro Hosomi	12/12	100%
Lena Olving[2]	6/8	75%
Karl-Henrik Sundström	12/12	100%
Helle Thorning-Schmidt	11/12	92%
Elected by the employees:		
Claus Christensen	8/8	100%
Sussie Dvinge	11/12	92%
Pia Kirk Jensen	12/12	100%
Michael Abildgaard Lisbjerg	12/12	100%
Board members stepped down in 2022:		
Lars Josefsson	4/4	100%
Kim Hvid Thomsen	4/4	100%

1 The first figure represents attendance; the second the possible number of meetings. In cases where a board member was appointed or stepped down during the year, only meetings in that member's active board period are shown.
2 Ms Olving was unable to attend two board meetings due to commitments made prior to her appointment to the Board.

When we installed the Burbo Bank Extension Offshore Wind Farm a couple of years ago, we used the Belfast Harbour in UK as pre-assembly location for the major components before they were shipped for the site.

Board Strategy Seminar 2022

Regain profitability and ensure sustainable growth
The Board's Strategy Seminar is an important part of our annual cycle. During the seminar, the Board and the Executive Management team review and align on our industry and business outlook, and discuss corporate strategic priorities

As the industry matures and the energy transition accelerates, our focus is on regaining profitability, ensuring commercial and operational discipline, and creating strong supplier and customer partnerships to help scale the industry.

In October 2022, the Board's Strategy Seminar took place in Massachusetts, USA. As the centre of our US offshore engagements, Boston was a fitting location for our review of US market potential, with additional presentations from the American Clean Power Association and a customer. The US Inflation Reduction Act is expected to reaccelerate the American green energy transition, and the Board and the Executive Management team used the opportunity to discuss strategic opportunities for the region.

The seminar also enabled participants to align on:

- Short-term performance and priorities
- Industry outlook and challenges towards 2030
- The Vestas business plan 2023-25
- Selected Must-Win Battles

Performance evaluation 2022

Evaluation process
Once a year, the Board and its committees perform an evaluation of their work. The purpose is to further develop the Board's efficiency and working procedures. In addition, the evaluation serves as a tool for determining the competence required by the Board, and for analysing the competence that already exists in the Board. The evaluation also serves as input for the Nomination & Compensation Committee's work on proposing board members.

As part of the yearly evaluation, board members are asked to complete a questionnaire to guide them in their preparation, and to make sure that all relevant issues are touched upon in connection with the evaluation. The areas covered by the evaluation may differ from year to year to reflect the development of the Board's work.

The result of the evaluation of the Board itself is discussed by the Board members. The results of the committee evaluations are discussed by the relevant committee and reported to the Board. The Board brings in external consultants to support the evaluation at least once every third year.

Evaluation 2022
In October and November 2022, the three board committees and the Board evaluated their performance. The evaluations were conducted as an open dialogue among the members and facilitated internally by the chairs. The evaluation included the following topics and conclusions:

- **The composition of the Board with focus on dynamics, competencies, and diversity**
  There is good effectiveness in the Board and a high level of trust, plus commitment, strong collaboration, and diversity (gender, competencies, etc.). The evaluation also revealed a general request for an update regarding changes in legislation and reporting standards e.g. cyber security and sustainability.

- **Board members preparation for, and active participation in, the meetings of the Board**
  In 2022, there was a high participation rate in meetings of the Board, which indicates that members allocate sufficient time to discharge their responsibilities to Vestas. After primarily having conducted meetings virtually during the preceding years due to the pandemic, in 2022, almost all board meetings were held as in-person meetings, which has improved the participants' contributions and increased efficiency.

- **Cooperation in the Board and between the Board and the Executive Management team**
  In 2022, cooperation between the Board and the Executive Management team was generally perceived to be positive. There was open dialogue, and presentations at board meetings were very informative, leading to constructive discussions.

- **The Chair's leadership of the Board**
  Meetings are run in a structured way by the Chair, creating a framework for open and direct dialogue.

- **The structure and work of the committees**
  Members expressed support for maintaining the current committee structures, which were considered appropriate. The committees are well organised, and the Board is well informed about the topics discussed by the committees. Updates are received at each board meeting.

- **The organisation of the Board's work and the quality of material provided to the Board**
  The number of board meetings is considered adequate. The Board's work is well organised, and the material provided enables individual members to be well prepared.

Report on the Audit Committee's work in 2022

"In a year of challenges and constraints, we rigorously reviewed Vestas' reports and underlying assumptions to ensure the integrity of its financial reporting, and the effectiveness of its risk management framework, internal controls, and cyber security. We also considered matters of ethics and compliance."

Karl-Henrik Sundström — Chair of the Audit Committee

The Audit Committee (AC) supports the Board in its assessments of financial and sustainability reporting, accounting policies, auditing, systems of internal controls, risk management, internal audit, ethics, and anticorruption. The roles and responsibilities of the AC are set out in the committee's charter, which is available at vestas.com.

Over the course of a year, the committee has a rolling agenda covering a variety of standing matters, such as reviewing all reports before disclosure, the work performed by the external auditor, our global insurance programme, tax topics, risks, treasury policy, etc.

The AC invites the CFO, the GSVP of Group Finance, and the external auditor to attend each of its meetings. Other members of management attend when requested to provide input on specific topics or on more detailed technical matters that may arise. The committee also regularly holds private sessions separately with the external auditor without members of management being present. Outside the formal meetings, the Chair of the committee meets regularly with the CFO. After every meeting, the Chair also provides an update and any recommendations to the Board.

The composition of the committee

The AC comprises three board members appointed by the Board. The members' experience demonstrates that the committee as a whole has competences that are entirely relevant to the sector in which we operate. Combined, the members are equipped with the commercial, regulatory, financial, and audit expertise necessary to fulfil the committee's responsibilities. The Chair, Karl-Henrik Sundström, holds the financial accounting qualifications required by the Danish Auditors' Act, as well as sustainability-related expertise.

Focus areas in 2022

In 2022, the committee dedicated specific attention to significant topics, including issues relating to Vestas' Consolidated Financial Statements. In addition to standing matters, the committee addressed a variety of special focus areas, which are highlighted here:

- **Warranty provisions**
  The AC assessed the need for warranty provisions, which have increased due to a rise in repair and upgrade costs as a result of external cost inflation and offshore wind turbines already installed.

- **Impact of the Russia/Ukraine conflict**
  The AC reviewed the financial impact and presentation of expenses, which were recognised as special items as a result of the decision to cease all operations in Russia and the write-down of assets located in the war zone.

- **Manufacturing footprint**
  Due to a lack of demand for specific wind turbine types and high transportation costs, the AC continued to review our product portfolio and adapt our production capacity and manufacturing footprint. As part of this development, the committee reviewed the ceasing of production in certain factories in China and India, and the accounting impact hereof.

- **Sustainability**
  The AC looked into potentially obtaining reasonable assurance for our Sustainability Report. The target is to reach full reasonable assurance no later than 2024. As climate change and the energy transition gain increasing prominence, it is critical that the committee keeps abreast of its efforts to manage potential impacts on our assets.

- **Establishing an internal audit function**
  The AC also worked towards establishing an internal audit function, and expects to firm up the plan for the next steps during first half of 2023. The purpose of the function will be to help Vestas accomplish its objectives by improving the effectiveness of risk management, control, and governance processes.

Composition and meetings of the committee

Members	Member since	Meeting attendance[1]	Attendance rate
Karl-Henrik Sundström, Chair	April 2020	5/5	100%
Bert Nordberg	April 2020	5/5	100%
Eva Merete Søfelde Berneke	April 2020	5/5	100%

1 The first figure represents attendance and the second the possible number of meetings.

Report on the Technology & Manufacturing Committee's work in 2022

"2022 was a year in which we focused on leveraging our modularised products, evaluating and adjusting our manufacturing footprint, and analysing increased warranty provisions. We also made agreements with new partners who will join us on our journey to make the world more sustainable."

Anders Runevad — Chair of the Technology & Manufacturing Committee

The primary role of the Technology & Manufacturing Committee (TMC) is to assist the Board in assessing the product and technology strategies incl. our intellectual property rights strategy, and product development plans. The committee also assesses the strategies for sourcing, manufacturing, and service and the progress of the strategies are monitored on a regular basis. It reviews and discusses the company's manufacturing footprint and M&A activities, and the performance within health and safety, sustainability, and quality. The roles and responsibilities of the TMC are set out in the charter, which is available at vestas.com.

Over the course of a year, the committee has a rolling agenda covering a variety of standing matters, such as the product and technology strategy, manufacturing and sourcing, service, and M&A. It also oversees matters relating to quality and continuous improvement.

The TMC invites the COO, CTO, and Chief Science Advisor to attend each meeting. Other members of management attend when requested to provide input on specific topics or on more detailed technical matters that may arise. At each board meeting, the TMC Chair provides an update to the Board on the TMC's activities and recommendations.

The composition of the committee

The competences of the committee members are entirely relevant to the sector in which we operate. Furthermore, all members have acquired sector knowledge and experience as a result of their board membership or previous employment at Vestas.

Focus areas in 2022

In addition to standard matters, in 2022 the TMC addressed a variety of special focus areas, which are highlighted here:

- **Quality and Continuous Improvement Management activities**
  The TMC focused on supplier performance, as well as on design quality in line with our 'Quality' Must-Win Battle. Governing processes on supplier qualification, as well as on design, were also re-assessed and reinforced.

- **Warranty provisions**
  Monitoring warranty provisions was a priority. These provisions have increased due to offshore activities and the increasing repair and upgrade costs.

- **Global supplier network**
  To become the Global Leader in Sustainable Energy Solutions, it is crucial we have a professional supplier network that delivers in time and to the right quality standards. Collaboration with suppliers of core components enabling us to jointly secure quality and scalability in new markets has therefore also been a focus area for TMC in 2022.

- **Product portfolio**
  The TMC conducted several deep dives during the year, of which two addressed product and technology strategies, roadmaps, and market outlook.

- **Obtaining synergies from the merger and acquisition of the Offshore business**
  To ensure we established the necessary synergies, the TMC monitored the integration of the Offshore business.

- **Manufacturing footprint**
  Market requirements, transportation costs, manufacturing costs, and the supply base are the main drivers of our manufacturing footprint and in 2022, TMC specifically looked into how to strengthen the wind energy supply chain and how to reduce transportation costs.

- **Execution of our sustainability strategy**
  The TMC also reviewed our sustainability strategy, with a focus on CO_2 emissions within our own operations and supply chain, and on the recyclability of turbine components and blades in particular.

Composition and meetings of the committee

Members	Member since	Meeting attendance[1]	Attendance rate
Anders Runevad, Chair	April 2020	4/4	100%
Bruce Grant	April 2019	4/4	100%
Lena Olving	April 2022	3/3	100%

1 The first figure represents attendance and the second the possible number of meetings. In cases where a board member was appointed during the year, only meetings in that member's active committee period are shown.

Report on the Nomination & Compensation Committee's work in 2022

"In 2022 we appointed a new CFO, established the new business area Digital Solutions, and worked on the introduction of a sustainability-related KPI for our global bonus programme. We also ensured the standard annual cycle of the committee."

Bert Nordberg — Chair of the Nomination & Compensation Committee

The primary role of the Nomination & Compensation Committee (NCC) is to assist the Board on staff-related topics, including the assessment of remuneration, and on the evaluation of the performance and achievements of the Board and Executive Management team. An overview of the committee's roles and responsibilities is included in the charter, which can be found at vestas.com.

Over the course of a year, the committee has a rolling agenda covering a variety of standing matters, such as reviewing the performance and compensation of the Executive Management team and the Board, reviewing the incentive design and performance results, assessing our talent framework and status, and discussing our diversity and inclusion strategy. It also approves compensation investments on incentives and salary adjustments, discusses results of the annual Employee Engagement Survey, and reviews the remuneration policy, the annual remuneration report, and the annual sustainability report.

The CEO and CPCO are invited to attend each meeting. Other members of management attend when requested to provide input on specific topics or more detailed matters that may arise. After a committee meeting, the Chair provides an update to the Board about the committee's activities and recommendations.

The composition of the committee

The NCC comprises four board members appointed by the Board. The competences of the committee members, and therefore of the committee as a whole, are entirely relevant to the sector in which we operate. Furthermore, all committee members have acquired sector knowledge and experience as a result of their board membership or previous employment at Vestas.

Focus areas in 2022

In addition to standard matters, in 2022 the committee addressed a variety of special focus areas, which are highlighted here:

- **Short-term incentives:** introduced a sustainability-related KPI for our global bonus programme. The KPI measures the CO_2e emissions avoided, aligned to our overall purpose of driving sustainable energy solutions to power a brighter future. The committee also reviewed our bonus programme and bonus scorecard (KPIs), which includes 40 percent on EBIT, 30 percent weight on sustainability, and 30 percent on Free Cash Flow.

- **Long-term incentives:** launched a new programme for 2022, which is a restricted performance share programme in alignment with our Remuneration Policy. The performance will be measured over a period of three years, based on financial as well as commercial targets.

- **People review process and result**
  The committee reviewed the process and result of our people review 2022. The focus has been on identifying and developing talent to futureproof the company. The committee also discussed our talent frameworks focused on progressing, developing, and retaining talents.

- **Remuneration of the Board and Board Committees**
  The NCC conducted a review of the Board's fee, looking to ensure that its remuneration matches that of boards in comparable companies. The review also focused on determining that we can retain board candidates with the right competences to guide us on our journey to become the Global Leader in Sustainable Energy Solutions.

- **Board nomination process**
  The NCC also reviewed the composition of the Board, and recommended Ms Lena Olving as a board member candidate.

- **Incentives 2023**
  The committee discussed the elements and KPIs for the short and long-term incentive programmes to make sure that they reflect our strategy, the current situation, and are in line with the Remuneration Policy approved by the shareholders.

Composition and meetings of the committee

Members	Member since	Meeting attendance[1]	Attendance rate
Bert Nordberg, Chair	March 2012	5/5	100%
Anders Runevad	April 2020	5/5	100%
Eva Merete Søfelde Berneke	April 2019	5/5	100%
Helle Thorning-Schmidt	April 2019	4/5	80%

1 The first figure represents attendance and the second the possible number of meetings.

Day-to-day management

In 2022, we continued taking steps to scale and structure our organisation efficiently to support our customers and meet current and future demand for sustainable energy solutions. We appointed a new CFO and extended our Executive Management team with a new Executive Vice President of the areas Digital Solutions and Development.

The team that guides us on a day-to day basis

With the vision to become the Global Leader in Sustainable Energy Solutions, we aim to play an instrumental role in decarbonising the world. As the market leader in onshore wind, and with increasing presence across the value chain, in 2022 we made progress towards scaling and structuring our organisation efficiently. These efforts are intended to support our customers across the globe and meet demand for sustainable energy solutions. In addition to our existing structure, we established the new organisation Digital Solutions and elevated it together with our Development business to Executive Management team level.

Executive Management

In 2022, Hans Martin Smith took up the position of Executive Vice President & CFO. Hence, as of 1 March 2022, Executive Management at Vestas, as registered with the Danish Business Authority, consists of:

- Henrik Andersen, Group President & CEO
- Hans Martin Smith, Executive Vice President & CFO

Executive Management team

All members of the Executive Management team are appointed by the Board of Directors (Board), with none of the members representing a stakeholder group. The Executive Management team consists of the Executive Management (above) and the following Executive Vice Presidents:

- Anders Nielsen, Executive Vice President, Power Solutions
- Tommy Rahbek Nielsen, Executive Vice President, Manufacturing & Global Procurement
- Javier Rodriguez Diez, Executive Vice President, Sales
- Christian Venderby, Executive Vice President, Service
- Kerstin Knapp, Executive Vice President, People & Culture
- Thomas Alsbjerg, Executive Vice President, Digital Solutions & Development (as of July 2022)

The Board decides on the division of powers between the individual executives.

Values and organising principles

The continued evolution of our organisational structure enables our future growth journey. This evolution is grounded in our values of Accountability, Simplicity, Collaboration, and Passion, as well as four key organising principles:

- **Leadership:** ensure Vestas has the right organisational structure for global leadership in Onshore and Offshore wind, Service, and Development.
- **Scalability:** utilise our aligned regional setup, which mirrors our global operating model, to ensure scalability and accountability, enabling us to benefit fully from our two-dimensional structure.
- **Simplicity:** continue to simplify management structures in our Regions to strengthen execution, increase collaboration, and reinforce accountability.
- **Empowerment:** empower our Regions through wider value chain impact and responsibility for our key customers; also empower succession and mobility to provide development opportunities, nurture talent, and apply passion.

"

The success of Vestas continues to depend on our ability to embrace our global operating model, as well as our ability to collaborate.

Vestas' global operating model

Our organisation is structured in a two-dimensional operating model.

Global functions

One dimension of the matrix comprises seven global functional areas, representing the key disciplines of our company and employees, as illustrated below. These seven areas are headed by members of the Executive Management team, who ensure the company's all-round operational and organisational performance.

Vestas Regions

Our five Vestas Regions represent the other dimension as illustrated below.

The Regions are aligned with our operating model, consisting of the following key business areas: Sales, Construction, Service, Development, and Strategy. They also benefit from a support structure consisting of a Regional CFO, a Regional COO, a Regional CTO, a Regional Head of Legal, and a Regional Head of P&C. With this setup we remain close to our customers and their renewable solutions. Furthermore, with Regional offices we demonstrate more visibility, commitment, and leadership.

Global alignment and regional presence

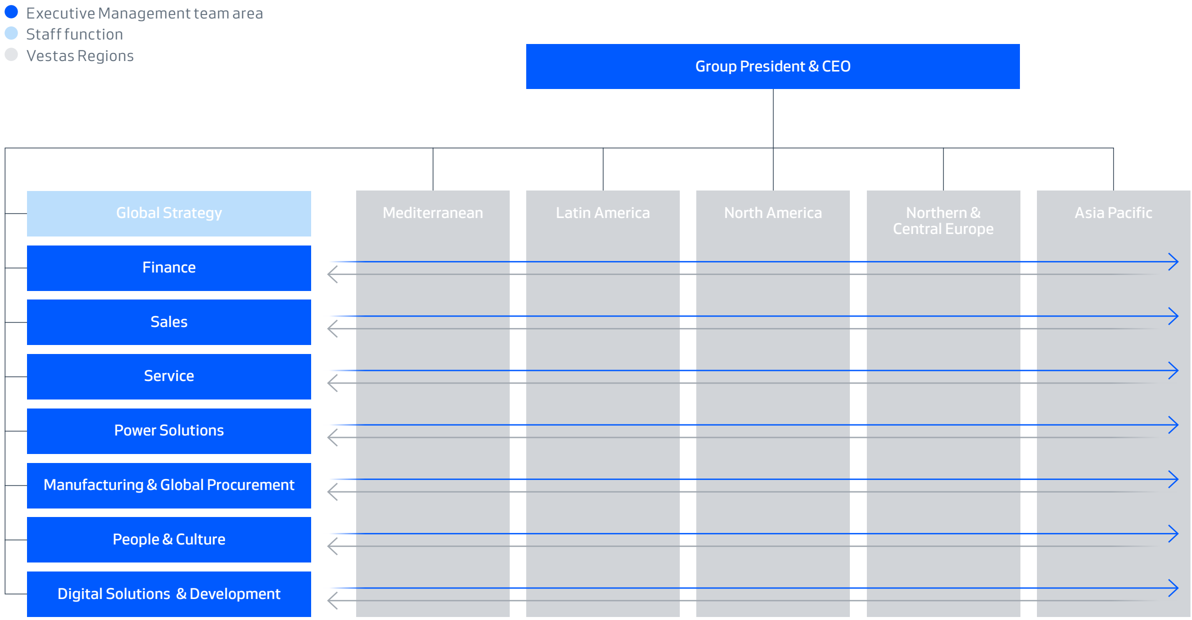
As an organisation, we have scaled our business to its current size, and in 2022 we continued to reap the benefits of the revised global organisational blueprint we introduced in 2021. This has enabled us to leverage our distributed model with strong empowered teams across the Vestas Regions.

The success of Vestas continues to depend on our ability to embrace our global operating model, as well as our ability to collaborate as one team across the value chain and align accountability towards one common goal: profitable execution and growth with our customers. Our intent therefore remains unchanged, as we aim for a simple and globally aligned operating model that allows us to meet the growing requirements of local and global customers.

Strengthen development and accelerate digital transformation

To further evolve our operating model, in July 2022 we established a new global functional area, Digital Solutions. The new organisation's objective is to accelerate and digitally transform our business to enable stronger customer focus, scalability, and profitability. At the same time, we are elevating our project development function to be represented in the Executive Management team. The two functions will operate separately and both will be led by Thomas Alsbjerg.

Our global operating model



The operating model has two dimensions:
- Applying a regional focus to implementing and living Vestas' strategy
- Securing global alignment and best practice to be shared and implemented, with a view to achieving 'one enterprise' thinking across global functions

Report on the Executive Management team's work in 2022

The Executive Management team is responsible for the overall day-to-day management of the company. It observes the guidelines and recommendations issued by the Board of Directors (Board), and ensures timely reporting and provision of information to the Board, our shareholders, and other stakeholders.

The Executive Management team strives to be globally visible to all Vestas' stakeholders, demonstrating the company's values and conveying its vision and strategy. The team meets at least once a month and often more frequently. It has a rolling agenda covering a variety of standing matters, such as receiving updates from the CEO and each global functional area, and conducting monthly performance reviews. For its meetings, the team invites other members of management, depending on the topics being discussed.

Each board meeting begins with an update on the team's activities and recommendations, delivered by the CEO.

Focus areas in 2022

In 2022, the execution of our strategy was a key focus area. In particular, the Executive Management team looked closely at our Must-Win Battles to ensure we progress on our journey to become the Global Leader in Sustainable Energy Solutions.

The Must-Win Battles are our most critical strategic priorities. They reflect the challenges and opportunities with the highest impact, complexity, and uncertainty – all requiring a company-wide contribution to succeed. Statements from the owners of our Must-Win Battles are set out on page 66.

Composition and meetings of the Executive Management team	Born	Nationality	Appointed	Meeting attendance in 2022[1]	Fiduciary positions	Trading in Vestas shares 2022: Vested performance shares[2]	Purchase	Sale	Number of shares[4]
Mr Henrik Andersen	1967	Danish	2019	17 / 17 (100%)	Member of the boards of Copenhagen Infrastructure Partners GP Interests Holding K/S, Copenhagen Infrastructure Partners Holding P/S, Investment Committee for Maj Invest PE Fund IV & V, and Saxo Bank	44,722	11,300	-	116,772
Mr Hans Martin Smith	1979	Danish	2022	15 / 15 (100%)	Member of the board of Aktieselskabet Schouw & Co[3]	7,438	-	-	7,438
Mr Anders Nielsen	1962	Swedish	2020	17 / 17 (100%)	Chair of Board of Concentric AB	-	6,000	-	6,000
Mr Tommy Rahbek Nielsen	1970	Danish	2020	17 / 17 (100%)	-	7,438	-	3,700	29,953
Mr Javier Rodriguez Diez	1974	Spanish	2021	17 / 17 (100%)	-	7,438	-	-	7,438
Mr Christian Venderby	1969	Danish	2019	17 / 17 (100%)	Member of the board of DNV	35,379	-	16,000	19,379
Ms Kerstin Knapp	1975	Austrian	2020	17 / 17 (100%)	-	-	3,245	-	4,918
Mr Thomas Alsbjerg	1973	Danish	2022	6 / 6 (100%)	Member of the boards of Clinical Microbiomics A/S and Green Mobility A/S	-	-	-	1,885

1 The first figure represents attendance; the second the possible number of meetings and the percentage in brackets the attendance rate. In cases where a member was appointed during the year, only meetings in that member's active Executive Management team period are shown.
2 Concerns performance shares vested in accordance with Vestas' share-based incentive programmes, ref. Company Announcement no. 20/2017 of 3 May 2017 and Company Announcement no. 10/2019 of 13 May 2019. The overview only includes performance shares vested after their appointment to the Executive Management team.
3 Company listed on a stock exchange.
4 The number of shares includes both own and closely related parties' total shareholdings.

In 2022, the six strategic priorities and projects were:

LEAP[1] – transforming the way we work in Service

"After two and half years of intense design and development, the biggest milestone so far was reached in May 2022, when LEAP and the new operating model went live in the Americas. We onboarded about 3,700 people in the Americas to a new platform, new processes, new roles, new blueprint, new app – a huge effort for a business servicing approximately 18,000 turbines across 250 sites. In the second half-year of 2022, the remaining regions followed in fast sequence. This means that 2022 delivered a scalable Service organisation that executes the same global processes, shares the same data, and uses the same platform to service our customers. We are therefore able to compare roles, performance, and cost across regions in a way that has never been possible before. When the Must-Win Battle LEAP completes, we will have a unique level of transparency, from contract signed to work being executed, which will benefit our customers, our employees, and Vestas."

— LEAP Must-Win Battle owner, Christian Venderby
Executive Vice President, Service

Offshore – reaching global leadership

"The Offshore Must-Win Battle is our newest focus area, introduced in 2021. With the Offshore Must-Win Battle, we have embarked on a five-plus year pioneering journey to reach global leadership in offshore wind. In 2022, we took a major leap forward by signing Preferred Supplier Agreements for more than 5 GW of offshore wind projects on three continents, while paving the way for more in 2023. These projects will feature the V236-15.0 MW™, for which Vestas is preparing serial production. One of them will be for a 1.3 GW floating project in South Korea, which will be the world's first commercial-scale floating wind farm. In 2022, we also successfully completed the manufacture and installation of the V236-15.0 MW™ prototype turbine. It is now spinning at the Østerild National Test Centre in Denmark."

— Offshore Must-Win Battle owner, Henrik Andersen
Group President & CEO

Talent & Leadership – becoming an employer of choice

"Our ability to attract, develop, and retain talent is more relevant than ever. In 2022, we continued our journey towards becoming an employer of choice in the sustainable energy industry. We reinforced our employer brand, for example by launching an employee ambassador programme. In relation to our diversity, equity, inclusion, and belonging agenda, we increased the share of women in leadership positions. We plan to expand the agenda in 2023 with another dimension, making sure every colleague can fulfil their potential. We also remained focused on building a stronger talent pipeline to future-proof the organisation."

— Talent & Leadership Must-Win Battle owner, Kerstin Knapp
Executive Vice President, People & Culture

Sustainability – integrating sustainability into everything we do

"2022 was another successful year for the implementation of sustainability strategy: Sustainability in Everything We Do. As part of our journey towards becoming carbon neutral by 2030, without the use of offsets, we reached a 2 percent reduction of CO_2 emissions in our own operations. We also launched a pilot programme to explore how the world's first hydrogen-powered service vessel can help to reduce carbon emissions from our offshore service operations. At our Aarhus headquarters, we installed an innovative battery-charging station, enabling employees to charge their electric or hybrid vehicles with green energy produced by Vestas turbines. By the end of 2022, 872 of our company cars either in use or ordered with the supplier, were electric or hybrid vehicles. Meanwhile, our blade factory in Daimiel successfully transferred its gas boilers to a biomass alternative. In spring, we issued two sustainability-linked bonds with a maturity of seven and 12 years."

— Sustainability Must-Win Battle owner, Henrik Andersen
Group President & CEO

Modularisation – understanding the markets and further modularising our products

"Modularisation starts and ends with the customer. In 2022, we accelerated the implementation of modularisation, focusing on a new methodology for understanding the markets and customers. This methodology will help us to understand future product performance requirements across markets, which will enable us to provide solutions which are a better fit. In 2022, we launched the V163-4.2 MW™, the first turbine model to deploy this methodology. The new variant draws on the modularisation approach applied across our wind turbine platforms. In 2022, we also built the first modularised nacelle, which is now installed on the V236-15.0 MW™ prototype turbine. We continue to further modularise our product platforms though our product development projects."

— Modularisation Must-Win Battle owner, Anders Nielsen
Executive Vice President, Power Solutions

Quality – meeting our customers' expectations

"Quality is our qualifier for the future. Close collaboration, from early technology development to power plant handover, is a key enabler to successfully introducing new products. Together with our partners, we utilise the current market conditions as an opportunity to mature and industrialise our value chain to prepare for growth and scale. In 2022, we enabled short-term wins and focused on containing issues that financially impact our business and our customers. We also focused on driving long-term improvement internally, learning from mistakes and managing technical risks. We will keep reinforcing continuous improvement and maintain momentum to strengthen our quality culture."

— Quality Must-Win Battle owner, Tommy Nielsen
Executive Vice President, Manufacturing & Global Procurement

1 LEAP is a transformation programme, one that will introduce a globally aligned and standardised operating model across all of Service.

Governance principles

The onshore turbine, V150-4.2 MW™ stretches nearly a quarter of a kilometre into the air and is one of the highest producing onshore low wind turbines in the industry.

The Vestas values of Accountability, Collaboration, Simplicity, and Passion, together with our Code of Conduct and other Vestas policies, guide our conduct every day. They drive our commitment to do business with ethics and integrity.

To achieve our strategy and vision, it is essential we build and maintain strong foundations through our organisational principles and values. We therefore emphasise leadership and good corporate governance to anchor and embed these values. Underpinning everything we do, our values guide the actions we all need to take, individually and as one.

Additional information is available in our Corporate Governance Report 2022.[1]

Solid foundations for management

To the Board of Directors (Board), corporate governance is an ongoing process that supports value creation and accountable management, thereby contributing to Vestas' long-term success. To ensure our management's responsibilities are clearly defined, we have drawn up a number of policies and guidelines. These are reviewed by management on an annual basis to confirm we have the right governance processes in place.

Additional information is available in our Sustainability Report 2022.

Integrity starts with you: the Vestas Codes of Conduct
Local communities, suppliers, and customers place their trust in Vestas to conduct business with integrity. They also expect us to respect human rights wherever we operate.

Our Employee Code reflects our values and supports our employees to make the right decisions in their everyday work. Our employees play an important role in upholding and maintaining trust, safeguarding our reputation and our culture of integrity. This culture is reflected in the Code's tagline - Integrity starts with you.

We work with suppliers around the globe, and they play a central role in our vision to become the Global Leader in Sustainable Energy Solutions. Therefore, we rely on their commitment to conduct business ethically and responsibly, and to respect and comply with our Supplier Code.

In January 2022, we launched our second global Anti-Bribery and Corruption Survey. This anonymous survey was sent to all office employees and service technicians to help us understand the perception of bribery and corruption risks within the business. The results of the survey fed into our compliance efforts regionally, making 2022 our second year of having data-based compliance programmes.

One of the key results of the Anti-Bribery and Corruption Survey was the need to increase trust in managers and foster a better 'speak-up' culture across Vestas. To this end, we launched a global compliance campaign focused on promoting and reiterating our four compliance principles: Hard Decisions, Transparency, Integrity, and Consequences. In order to reach the whole organisation, the campaign included interactive competitions, training toolkits for managers, intranet articles, info screens and other regionalised initiatives across Vestas locations. The campaign was promoted by senior leadership and will continue throughout 2023.

Data ethics report

The overall objective of our Data Ethics Policy is to encourage and motivate all our employees to handle data with the utmost care and respect and to follow our guiding principles on data use and ethics.

Through the ethical use of our smart data capabilities and groundbreaking technologies, we aim to achieve our objectives and extend our position as the industry's leading global partner on sustainable energy. We report on these efforts in accordance with section 99d of the Danish Financial Statements Act.

Transactions with related parties

A related party transaction is defined as any transaction, direct or indirect, between Vestas or any of its subsidiaries and/or affiliates and a related party. Any related party transaction with a value greater than the lowest 10 percent of Vestas' total assets, and equalling more than 25 percent of Vestas' operating profit/loss, is published on our corporate website. For 2022, the threshold corresponded to a value of EUR 81m. During the year, there were no significant transactions between Vestas and members of the Board or Executive Management, their close family members, or companies in which they have significant influence. Similarly, in 2022 Vestas had no significant transactions with its associates or joint ventures.

Financial and ESG assurance – internal control processes

We anchor internal control systems throughout the organisation to ensure systematic identification and management of all relevant risks. Processes and controls are continuously reviewed with the aim of further automating, optimising, and standardising across Vestas.

The Board has the ultimate responsibility for ensuring that Vestas has adequate internal control systems. Meanwhile, the Audit Committee (AC) is authorised by the Board to provide oversight of the reporting process, the audit process, systems of internal controls, and compliance with laws and regulations.

The AC reviews our financial and reporting processes, and also oversees our ESG reporting. In this way, we ensure that our ESG reporting is subject to the same robust governance that applies to our financial reporting.

Internal controlling

Group Finance is responsible for the implementation, monitoring, and reporting of our global financial processes and the internal control framework, while Group Sustainability has responsibility for our ESG reporting. This helps to ensure uniform design and structure of our internal controls. The objective of our control activities is to ensure compliance with applicable law and regulations as well as targets, policies, manuals, and procedures, as defined by Executive Management. Furthermore, the activities must help ensure that any errors, deviations, and shortcomings are prevented, discovered, and rectified. We continuously adjust and implement global processes and controls for all units and functions, aiming to mitigate the risk of misstatement within our financial and ESG reporting.

We are committed to ensuring the accuracy of our financial and ESG reporting. Our financial reporting and internal reporting controls are audited by an independent audit firm elected at the Annual General Meeting. As part of our ESG responsibility, our key sustainability figures are assured by the same independent external auditor. As of 2024, this assurance will be aligned with the requirement of the EU Corporate Sustainability Reporting Directive (CSRD). Our auditors' reports are available on pages 141-144. We are also looking at how to extend our internal control function in general.

Establishing an internal audit function

Since 2020, the AC has been working towards establishing an internal audit function, expecting to firm up the plan for the next steps during first half of 2023, as well as defining the scope of the function which is expected to include proving independent and objective assurance, primarily regarding the internal control of financial processes, IT security, ESG, etc.

1 See the Corporate Governance Report at vestas.com/content/dam/vestas-com/global/en/investor/reports-and-presentations/esg/corporate-governance/CorporateGovernance_2022.pdf.coredownload.inline.pdf

EU Taxonomy

Developed by the EU to direct capital into sustainable activities, the Taxonomy is a technical classification system to determine which economic activities make a substantial contribution to environmental sustainability.

For 2022, we have identified 96 percent of our revenue as being EU Taxonomy-aligned, with the share for operating expenditure (OPEX) and capital expenditure (CAPEX) being 94 and 91 percent, respectively.

Comprehensive reporting and notes on our eligibility and alignment with the Taxonomy, including compliance with the Do No Significant Harm criteria and Minimum safeguards is available in the Sustainability Report 2022, pages 87-91.

EU Taxonomy alignment 2022

Percent	Eligible	Aligned
Revenue	100	96
Operating expenditure (OPEX)	95	94
Capital expenditure (CAPEX)	98	91

Share and bond

Vestas Wind Systems A/S' share is listed on Nasdaq Copenhagen with more than 200,000 shareholders registered by name. Our bonds are listed on Euronext Dublin and linked to sustainability KPIs in line with our ambition to integrate sustainability into everything we do.

Share capital and ownership

In 2022, our share was the second most traded share, with an average daily turnover of DKK 520m which corresponds to close to 10 percent of the total OMX C25 index. According to our shareholder register at the end of 2022, we have shareholders from over 100 different countries, dominated by shareholders from the USA, UK, and Denmark, respectively. At the end of 2022, institutional investors accounted for around 80 percent.

Major shareholder
In 2022, Vestas had one major shareholder, BlackRock, Inc. (Wilmington, DE, USA) that has informed of passing the 5 percent threshold in October 2020, at which point in time its holding was 5.36 percent.

Treasury shares
On 31 December 2022, Vestas Wind Systems A/S held a total of 3,689,702 treasury shares, corresponding to 1.8 percent of the share capital, which we will use to cover long-term incentive awards.

Sustainability-linked financing

We finance our operations and investments through a combination of our own generated cash flow and external fundings. In February 2022, we established a Euro Medium-Term Note (EMTN) programme. The EMTN programme provides a framework for the issuance of notes up to an aggregated principal amount of EUR 3bn.

Outstanding bonds
With the EMTN programme in place, in March we continued to drive sustainable energy investments by issuing two EUR 500m sustainability-linked bonds. The bonds generated wide interest, with an oversubscription of 3.3 times. The bonds were issued to diversify our funding base and secure long-term financing at competitive costs. They follow the completion in 2021 of a EUR 2bn sustainability-linked revolving credit facility.

The bonds' fixed rate is directly linked to our sustainability performance and will be adjusted based on yearly defined sustainability targets in the following areas:

- Carbon footprint reductions across our own operations (Scope 1 and 2)
- Carbon emissions reductions from across our supply chain (Scope 3)
- Increased material efficiency in our own operations

Reporting on performance
Looking ahead, each year we will prepare a Sustainability-Linked Bond Progress Report. The first report will be made available at vestas.com no later than May. The report will document progress on the three KPIs and their related sustainability performance targets.

The Vestas share

Stock exchange	Nasdaq Copenhagen
Stock exchange quotation	1998
ISIN code	DK0061539921
Ticker symbol	VWS
Share capital	201,973,452
Nominal denomination	DKK 0.20
Number of shares	1,009,867,260
Share classes	One share class
Voting rights	One share carries 20 votes
Free float	100% free float
Trading lot (minimum)	None, one share is tradable
Share price, year-end	DKK 202.10

Euro Medium-Term Note programme

Issuer	Vestas Wind Systems A/S or Vestas Wind Systems Finance B.V.
Guarantor	Vestas Wind Systems A/S
Programme size	EUR 3,000,000,000
Arranger	UniCredit
Dealers	Citi, DNB, SEB, Société Générale, and UniCredit
Listing	Euronext Dublin
Programme rating	Baa1 (Moody's)

Outstanding bonds

	2029 Bond	2034 Bond
Issuer	Vestas Wind Systems Finance B.V.	Vestas Wind Systems Finance B.V.
Amount	EUR 500m	EUR 500m
Coupon	1.50%	2.00%
Type	Sustainability-linked	Sustainability-linked
Issue date	15 March 2022	15 March 2022
Maturity date	15 June 2029	15 June 2034
ISIN code	XS2449928543	XS2449929517

Financial statements

- → Consolidated financial statements, financial performance, and notes
- → Parent company financial statements and notes

EUR 14.5bn

In 2022, we generated a revenue of EUR 14.5bn.

Consolidated financial statements, financial performance, and notes

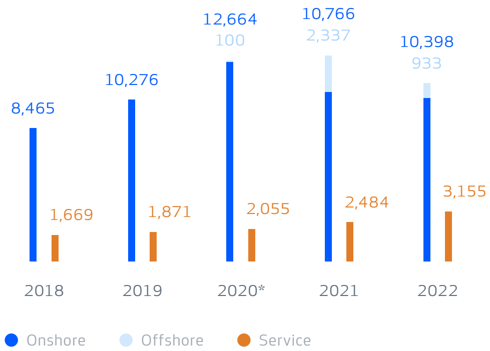
Financial performance

Result for the year

Revenue
Revenue in 2022 amounted to EUR 14,486m, a decrease of 7.1 percent compared to 2021. The decrease was mainly attributable to the Power Solutions segment challenged by transportation and project execution delays impacting deliveries across most geographical areas. Further, the lower revenue in Power Solutions is partially offset by increasing Service revenue. Vestas closed the year with revenue below the guided range of EUR 14.5bn-15.5bn.

Revenue in the geographical area Europe, Middle East, and Africa (EMEA) amounted to EUR 7,826m (2021: EUR 8,818m) corresponding to 54 percent of total revenue (2021: 56 percent). The share of revenue from Americas increased to 35 percent (2021: 31 percent) and amounted to a total of EUR 5,111m (2021: EUR 4,807m). The increasing revenue in Americas is driven by higher service activity. Revenue in Asia Pacific amounted to EUR 1,549m (2021: EUR 1,962m) and accounted for 11 percent of revenue in 2022 (2021: 13 percent).

Revenue
mEUR



* In 2020, Offshore was included from 14 December 2020.

Geographical distribution of revenue

mEUR	2022	2021
EMEA	7,826	8,818
Americas	5,111	4,807
Asia Pacific	1,549	1,962
Total	**14,486**	**15,587**

↑43%

In just four years, we have managed to increase revenue by 43% - from EUR 10,134 in 2018 to EUR 14,486 in 2022.

Gross profit
Gross profit in 2022 amounted to EUR 118m, corresponding to a gross margin of 0.8 percent, a 9.2 percentage point decrease compared to 2021. Gross profit was negatively impacted by continued external cost inflation and supply chain disruptions in the Power Solutions segment. Furthermore, the gross profit margin was negatively impacted by increased warranty provisions as well as an an adjustment related to the V164/V174 offshore.

Warranty provisions
The warranty costs in 2022 amounted to EUR 930m net of supplier claims, equivalent to a net warranty ratio of 6.4 percent of revenue in the year, 2.0 percentage points above the warranty ratio in 2021. The higher level of warranties in 2022 primarily relate to increased repair and upgrade costs due to external cost inflation and supply chain disruptions and a few select cases. Furthermore, the warranty costs were impacted by additional costs totalling EUR 93m related to the V164/V174 offshore technology recognised in the first quarter of 2022.

Research and development costs
Research and development costs recognised in the income statement amounted to EUR 457m (2021: EUR 389m). The increase was mainly attributable to impairment losses of EUR 90m recognised on the V164/V174 offshore technology. The total research and development expenditure prior to capitalisation and amortisation increased to EUR 514m in 2022 (2021: EUR 444m) mainly related to increased investments in the V236-15.0 MW offshore technology in 2022.

Distribution costs
Distribution costs amounted to EUR 462m in 2022 (2021: EUR 371m). The increase was mainly due to increasing depreciation on transportation equipment and additional equipment costs as well as higher sales promotion activity and impairment losses of EUR 18m recognised on the V164/V174 offshore technology.

With the introduction of the V236-15.0 MW offshore wind turbine, Vestas secured 5 GW preferred supplier agreements in 2022.

Financial performance – continued

Administration costs
Administration costs amounted to EUR 351m (2021: EUR 368m) and constituted 2.4 percent of revenue in 2022. The lower costs in 2022 compared to 2021 was mainly due to offshore integration activities impacting 2021.

Depreciation, amortisation, and impairment
Depreciation, amortisation, and impairment amounted to EUR 1,089m before special items in 2022 (2021: EUR 914m). The increase was mainly attributable to the impairment of the V164/V174 offshore technology and related assets recognised in the first and fourth quarters of 2022 amounting to a total of EUR 178m in addition to other minor impairments. Depreciations can be specified as depreciations of transport equipment and tools EUR 267m (2021: EUR 243m), production equipment EUR 118m (2021 EUR 102m) and other tangible assets EUR 189m (2021: EUR 188m).

Amortisations are driven by amortisation of technology EUR 221m (2021: EUR 235m) and other intangible assets EUR 104m (2021: EUR 146m).

Operating profit (EBIT)
EBIT before special items amounted to negative EUR 1,152m in 2022 (2021: EUR 428m), equivalent to an EBIT margin before special items of negative 8.0 percent and below our updated guidance of approx. negative 5 percent. The EBIT margin before special items decreased by 10.8 percentage points compared to 2021. The decrease was driven by lower revenue and lower gross profit margin.

EBIT after special items amounted to negative EUR 1,596m (2021: EUR 289m) with total costs in special items amounting to EUR 444m in 2022 (2021: 139m). Costs and impairment of assets amounting to EUR 269m have been recognised as special items following Russia's invasion of Ukraine and Vestas' decision to withdraw from the Russian market while all service and construction activities in Ukraine was temporarily stopped. Furthermore, costs of EUR 244m are reflected in special items associated to changes in the manufacturing footprint in China and India, partially offset by a reversal of impairment losses amounting to EUR 69m related to production facilities in Lauchhammer and Isle of Wight.

Income from investments in associates and joint ventures
Income from investments in associates and joint ventures amounted to a net profit of EUR 10m in 2022 (2021: EUR 36m). The lower profit compared to 2021 was related to a lower level of development activities in the USA and impairment of development projects in Latin America partially offset by higher income from the investment in Copenhagen Infrastructure Partners P/S of EUR 30m (2021: EUR 20m).

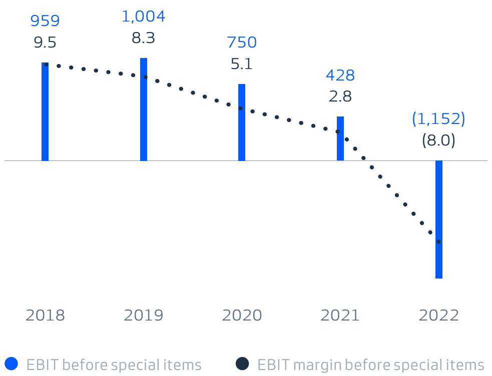
Net financial items
Financial items for 2022 amounted to negative EUR 110m (2021: negative EUR 101m) and comprised interests, fees, and currency related items.

Income tax
Income tax amounted to positive EUR 124m in 2022 (2021: negative EUR 81m) , equivalent to an effective tax rate of 7.4 percent (2021: 36 percent). The effective tax rate was primarily driven by non-deductible costs relating to the Russia and Ukraine conflict, updated valuation of tax assets in the USA and Denmark as well as ongoing tax assessments.

Net loss for the year
Loss for the year amounted to EUR 1,572m in 2022 (2021: Income of EUR 143m). The loss was driven by the diluted EBIT margin as well as high level of costs classified as special items.

Profitability ratios
Earnings per share amounted to negative EUR 1.6 in 2022, a decrease of EUR 1.7 compared to 2021. The decrease is mainly attributable to the net loss of EUR 1,572m in 2022 versus a net income of EUR 143m in 2021. Return on capital employed (ROCE) was negative 18.5 percent in 2022 (2021: 4.5 percent). The negative development can be attributed to negative operating profit. Return on equity was negative 43.9 percent in 2022 (2021: 3.0 percent), a decrease of 46.9 percentage points. The decrease can be attributed to the lower profit for the year.

Operating profit (EBIT) before special items
mEUR – percent



Profitability
Operating profit decreased due to supply chain instability and cost inflation, resulting in an EBIT margin before special items of (8.0) percent.

Income statement

1 January – 31 December

mEUR	Note	2022	2021[1]
Revenue	1.1, 1.2	**14,486**	**15,587**
Production costs	1.3, 1.4, 2.2	(14,368)	(14,031)
Gross profit		**118**	**1,556**
Research and development costs	1.3, 1.4	(457)	(389)
Distribution costs	1.3, 1.4	(462)	(371)
Administration costs	1.3, 1.4	(351)	(368)
Operating profit (EBIT) before special items		**(1,152)**	**428**
Special items	1.6	(444)	(139)
Operating profit (EBIT)		**(1,596)**	**289**
Income/(loss) from investments in joint ventures and associates	3.5	10	36
Financial income	1.7	52	21
Financial costs	1.7	(162)	(122)
Profit before tax		**(1,696)**	**224**
Income tax	5.1	124	(81)
Profit for the year		**(1,572)**	**143**
Profit is attributable to:			
Owners of Vestas Wind Systems A/S		(1,572)	134
Non-controlling interests		0	9
Earnings per share (EPS)	4.6		
Earnings per share (EUR)		(1.56)	0.13
Earnings per share (EUR), diluted		(1.56)	0.13

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Statement of comprehensive income

1 January – 31 December

mEUR	Note	2022	2021[1]
Profit for the year		**(1,572)**	**143**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments relating to foreign entities		(4)	131
Fair value adjustments of derivative financial instruments	4.2	133	76
Gain/(loss) on derivative financial instruments transferred to the income statement	4.2	(133)	6
Share of fair value adjustments of derivatives financial instruments of joint ventures and associates	3.5	14	3
Tax on fair value adjustments that may be subsequently reclassified to the income statement		4	(19)
Other comprehensive income after tax		**14**	**197**
Total comprehensive income		**(1,558)**	**340**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Balance sheet

31 December

Assets

mEUR	Note	2022	2021[1]
Intangible assets	3.1, 3.4	3,065	3,062
Property, plant and equipment	3.2, 3.3	1,752	2,091
Investments in joint ventures and associates	3.5	646	609
Other investments	4.3	88	81
Tax receivables	5.1	100	229
Deferred tax	5.2	497	378
Other receivables	2.5, 4.3	219	234
Financial investments	4.3	95	100
Total non-current assets		**6,462**	**6,784**
Inventories	2.2	6,373	5,673
Trade receivables	4.1, 4.3	1,280	1,531
Contract assets	2.3, 4.3	1,399	1,227
Contract costs	2.4	753	690
Tax receivables	5.1	51	102
Other receivables	2.5, 4.3	1,221	1,105
Financial investments	4.3	-	116
Cash and cash equivalents	4.1, 4.3	2,378	2,420
Assets held for sale	6.2	173	-
Total current assets		**13,628**	**12,864**
Total assets		**20,090**	**19,648**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Liabilities

mEUR	Note	2022	2021[1]
Share capital	4.4	27	27
Other reserves		15	22
Retained earnings		3,002	4,635
Equity attributable to Vestas		**3,044**	**4,684**
Non-controlling interests		16	13
Total equity		**3,060**	**4,697**
Provisions	3.6	944	686
Deferred tax	5.2	158	362
Financial debts	4.1, 4.3	2,179	732
Tax payables	5.1	177	326
Other liabilities	2.6, 4.1, 4.3	59	145
Total non-current liabilities		**3,517**	**2,251**
Financial debts	3.3, 4.1, 4.3	248	704
Contract liabilities	2.3	6,937	6,180
Trade payables	4.1, 4.3	4,089	4,286
Provisions	3.6	829	646
Tax payables	5.1	58	75
Other liabilities	2.6, 4.1, 4.3	1,349	809
Liabilities related to assets held for sale	6.2	3	-
Total current liabilities		**13,513**	**12,700**
Total liabilities		**17,030**	**14,951**
Total equity and liabilities		**20,090**	**19,648**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Shareholder return

Capital structure and financing items

Equity and solvency ratio
As at 31 December 2022, total equity amounted to EUR 3,060m, a decrease from 31 December 2021 of EUR 1,637m, which can be attributed to a negative net result of EUR 1,572m and dividend payment of EUR 50m to Vestas' shareholders.

As at 31 December 2022, the solvency ratio was at 15.2 percent, a decrease of 8.7 percentage-points compared to 31 December 2021 reflecting the decreasing equity.

Net interest-bearing position and cash position
As at 31 December 2022, cash and cash equivalents amounted to EUR 2,378m (2021: EUR 2,420m) and net interest-bearing debt was positive amounting to EUR 46m, a decrease of EUR 1,154m compared to 2021. This development was primarily the result of the issuance of two EUR 500m sustainability-linked bonds to refinance the EUR 500m green bond redeemed in December 2021 and to secure long-term funding. Further-more, a result of Vestas signing a EUR 475m green loan facility with the European Investment Bank (EIB) fully drawn to fund research, development and innovation activities.

The ratio of net interest-bearing debt/EBITDA cannot be calculated at 31 December 2022 as the EBITDA is negative. At the end of 2021, the comparative was negative at 0.9. This unfavourable development year over year was driven by both a decrease in EBITDA and a deteriorated net interest-bearing position.

Distribution to shareholders
The general intention of the Board of Directors (Board) is to recommend a dividend of 25-30 percent of the company's annual net result after tax.

The Board recommends no dividends will be distributed based on the negative annual result in 2022.

The financial year 2022
Pursuant to authorisation granted to the Board by the Annual General Meeting on 5 April 2022, Vestas has been authorised to acquire treasury shares at a nominal value not exceeding 10 percent of the share capital at the time of the authorisation on an ongoing basis until 31 December 2023. Vestas has not acquired treasury shares in 2022.

Distribution to shareholders	2022	2021
Dividend per share (DKK)	–	0.37[1]
Dividend per share (EUR), approx.	–	0.05[1]
Dividend (mEUR)	–	50
Payout ratio (%)	–	36.0

1 Based on number of shares issued as at 31 December 2021.

Treasury shares	2022 Number of shares	2021 Number of shares	2022 % of share capital	2021 % of share capital
Treasury shares as at 1 January	4,723,160	1,098,495	0.5	0.5
Share split 1:5	-	4,393,980	-	-
Purchases	-	391,125	-	0.1
Vested treasury shares	(1,033,458)	(1,160,440)	(0.1)	(0.1)
Treasury shares as at 31 December	**3,689,702**	**4,723,160**	**0.4**	**0.5**

Statement of changes in equity

1 January – 31 December

2022

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	Total
Equity as at 1 January	**27**	**14**	**16**	**(8)**	**22**	**4,635**	**13**	**4,697**
Impact from change in accounting policy	-	-	-	-	-	(17)	-	(17)
Adjusted equity as at 1 January	**27**	**14**	**16**	**(8)**	**22**	**4,618**	**13**	**4,680**
Profit for the year	-	-	-	-	-	(1,572)	0	(1,572)
Other comprehensive income for the year	-	(4)	4	14	14	-	(0)	14
Total comprehensive income for the year	**-**	**(4)**	**4**	**14**	**14**	**(1,572)**	**0**	**(1,558)**
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items, net	-	-	(21)	-	(21)	-	-	(21)
Transactions with owners:								
Transaction with non-controlling interest	-	-	-	-	-	-	3	3
Dividends distributed	-	-	-	-	-	(50)	-	(50)
Dividends distributed related to treasury shares	-	-	-	-	-	0	-	0
Acquisition of treasury shares	-	-	-	-	-	-	-	0
Share-based payment	-	-	-	-	-	7	-	7
Tax on equity transactions	-	-	-	-	-	(1)	-	(1)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(44)**	**3**	**(41)**
Equity as at 31 December	**27**	**10**	**(1)**	**6**	**15**	**3,002**	**16**	**3,060**

2021[1]

mEUR	Share capital	Reserves: Translation reserve	Reserves: Cash flow hedging reserve	Reserves: Other reserves	Reserves: Total reserves	Retained earnings	Non-controlling interest	Total
Equity as at 1 January	**27**	**(114)**	**(21)**	**(11)**	**(146)**	**4,773**	**49**	**4,703**
Impact from change in accounting policy	-	-	-	-	-	(31)	-	(31)
Adjusted equity as at 1 January	**27**	**(114)**	**(21)**	**(11)**	**(146)**	**4,742**	**49**	**4,672**
Profit for the year	-	-	-	-	-	134	9	143
Other comprehensive income for the year	-	128	63	3	194	-	3	197
Total comprehensive income for the year	**-**	**128**	**63**	**3**	**194**	**134**	**12**	**340**
Transfer of cash flow hedge reserve to the initial carrying amount of hedged items, net	-	-	(26)	-	(26)	-	-	(26)
Transactions with owners:								
Transaction with non-controlling interest	-	-	-	-	-	(5)	(48)	(53)
Dividends distributed	-	-	-	-	-	(230)	-	(230)
Dividends distributed related to treasury shares	-	-	-	-	-	2	-	2
Acquisition of treasury shares	-	-	-	-	-	(12)	-	(12)
Share-based payment	-	-	-	-	-	13	-	13
Tax on equity transactions	-	-	-	-	-	(9)	-	(9)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(241)**	**(48)**	**(289)**
Equity as at 31 December	**27**	**14**	**16**	**(8)**	**22**	**4,635**	**13**	**4,697**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Refer to note 4.4 for information on movements in share capital.

Cash flows

Working capital and cash flow

Net working capital
Net working capital amounted to a net liability of EUR 1,349m as at 31 December 2022, a development of negative EUR 300m compared to a net liability at the end of 2021 of EUR 1,049m. The increasing inventory level during 2022 has been more than offset by increasing prepayments.

Cash flow from operating activities
Cash flow from operating activities was negative EUR 195m in 2022, a decrease of EUR 1,151m compared to 2021. The decrease was driven by the same factors impacting the negative profit in 2022 but positively impacted by the development in net working capital.

Cash flow from investing activities before acquisitions of subsidiaries, joint ventures, associates and financial investments
Cash flow from investing activities before acquisitions of subsidiaries, joint ventures, associates and financial investments amounted to a net outflow of EUR 758m compared to a net outflow of EUR 773m in 2021. The lower net investments primarily reflecting decreased investments in transportation equipment and construction tools, partially offset by increased investments in V236-15.0 MW™ offshore technology as well as cash inflow from disposal of the Lauchhammer production facilities.

Free cash flow

Free cash flow before acquisitions of subsidiaries, joint ventures, associates and financial investments amounted to negative EUR 953m (2021: EUR 183m), a decrease from 2021 primarily driven by the negative cash flow from operating activities.

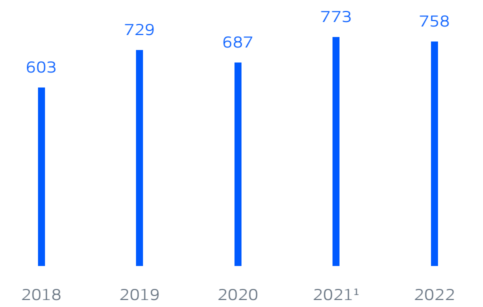
Strategic acquisitions and divestments

In August 2022, Vestas signed an agreement with KK Wind Solutions to sell the controls & converter business including Vestas' three converters and control panels factories in Denmark, India, and China and associated staff functions. The transaction is expected to be closed in the first quarter of 2023. For this reason, the asset has been classified as held for sale as at 31 December 2022. Assets held for sale includes property, plant and equipment amounting to EUR 62m and inventory amounting to EUR 111m.

The sale is expected to impact EBIT before special items with approximately EUR 150m.

Value-adding investments
Over the last five years, we have invested in a new modular platform, and taken full ownership of the offshore business.

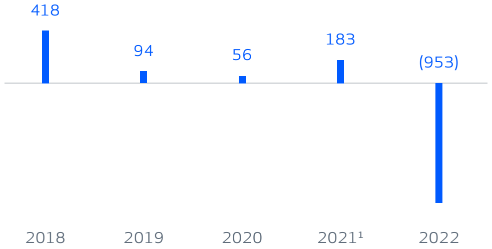
Net Investment
mEUR



EUR (953)m

In 2022, Vestas generated free cash flow before acquisitions of subsidiaries, joint ventures, associates and financial investments of EUR (953)m.

Free cash flow before acquisitions of subsidiaries, joint ventures, associates and financial investments
mEUR



1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Statement of cash flows

1 January – 31 December

mEUR	Note	2022	2021[1]
Profit for the year		(1,572)	143
Adjustments for non-cash transactions	6.5	1,713	998
Interest received		37	19
Interest paid		(37)	(39)
Income tax paid	5.1	(144)	(174)
Cash flow from operating activities before change in net working capital		(3)	947
Change in net working capital	2.1	(192)	9
Cash flow from operating activities		**(195)**	**956**
Purchase of intangible assets	3.1	(448)	(360)
Purchase of property, plant and equipment	3.2	(371)	(476)
Disposal of property, plant and equipment		48	3
Dividends from investments in joint ventures and associates	3.5	13	60
Cash flow from investing activities before acquisitions of subsidiaries, joint ventures, associates and financial investments		**(758)**	**(773)**
Free cash flow before acquisitions of subsidiaries, joint ventures, associates and financial investments		**(953)**	**183**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

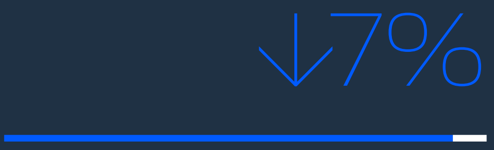
mEUR	Note	2022	2021[1]
Purchase of shares in joint ventures and associates	3.5	(40)	(208)
Net purchase of other financial assets		3	(8)
Disposal of subsidiary, net of cash		-	99
Net cash flow from deconsolidation of subsidiary		-	(4)
Purchase/disposal of financial investments		116	(5)
Cash flow from investing activities		**(679)**	**(899)**
Free cash flow		**(874)**	**57**
Acquisition of treasury shares		-	(12)
Dividends paid		(50)	(228)
Payment of lease liabilities	4.1	(147)	(135)
Proceeds from borrowings	4.1	1,756	642
Payment of financial debt	4.1	(713)	(960)
Transactions with non-controlling interest		-	(22)
Cash flow from financing activities		**846**	**(715)**
Net increase in cash and cash equivalents		**(28)**	**(658)**
Cash and cash equivalents as at 1 January		2,420	3,063
Exchange rate adjustments on cash and cash equivalents		(14)	15
Cash and cash equivalents as at 31 December	**4.1**	**2,378**	**2,420**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

1 Result for the year

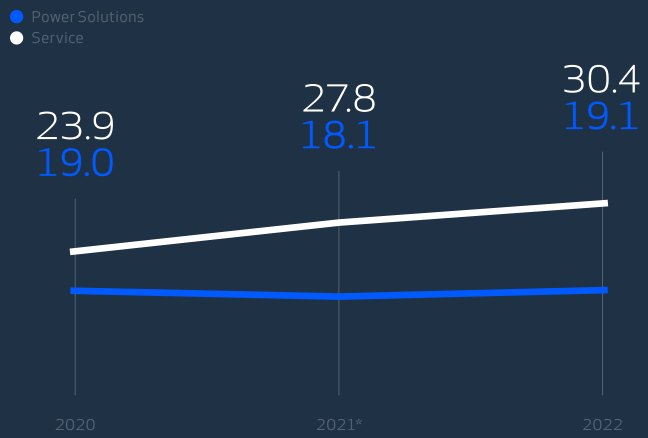
Revenue

In 2022, Vestas generated a revenue of EUR 14.5bn.



Order backlog

In 2022, Vestas continued the trend of increasing the value of its total order backlog to EUR 49.5bn, an increase year over year of 8 percent.



* The number disclosed in the 2021 annual report for the Service order backlog has been corrected from EUR 29.2bn to EUR 27.8bn.

1.1 Segment information

Power Solutions – Result for the period

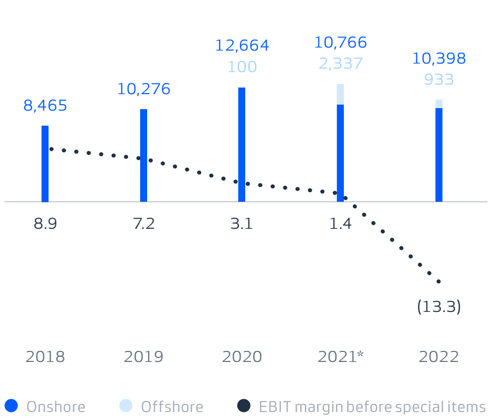
The segment contains sale of onshore and offshore wind power plants, wind turbines, development sites, etc.

In 2022, revenue from the Power Solutions segment amounted to EUR 11,331m (2021: EUR 13,103m), a decrease of 13.5 percent compared to 2021. The decrease was mainly attributable to the Power Solutions segment challenged by transportation and project execution delays impacting deliveries across most geographical areas including primarily offshore deliveries in the UK as well as lower onshore deliveries in Vietnam and USA. Furthermore, lack of deliveries in Russia following Vestas' decision to withdraw from the Russian market contributed to the negative development compared to 2021 with EUR 323m. Revenue reflected a positive impact of EUR 333m from foreign exchange rate translation compared to 2021.

EBIT before special items from the Power Solutions segment amounted to negative EUR 1,512m (2021: EUR 188m). Consequently, the EBIT margin before special items was negative 13.3 percent (2021: 1.4 percent). This decrease was primarily attributable to continued external cost inflation and supply chain disruptions in the Power Solutions segment. Furthermore, EBIT before special items was negatively impacted by an adjustment related to the V164/V174 offshore technology including impairment of assets on offshore turbines already installed as well as increased level of warranty provisions.

Costs and impairment of assets amounting to EUR 269m have been recognised as special items following Russia's invasion of Ukraine and Vestas' decision to withdraw from the Russian market while all service and construction activities in Ukraine was temporarily stopped. Furthermore, costs of EUR 244m are reflected in special items associated to changes in manufacturing footprint in China and India partially offset by reversal of impairment losses amounting to EUR 69m related to production facilities in Lauchhammer and Isle of Wight. For additional information, refer to note 1.6.

Revenue and EBIT margin before special items
mEUR - percent



1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

34%

Revenue from Power Solutions increased over the last 4 years by 34%.

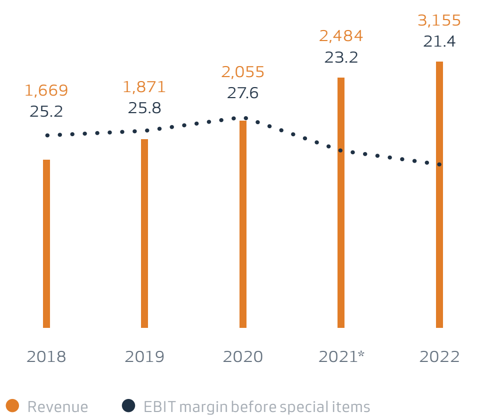
Service – Result for the period

The segment contains sale of service contracts, spare parts and related activities.

In 2022, the Service business generated revenue of EUR 3,155m, a year-on-year growth rate of 27.0 percent. The revenue development in the Service business was driven by higher contract activity and transactional sales as well as inflation levers in contracts. In addition, revenue reflected a positive impact of EUR 102m from foreign exchange rate translation effects compared to 2021.

In 2022, the EBIT margin was 21.4 percent (2021: 23.2 percent). The lower profitability is mainly related to certain projects in USA and Africa as well as increasing costs related to one-off cases in UK and Australia. Furthermore, the EBIT margin was negatively impacted by an impairment loss relating to V164/V174 offshore activity impacting the Service segment with EUR 12m.

Revenue and EBIT margin before special items
mEUR - percent



1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

21%

The Service EBIT margin in 2022 constitutes a decrease of 4% compared to the level in 2018, achieved despite an increasingly competitive environment.

1.1 Segment information – continued

The measure of revenue is disclosed in accordance with how the segments are reported to the Vestas' chief operating decision makers. The reported revenue is in alignment with how the segments are internally committed for variable consideration under sales contracts. This is different to the external commitment of the segments.

Revenue

mEUR	2022	2021
USA	2,969	2,973
United Kingdom	870	2,632
Denmark	569	811
Other countries	10,078	9,171
Total	**14,486**	**15,587**

The revenue split is based on geographical supply point. Revenue specified by country shows all countries with a revenue of more than 10 percent of Vestas' total revenue as well as revenue in Denmark. United Kingdom is included in 2022 to enable comparison to the 2021 level.

Intangible assets and property, plant and equipment

mEUR	2022	2021
Denmark	3,521	3,639
Other countries	1,296	1,514
Total	**4,817**	**5,153**

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

With the exception of Denmark, no country has intangible assets and property, plant and equipment exceeding 10 percent of the group's total intangible assets and property, plant and equipment as at 31 December 2022.

	2022				2021[1]			
mEUR	Power Solutions	Service	Not allocated	Total	Power Solutions	Service	Not allocated	Total
Revenue	11,331	3,155	-	14,486	13,103	2,484	-	15,587
Total revenue	**11,331**	**3,155**	**-**	**14,486**	**13,103**	**2,484**	**-**	**15,587**
Total costs	(12,843)	(2,480)	(315)	(15,638)	(12,915)	(1,907)	(337)	(15,159)
Operating profit (EBIT) before special items	**(1,512)**	**675**	**(315)**	**(1,152)**	**188**	**577**	**(337)**	**428**
Special items, refer to note 1.6	(444)	-	-	(444)	(139)	-	-	(139)
Operating profit (EBIT)	**(1,956)**	**675**	**(315)**	**(1,596)**	**49**	**577**	**(337)**	**289**
Income/(loss) from investments in joint ventures and associates, refer to notes 3.5, 6.4	-	-	10	10	-	-	36	36
Financial income, refer to note 1.7	-	-	52	52	-	-	21	21
Financial costs, refer to note 1.7	-	-	(162)	(162)	-	-	(122)	(122)
Profit before tax				**(1,696)**				**224**
Amortisation and depreciation included in total costs, refer to notes 3.1, 3.2	(910)	(132)	(47)	(1,089)	(735)	(111)	(68)	(914)
Investments in joint ventures and associates, refer to note 3.5				646				609

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

Accounting policies

The reportable segments are determined based on Vestas' management structures and the consequent reporting to the Chief Operating Decision Maker (CODM), which is defined as the Executive Management. Following the acquisition of MHI Vestas Offshore Wind A/S on 14 December 2020, a new offshore operating segment has been established. Vestas' reportable segment 'Power Solutions' includes respectively onshore and offshore operating segments. The onshore and offshore activities are combined in one reportable segment, as the nature of the businesses and the financial impact from the activities are similar in respect of product categories, production, distribution and customers. In addition, the long-term EBIT margins and investment requirements relative to revenue are expected at the same level.

The total external revenue is derived from the two reportable segments and comprises sale of wind turbines and associated service activities, Power Solutions and Service respectively. Certain income and costs relating to Vestas functions, investing activities, tax, etc. are managed on Vestas level. These items are not included in the reportable segments, and therefore, presented as 'Not allocated'.

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

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

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

1.2 Revenue

Key accounting estimates and judgements

Estimate regarding recognition of contract elements
Management performs significant accounting estimates in connection with determining the appropriate income recognition of contract elements. In certain situations, Supply-only projects contain elements that in nature are associated with a high degree of estimations regarding allocation of consideration under a contract to elements already delivered and elements to be delivered in the future. Management has assessed that the project specific margin is a fair estimate of a reasonable margin used to allocate consideration under a contract to the contract elements. Significant judgement is also involved in assessing whether project or service contracts contain multiple performance obligations which should be accounted for separately.

Estimates of stage of completion
Vestas applies the percentage-of-completion method in accounting for service contracts and certain wind power plants, in general projects with a high degree of customisation. The use of the percentage-of-completion method requires Management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method). This method is considered to best show the progression of the projects. Based on the estimated stage of completion, a respective portion of the consideration is recognised.

Judgement regarding method for recognition of revenue from Supply-and-installation contracts
Management applies judgement when determining whether revenue from Supply-and-installations contracts shall be recognised at a point in time or over time. Management has determined that Supply-and-installation projects based on standard solutions have an alternative use. Consequently, revenue of such contract is recognised at the point in time when the turbine is fully operational and control is transferred to the customer. For certain projects, Vestas agrees to delivery of wind power plants based on non-standard solutions to the customer. Management assesses whether such non-standard solutions have an alternative use. The judgements made take into consideration technology used, or the degree of customization including remoteness of the wind power plant. Revenue from sale of non-standard solutions, which are judged to have no alternative use is recognised over time (percentage-of-completion method).

Judgement regarding service contract modifications
Management applies judgement when determining whether a service contract modification should be accounted for as a separate contract or as if it is part of the original contract. The judgements made take into consideration whether the scope is changed, if price changes reflect stand-alone prices, whether a contract is won in a tender, if the modification is due to execution of a renewal option and other relevant facts and circumstances.

Judgement regarding sale of onshore wind power plant under development
In 2021 management applied judgement in determining the revenue recognition of a share purchase agreement entered into with an associate to sell its shareholding in an onshore wind power plant under development. Consequently, revenue in the amount of EUR 64m and related production costs in the amount of EUR 19m were recognized. One of the judgments made was that management considered it highly probable that the customer's contingent option to put back the shares would either not materialise or not be exercised if materialised.

In 2022, the approval from the authorities was delayed and the development plan is adjusted in alignment with the customer. Although the project value itself has not deteriorated, the delay increases the risk that the contingent put option materialises. Consequently, revenue in the amount of EUR 64m and related production costs in the amount of EUR 19m have been reversed in 2022.

Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer. Vestas recognises revenue when it transfers control over a product or service to a customer.

Revenue recognition
Revenue comprises sale of wind turbines and wind power plants, after-sales service, sale of spare parts and wind power plants under development. The following is a description of the principal activities from which Vestas generates its revenue.

Supply-only projects
Revenue from the sale of individual wind turbines based on standard solutions is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue at a point in time, when control is transferred to the customer, and the consideration agreed is expected to be received. Control is deemed to be transferred upon delivery of the components in accordance with the agreed delivery plan.

Supply-and-installation projects (point in time)
Revenue from sale of wind power plants based on standard solutions with alternative use is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Vestas recognises revenue when control of the fully operational turbine is transferred to the customer, and the consideration agreed is expected to be received. Control is generally deemed to be transferred at the point in time when the turbine is fully operational.

Supply-and-installation projects (over time)
Revenue from sale of wind power plants based on non-standard solutions to the customer, where there is no alternative use for the wind power plant to be delivered and where we have an enforceable right to payment for the work completed is recognised over time using the percentage-of-completion method. Revenue excludes amounts collected on behalf of third parties.

EPC / Turnkey projects
Revenue from contracts to deliver wind power plants with a high degree of customisation are recognised over time as the wind power plants are constructed based on the stage of completion of the individual contracts. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the cost incurred to the extent that it is probable that the costs will be recovered.

Service sales
Revenue from service sales, comprising services and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, are recognised over the term of the agreement as the services are provided. Separate spare parts sales are recognised at a point in time when control has been transferred to the customer, and provided that consideration agreed is expected to be received.

Service contract modifications
Contract modifications treated as separate contracts are typically related to changes in scope, successful tender bids or renegotiated close to term expiry (signed). Contract modifications which are treated as part of the original contract, are typically related to renewals renegotiated far from term expiry (signed) or price changes agreed upon.

Contract modifications treated as separate contracts are accounted for on a prospective basis. Contract modifications treated as part of the original contract and accounted for on a cumulative catch-up basis.

Wind power plants under development
Revenue from the sale of wind power plants under development is measured based on the consideration specified in a contract with a customer and recognised at a point in time when the control of the project is transferred to the customer.

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

All wind turbine and wind power plant contracts include a standard warranty clause. For further details on warranty, refer to note 3.6.

1.2 Revenue – continued

From order intake to revenue recognition

Order backlog

The order backlog reflects the value of future deliveries and services. An order is included as order intake when firm and unconditional. The value of future contracts is measured at the end of the period. The order backlog comprises firm and unconditional orders from Power Solutions and Service, less deliveries made in Power Solutions and Service performance.

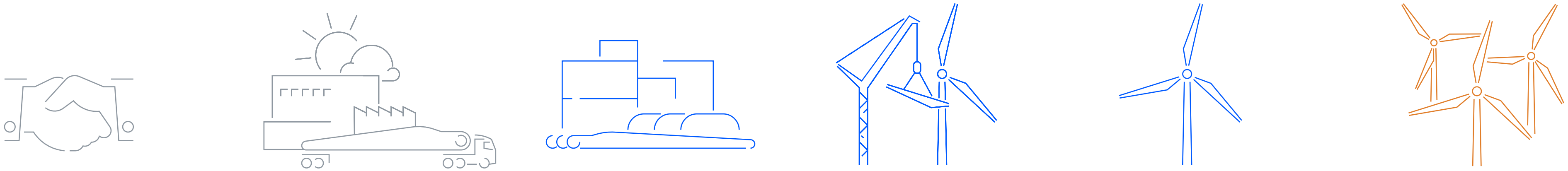
Deliveries

Deliveries in MW reflect the capacity of wind turbines delivered during the reporting period. The capacity is considered delivered, and is deducted from the wind turbine order backlog, when the related revenue is recognised.

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

Service

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



Order intake

Manufacturing and transport

Delivery according to contract

Construction

Operational turbine

Operating wind power plants

Supply-only

2.6

Revenue EURbn

Revenue recognition

Revenue is recognised at a **point in time** when control is transferred to the customer. Control is generally transferred upon delivery of the components in accordance with the agreed delivery plan.

EPC / Turnkey projects

0.9

Revenue EURbn

Revenue recognition

Revenue is recognised **over time** as the wind power plant is constructed based on the stage of completion of the individual contracts.

Supply-and-installation

7.8

Revenue EURbn

Revenue recognition

Revenue is recognised **over time** for nonstandard solutions with no alternative use as the turbine is installed based on the stage of completion of the individual contracts.

Revenue is recognised **at a point in time** when control of the turbine is transferred to the customer. Control is transferred at a point in time when Vestas has proven a fully operational turbine.

Service

3.2

Revenue EURbn

Revenue recognition

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

1.2 Revenue – continued

Disaggregation of revenue

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

For the financial year 2022, supply-and-installation projects recognised over time (percentage-of-completion) constituted 37 percent of the total supply-and-installation revenue compared to 32 percent in 2021. The projects are mainly located in Brazil.

Transaction price allocated to the remaining sales contracts

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

All considerations from contracts with customers are included in the amounts presented.

Order backlog

bnEUR	2022	2021
Power Solutions, onshore	16.4	15.4
Power Solutions, offshore	2.7	2.7
Wind turbines total	**19.1**	**18.1**
Service, onshore[1]	26.6	24.2
Service, offshore[1]	3.8	3.6
Service total[1]	**30.4**	**27.8**

1 The number disclosed in the 2021 annual report for the Service order backlog has been corrected from EUR 29.2bn to EUR 27.8m.

Disaggregation of revenue

mEUR	Power Solutions 2022	Power Solutions 2021	Service 2022	Service 2021	Total 2022	Total 2021
Timing of revenue recognition						
Products and services transferred at a point in time	7,519	9,161	653	412	8,172	9,573
Products and services transferred over time	3,812	3,942	2,502	2,072	6,314	6,014
Total	**11,331**	**13,103**	**3,155**	**2,484**	**14,486**	**15,587**
Revenue from contract types						
Supply-only	2,590	2,814	-	-	2,590	2,814
Supply-and-installation (at a point in time)	4,929	6,347	-	-	4,929	6,347
Supply-and-installation (over time)	2,859	3,006	-	-	2,859	3,006
Turnkey (EPC)	953	936	-	-	953	936
Service	-	-	3,155	2,484	3,155	2,484
Total	**11,331**	**13,103**	**3,155**	**2,484**	**14,486**	**15,587**
Primary geographical markets						
EMEA	6,276	7,427	1,550	1,391	7,826	8,818
Americas	3,783	3,967	1,328	840	5,111	4,807
Asia Pacific	1,272	1,709	277	253	1,549	1,962
Total	**11,331**	**13,103**	**3,155**	**2,484**	**14,486**	**15,587**

At the end of 2022, the average remaining duration in the service order backlog is approximately 11 years (2021: 10 years), with a range up to 35 years (2021: 36 years). For the Power Solutions segment, projects are normally to be delivered within 1 to 3 years (2021: 1 to 3 years).

Power Solutions – order backlog
At the end of the year, the total wind turbine order backlog amounted to 19,623 MW corresponding to EUR 19.1bn. Of this, 17,415 MW corresponding to EUR 16.4bn relates to onshore wind turbines. Compared to last year, the onshore order backlog increased by 13 percent. The offshore backlog amounted to 2,208 MW corresponding to EUR 2.7bn as at 31 December 2022, which is on par with 2021.

Service – order backlog
At the end of 2022, Vestas had service agreements in the order backlog with expected contractual revenue of EUR 30.4bn, which is an increase of EUR 2.6bn compared to 2021.

The service order backlog for 2021 is adjusted from EUR 29.2bn to EUR 27.8bn due to an error in the report generating the service backlog. The adjustment has no impact on the future service profitability.

Accounting policies

Order backlog in EUR reflects the value of future deliveries and services under firm and unconditional orders and is measured as the expected revenue to be recognised in the future related to performance obligations that are unfulfilled or partially unfulfilled at the end of the period. The order backlog is forward-looking by nature and is a subset of Vestas' potential future revenue.

Order backlog in MW reflect the capacity of future turbine deliveries under firm and unconditional orders and is measured as the total capacity of turbines to be delivered under firm and unconditional orders less deliveries at the end of the period. The capacity of turbines delivered is included as deliveries when the related revenue is recognised.

1.3 Costs

Accounting policies

Production costs
Production costs, including warranty costs, comprise the costs incurred to achieve revenue for the year. Costs consist of raw materials, consumables, direct labour costs, transportation costs and indirect costs such as salaries, rental and lease costs as well as depreciation of production facilities. Furthermore, provisions for loss-making construction contracts are included in production costs.

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

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

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

Research and development costs recognised in the income statement

mEUR	2022	2021[1]
R&D costs	514	444
Capitalised development projects	(414)	(332)
Amortisation and depreciation	357	277
Total	**457**	**389**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

1.4 Employee costs

Staff costs

mEUR	2022	2021
Staff costs are specified as follows:		
Wages and salaries, etc.	1,581	1,395
Share-based payment, refer to note 1.5	7	13
Pension schemes, defined contribution schemes	94	85
Other social security costs	198	187
Total	**1,880**	**1,680**
Average number of employees	28,779	29,164
Number of employees as at 31 December	28,438	29,427

Board of Directors and Executive Management

mEUR	2022	2021
Staff costs attributable to:		
Board of Directors		
Board remuneration	1	1
Total	**1**	**1**
Executive Management		
Wages and bonus	7	7
Share-based payment	2	6
Total	**9**	**13**

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

In 2022, share-based payment and wages to the registered members of the Executive Management amounted to EUR 3m (2021: EUR 5m).

Key management personnel is defined as Executive Management.

1.5 Share based payment

Restricted performance share programme

The purpose of the restricted performance shares is to ensure common goals for management, certain key employees, and shareholders. The number of shares available for grant may be adjusted in the event of changes in Vestas' capital structure. Further, in the event of a change of control, merger, winding-up or demerger of Vestas, an accelerated grant may extraordinarily take place. In the event of certain transfers of activities or changes in ownership interests within Vestas, adjustment, replacement of the programme and/or settlement in cash of the programme entirely may also take place.

In April 2022, the Board of Directors of Vestas Wind Systems A/S (Board) launched a new restricted performance share programme. The performance share programme has been revised for the sake of simplification. The 2022 performance share programme will fully vest after a three-year performance period with all shares vesting at once, instead of the previous split vesting in two portions. The performance measurements are based on financial key performance indicators as well as Vestas' market share as defined by the Board.

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

- Only participants employed by Vestas at the time of announcement of the programme or later in the financial year are eligible for participation in the restricted performance share programme.
- The number of restricted performance shares available for distribution depends on Vestas' performance as per table below.
- Depending on the performance, the total number of shares to be granted will range between 0 percent and 150 percent of the target level and is determined by Vestas' performance in the financial year.
- A cap for value at vesting for CEO and CFO equal to 300 percent of base pay has been introduced

In 2022, the total number of shares issued amounts to 911,058 shares with a fair value of EUR 26m (out of which 329,998 shares with a fair value of EUR 9m were issued to the Executive Management). The fair value calculated is based on share price at measurement, close of Nasdaq Copenhagen on 6 April 2022, EUR 28.

Employee elected members of the Board, had 0 restricted shares outstanding as at 31 December 2022 (2021: 0).

Refer to note 1.4 for the total expense recognised in the Income statement for restricted performance shares (share-based payment) granted to Executive Management and other executives.

Accounting policies

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

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

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

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

The fair value of restricted shares is determined based on Vestas quoted share price at grant.

Management's incentive programmes	2022	2021	2020	2019	2018	2017
Year awarded:	April 2022	April 2021	May 2020	May 2019	April 2018	May 2017
Performance year[1]	2022-2024	2021-2023	2020-2022	2019-2021	2018-2020	2017-2019
Vesting conditions (KPIs):	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share	EPS, ROCE, Market share
Vesting years:	2025	2024	2023/25	2022/2024	2021/2023	2020/2022

1 Performance years defined as Vestas' financial year.

Number of restricted performance shares	Executive Management pcs	Other executives pcs	Total pcs
Outstanding as at 1 January 2022	**1,021,888**	**2,587,229**	**3,609,117**
Adjusted	(119,077)	436,143	317,066
Awards issued	329,998	581,060	911,058
Vested	(212,234)	(821,224)	(1,033,458)
Cancelled	(331,286)	(861,400)	(1,192,686)
Outstanding as at 31 December 2022	**689,289**	**1,921,808**	**2,611,097**
Outstanding as at 1 January 2021	**1,169,045**	**3,629,165**	**4,798,210**
Adjusted	(135,247)	(266,679)	(401,926)
Awards issued	280,870	502,877	783,747
Vested	(191,950)	(967,240)	(1,159,190)
Cancelled	(100,830)	(310,894)	(411,724)
Outstanding as at 31 December 2021	**1,021,888**	**2,587,229**	**3,609,117**

←
Adjusted include adjustments due to final calculation of entitlement based on performance in prior year and transfers between categories due to changes in management.

Allocation of performance shares for the 2020, 2021 and 2022 performance programmes will be adjusted based on the level of target achievement in the measurement period.

1.6 Special items

Russian invasion of Ukraine

Following Russia's invasion of Ukraine in February 2022, Vestas announced on 5 April 2022 that Vestas would withdraw from the Russian market. In order to facilitate the withdrawal from Russia, Vestas continues certain activities during a limited transition period where Vestas will dispose of its Russian assets, wind down operations and end existing contractual relationships. Furthermore, Vestas' activities in Ukraine have been put on hold.

The costs related to the Russian invasion of Ukraine qualify as special items in accordance with Vestas' accounting policy. In 2022, special items of EUR 269m have been recognised including provisions of EUR 87m, write-down of inventories located in Russia and Ukraine of EUR 159m, impairment of tangible assets of EUR 9m, write-down of VAT receivables of EUR 4m, staff costs of EUR 5m and other expenses of EUR 5m, as directly related to the Russian invasion of Ukraine.

Basis for recognition
The provisions primarily relate to risks stemming from Vestas' cessation of activities in Russia, including claims brought against Vestas in and outside Russia. In the aggregate, the possible outcome ranges between EUR 0m and EUR 150m. Vestas has provisioned EUR 81m in order to address the assessed risk. The write-down of inventory relates to inventory located in Russia and Ukraine that is not expected to be sold. The impairment loss on tangible assets is primarily related to buildings and equipment located in Russia, which are written down to zero as the assets are not expected to be utilised or sold. The write-down of VAT receivables is related to VAT receivables that are deemed not recoverable. The staff costs are related to severance payments. Other expenses are primarily related to the closing of the factory in Russia.

Adjusting manufacturing footprint

Vestas continues to review the product portfolio and adapt the production capacity. As part of this development, Vestas adjusted its manufacturing footprint by ceasing production at certain factories in China and India.

This adjustment of the manufacturing footprint qualifies as special items in accordance with Vestas' accounting policy. In 2022, special items of EUR 244m have been recognised including impairment of intangible assets of EUR 25m, impairment of tangible assets of EUR 89m, write-down of inventory of EUR 101m, staff costs of EUR 8m and other costs of EUR 21m.

Furthermore, a reversal of previously recognised impairment losses on tangible assets of EUR 54m, staff costs of EUR 8m and other costs of EUR 7m was recognised in special items, primarily relating to the factory in Lauchhammer, Germany and the production facility on Isle of Wight, UK.

Basis for recognition
The impairment loss is primarily related to intangible assets, buildings and production equipment which are written down to fair value less expected cost to sell or value in use. The write-down of inventory relates to inventory which is not expected to be sold. The intangible assets, buildings and production equipment at the factories have been written down from EUR 155m to EUR 41m reflecting the value that is expected from the disposal of the assets considering costs to sell. Inventory has been written down from EUR 101m to zero as the inventory is expected to be scrapped. Other costs are primarily related to a write-down of VAT and tax receivables that are deemed not recoverable, purchase commitments towards suppliers and cost of closing the factories.

The reversal of previously recognised impairment losses was primarily due to the sale of the factory in Lauchhammer and revised expected use of the production facility on Isle of Wight.

Key accounting judgements

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

Estimate regarding the valuation of assets and liabilities in Russia and Ukraine
Measurement of the provisions related to the ceasing of activities in Russia and Ukraine as well as write-down of inventory located in Russia and Ukraine is associated with significant estimation uncertainty due to the current situation in Russia and Ukraine. The recognised cost reflects management's best estimate based on the current expectations.

Accounting policies

Special items comprise significant unusual and/or infrequently occurring items that are not attributable to Vestas' normal operations. Special items comprise income and costs related to significant organisational restructuring and significant adjustments to production capacity and the product programme.

Special items

mEUR	2022	2021
Write-down of inventory	(260)	–
Provisions	(87)	–
Impairment loss on intangible and tangible assets	(69)	(68)
Staff costs	(5)	(61)
Other costs	(23)	(10)
Special items	**(444)**	**(139)**

1.7 Financial items

Financial income

mEUR	2022	2021
Interest income	37	19
Hedging instruments	2	-
Other financial income	13	2
Total	**52**	**21**

Financial costs

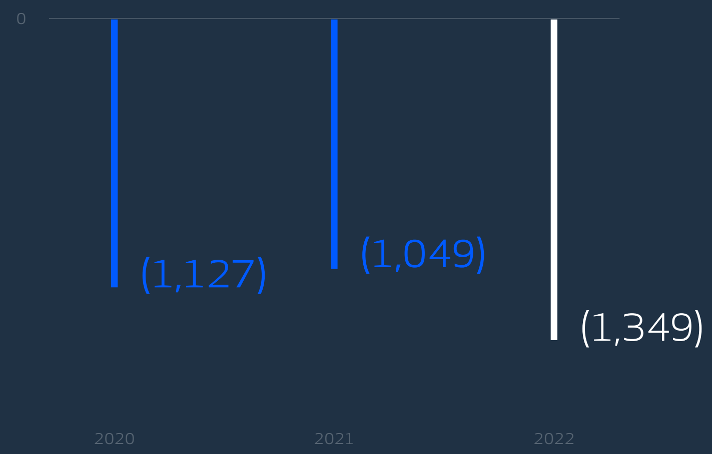
mEUR	2022	2021
Interest costs	51	39
Interest on lease liabilities	12	13
Foreign exchange losses	70	45
Hedging instruments	-	7
Other financial costs	29	18
Total	**162**	**122**

Accounting policies

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

2 Working capital

Net working capital (mEUR)
Net working capital amounted to a net liability of EUR 1.3bn as at 31 December 2022.



2.1 Change in net working capital

mEUR	2022	2021
NWC as at 1 January	(1,049)	(1,127)
Change in inventories and contract costs	763	705
Change in trade receivables	(251)	(7)
Change in other receivables	116	124
Change in contract assets / liabilities	(585)	(115)
Change in trade payables	197	(678)
Change in other liabilities	(540)	49
NWC as at 31 December	**(1,349)**	**(1,049)**

The change in net working capital (NWC) includes non-cash adjustments and exchange rate adjustments with a total amount of EUR (492)m (2021: EUR 87m). Consequently, the cash flow impact of change in NWC is EUR (192m) (2021: EUR 9m).

Vestas is facilitating a supply chain financing program funded by credit institutions. Use of this programme by suppliers takes place in the ordinary course of business with the same payment terms offered to other suppliers and without credit enhancement. Supplier financing therefore fulfills the criteria as trade payables and has been presented in the balance sheet as ordinary trade payables with a total amount of EUR 696m (2021: EUR 637m).

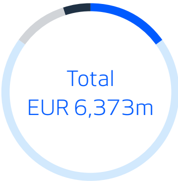
2.2 Inventories

mEUR	2022	2021
Inventories consumed		
Inventories consumed for the year, which are included in production costs	7,750	9,236
Write-downs of inventories		
Write-downs of inventories in the year	283	8
Utilised write-downs in the year	(4)	(3)
Reversal of write-downs in the year[1]	(25)	(11)

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

2022

- Service stock EUR 978m (15%)
- Finished goods EUR 4,487m (70%)
- Raw materials and consumables EUR 666m (10%)
- Work in progress EUR 242m (5%), hereof development projects of EUR 77m.



2021

- Service stock EUR 877m (16%)
- Finished goods EUR 3,753m (66%)
- Raw materials and consumables EUR 742m (13%)
- Work in progress EUR 301m (5%), hereof development projects of EUR 31m.

In 2022, write-down of inventories included EUR 159m relating to the Russian invasion of Ukraine and EUR 101m reating to adjustments to the manufacturing footprint. For further details, refer to note 1.6.

Key accounting estimates

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

Accounting policies

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

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

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

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

2.3 Contract balances

mEUR	2022 Contract assets	2022 Contract liabilities	2021 Contract assets	2021 Contract liabilities
1 January	**1,227**	**6,180**	**775**	**5,613**
Additions from business combinations	-	-	-	-
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	(3,283)	-	(3,202)
Increases as a result of changes in the measure of progress and other adjustments	733	-	829	-
Payments received, excluding amounts recognised as revenue during the period (prepayments)	-	3,986	-	3,645
Transfers from contract assets recognised at the beginning of the period to receivables	(559)	-	(387)	-
Exchange rate adjustments	(2)	54	10	124
31 December	**1,399**	**6,937**	**1,227**	**6,180**
Contract assets and liabilities comprise the following:				
Construction contracts in progress (turnkey)	58	193	60	209
Service contracts	1,245	930	931	932
Supply-only contracts	-	744	-	848
Supply-and-installation contracts point in time	-	2,993	-	2,801
Supply-and-installation over time	96	2,077	236	1,390
Total	**1,399**	**6,937**	**1,227**	**6,180**

← The table provides information about development in contract assets and contract liabilities from contracts with customers, as well as a disaggregation of the contract balances on contract type.

Accounting policies

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

Vestas receives payments from customers based on billing schedules established in the contracts. The scheduled payments from customers typically preceed the satisfaction of performance obligations under the contracts.

Contract assets relate to Vestas' conditional right to consideration for Vestas' completed performance under the contract. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) Vestas performs under the contract.

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

The stage of completion is measured as the proportion of the costs related to the contract incurred relative to the estimated total costs related to the contract. Where it is probable that total costs will exceed total revenues from a contract, the expected loss is recognised immediately as a cost and a provision.

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

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

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

2.4 Contract costs

mEUR	2022	2021
Asset recognised from costs to fulfill a contract	753	690
Total	**753**	**690**

Capitalised costs as a result of fulfilling sales contracts are recognised as part of production cost in the income statement when related revenues are recognised. In 2022, EUR 958m (2021: EUR 599m) was recognised as cost.

Accounting policies

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

2.5 Other receivables

mEUR	2022	2021
Prepayments	157	151
Supplier claims	71	120
VAT[1]	582	465
Derivative financial instruments	366	387
Other receivables	264	216
Total	**1,440**	**1,339**
Specified as follows:		
0–1 year	1,221	1,105
> 1 year	219	234
Total	**1,440**	**1,339**

1 Includes loss provisions on VAT receivables of EUR 55m as at 31 December 2022 (2021: EUR 58m).

Key accounting estimates

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

Accounting policies

Other receivables are measured at amortised cost or net realisable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower. Prepayments recognised as assets comprise prepaid expenses and are measured at cost. Derivative financial instruments are measured at fair value.

2.6 Other liabilities

mEUR	2022	2021
Staff costs	182	188
Taxes and duties	365	267
Derivative financial instruments	364	386
Other liabilities	497	113
Total	**1,408**	**954**
Specified as follows:		
0-1 year	1,349	809
> 1 year	59	145
Total	**1,408**	**954**

As at 31 December 2022, other liabilities include payments received relating to sale of assets that do not meet the criteria for derecognition at the balance sheet date.

Accounting policies

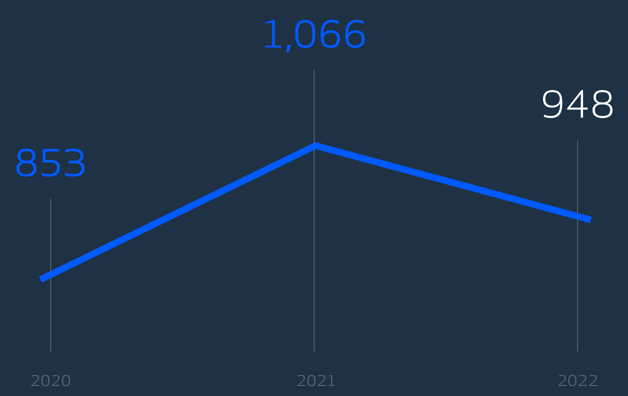
Other liabilities are measured at amortised cost.

Derivative financial instruments are measured at fair value.

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

3 Other operating assets and liabilities

Total investments (mEUR)
In 2022, Vestas made investments of EUR 948m.



3.1 Intangible assets

mEUR	2022						2021					
	Goodwill	**Completed development projects**	**Software**	**Other intangible assets**	**Development projects in progress**	**Total**	**Goodwill**	**Completed development projects**	**Software**	**Other intangible assets**	**Development projects in progress**	**Total**
Cost as at 1 January	1,611	2,561	366	560	376	5,474	1,377	2,327	535	562	317	5,118
Impact on change in accounting policy	-	-	-	-	-	-	-	-	(42)	-	(10)	(52)
Adjusted cost as at 1 January	**1,611**	**2,561**	**366**	**560**	**376**	**5,474**	**1,377**	**2,327**	**493**	**562**	**307**	**5,066**
Exchange rate adjustments	7	-	1	1	1	10	9	1	2	1	1	14
Additions	-	-	2	1	445	448	-	-	3	2	355	360
Adjustments from business combination	-	-	-	-	-	-	230	-	-	(5)	-	225
Disposal	-	-	(6)	-	-	(6)	(5)	-	(186)	-	-	(191)
Transfers	-	164	46	-	(210)	-	-	233	54	-	(287)	-
Transfer to assets held for sale	(1)	-	-	-	-	(1)	-	-	-	-	-	-
Cost as at 31 December	**1,617**	**2,725**	**409**	**562**	**612**	**5,925**	**1,611**	**2,561**	**366**	**560**	**376**	**5,474**
Amortisation and impairment losses as at 1 January	103	1,942	244	123	-	2,412	103	1,706	371	50	-	2,230
Impact on change in accounting policy	-	-	-	-	-	-	-	-	(17)	-	-	(17)
Adjusted amortisation and impairment losses as at 1 January	**103**	**1,942**	**244**	**123**	**-**	**2,412**	**103**	**1,706**	**354**	**50**	**-**	**2,213**
Exchange rate adjustments	-	-	-	1	-	1	-	1	2	1	-	4
Amortisation for the year	-	221	55	49	-	325	-	235	74	72	-	381
Impairment losses for the year	-	114	1	13	-	128	-	-	-	-	-	-
Disposal	-	-	(6)	-	-	(6)	-	-	(186)	-	-	(186)
Amortisation and impairment losses as at 31 December	**103**	**2,277**	**294**	**186**	**-**	**2,860**	**103**	**1,942**	**244**	**123**	**-**	**2,412**
Carrying amount as at 31 December	**1,514**	**448**	**115**	**376**	**612**	**3,065**	**1,508**	**619**	**122**	**437**	**376**	**3,062**
Internally generated assets included above	-	394	42	-	611	1,047	-	619	82	-	419	1,120
Amortisation period		2-5 years	3-5 years	3-7 years				2–5 years	3–5 years	3–7 years		

Amortisation, intangible assets

2022

- Production costs EUR 56m (17%)
- Research and development costs EUR 232m (71%)
- Distribution costs EUR 3m (1%)
- Administration costs EUR 34m (11%)
- Special items EUR 0m (0%)

2021

- Production costs EUR 80m (21%)
- Research and development costs EUR 240m (63%)
- Distribution costs EUR 4m (1%)
- Administration costs EUR 57m (15%)
- Special items EUR 0m (0%)

Impairment loss, intangible assets

2022

- Production costs EUR 13m (10%)
- Research and development costs EUR 90m (70%)
- Distribution costs EUR 0m (0%)
- Administration costs EUR 0m (0%)
- Special items EUR 25m (20%)

2021

- Production costs EUR 0m (0%)
- Research and development costs EUR 0m (0%)
- Distribution costs EUR 0m (0%)
- Administration costs EUR 0m (0%)
- Special items EUR 0m (0%)

3.1 Intangible assets – continued

Development projects and other intangible assets

Vestas continually invests in the development of new technologies and, for this reason, development projects constitute a significant part of the total intangible assets. The continuous investments include a wide portfolio of development projects. Vestas does not have one individually significant development assets.

Impairment relating to offshore activity
In 2022, Vestas recognised an impairment loss of EUR 177m relating to the V164/174 offshore activity, impacting the Power Solution segment by EUR 165m and the Service segment by 12m. Intangible assets, including technology, were written down by EUR 96m to EUR 439m and tangible assets were written down by EUR 81m to EUR 113m, reflecting the recoverable amount of the assets.

The recoverable amount is based on the discounted value of future expected cash flows from the offshore activity. A discount rate before tax of 9.8% was used. The impairment was primarily due to revised assumptions on offshore order intake and project profitability. The test remains sensitive to changes in key assumptions, including order intake, project margins and service margins. A change in order intake will have a significant impact on the recoverable amount. A change of 1%-point in the assumed project margin will result in a EUR 15m change to the recoverable amount and a change of 1%-point in the service margin will result in a EUR 22m change to the recoverable amount.

Key accounting estimates

Estimates of future cash flows used for impairment test of acquired assets relating to MVOW
As part of the acquisition of MHI Vestas Offshore Wind (MVOW) in 2020, Vestas acquired intangible assets and tangible assets relating to the offshore activity. As at 31 December 2022, the acquired assets was tested for impairment. In performing the impairment test, the carrying amount of the assets is compared to the discounted value of expected future cash flows from the offshore activity (value-in-use). The expected future cash flows are based on key assumptions including order intake and project margins and service contract margins, which are by nature subject to significant uncertainty.

Accounting policies

Goodwill
Goodwill is initially recognised in the balance sheet as the difference between the fair value of net assets acquired and. consideration transferred. Subsequently, goodwill is measured at this value less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill has been allocated to Vestas' operating segments. Identification of operating segments is based on management structure and internal financial reporting.

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

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

Impairment losses on goodwill are not reversed.

Development projects
Projects for the development and testing of new wind turbines are recognised as intangible assets when they are clearly defined, identifiable, and for which technical feasibility, sufficient resources and a potential future market or application in the enterprise can be demonstrated. In addition, it is the intention with these projects to manufacture, market or use the project for future commercial purposes. This applies if cost can be measured reliably and sufficient certainty exists that future earnings or the net selling price can cover production costs, distribution costs, and administration costs as well as research and development costs. At Vestas this is underpinned by a gate process, where these judgements are made at specific gates. Other development costs not qualifying for capitalization are recognised in the income statement as research and development costs.

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

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

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

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

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

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

3.2 Property, plant and equipment

	2022						2021					
mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Right-of-use assets	Total	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Right-of-use assets	Total
Cost as at 1 January	**1,135**	**1,104**	**1,778**	**136**	**808**	**4,961**	**1,166**	**1,096**	**1,530**	**169**	**581**	**4,542**
Exchange rate adjustments	8	8	14	1	(1)	30	57	40	47	(4)	12	152
Additions	9	11	160	191	129	500	4	16	180	276	230	706
Disposals	(69)	(150)	(129)	(3)	(45)	(396)	(121)	(146)	(157)	-	(15)	(439)
Transfers	5	69	101	(175)	-	-	29	98	178	(305)	-	-
Transfer to assets held for sale	(65)	(53)	(19)	-	(7)	(144)	-	-	-	-	-	-
Cost as at 31 December	**1,023**	**989**	**1,905**	**150**	**884**	**4,951**	**1,135**	**1,104**	**1,778**	**136**	**808**	**4,961**
Depreciation and impairment losses as at 1 January	625	781	1,179	-	285	2,870	568	760	1,049	-	143	2,520
Exchange rate adjustments	3	7	10	-	2	22	26	25	35	-	1	87
Depreciation for the year	34	118	270	-	152	574	42	102	243	-	146	533
Impairment losses for the year	55	66	29	-	36	186	45	16	-	-	7	68
Reversal of impairment	(39)	(8)	-	-	(7)	(54)	-	-	-	-	-	-
Transfers	-	(1)	1	-	-	-	-	-	-	-	-	-
Transfers to assets held for sale	(37)	(32)	(12)	-	(4)	(85)	-	-	-	-	-	-
Reversal of depreciation of disposals in the year	(23)	(148)	(125)	-	(18)	(314)	(56)	(122)	(148)	-	(12)	(338)
Depreciation and impairment losses as at 31 December	**618**	**783**	**1,352**	**-**	**446**	**3,199**	**625**	**781**	**1,179**	**-**	**285**	**2,870**
Carrying amount as at 31 December	**405**	**206**	**553**	**150**	**438**	**1,752**	**510**	**323**	**599**	**136**	**523**	**2,091**
Depreciation period	10-40 years	3-10 years	3-5 years		2-20 years		10-40 years	3-10 years	3-5 years		2-20 years	

Depreciation, property, plant and equipment

mEUR and percent

2022

- Production costs EUR 369m (64%)
- Research and development costs EUR 34m (6%)
- Distribution costs EUR 156m (27%)
- Administration costs EUR 15m (3%)
- Special items EUR 0m (0%)

2021

- Production costs EUR 360m (68%)
- Research and development costs EUR 30m (6%)
- Distribution costs EUR 126m (23%)
- Administration costs EUR 17m (3%)
- Special items EUR 0m (0%)

Impairment loss, property, plant and equipment

mEUR and percent

2022

- Production costs EUR 61m (33%)
- Research and development costs EUR 4m (2%)
- Distribution costs EUR 19m (10%)
- Administration costs EUR 3m (2%)
- Special items EUR 99m (53%)

2021

- Production costs EUR 0m (0%)
- Research and development costs EUR 0m (0%)
- Distribution costs EUR 0m (0%)
- Administration costs EUR 0m (0%)
- Special items EUR 68m (100%)

3.2 Property, plant and equipment – continued

Impairment relating to offshore activity
In 2022, Vestas recognised an impairment loss on tangible assets, including right-of-use assets, of EUR 81m relating to the V164/174 offshore activity. Refer to note 3.1 for further details.

Key accounting estimates

Estimates of future cash flows used for impairment test of acquired assets relating to MVOW
Refer to note 3.1 for further details.

Accounting policies

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

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

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

Installations capitalised as land and buildings which are related to leased assets are depreciated over the term of the related lease contract. Such lease contracts range with a lease term from 10 to 20 years.

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

Buildings (including installations)	10–40 years
Plant and machinery	3–10 years
Other fixtures and fittings, tools and equipment	3–5 years
Right-of-use assets	2-20 years

Land is not depreciated.

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

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

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

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

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

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

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

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

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

3.3 Leases

Right-of-use assets

mEUR	2022 Property	2022 Vehicles	2022 Equipment	2022 Vessels	2022 Total	2021 Property	2021 Vehicles	2021 Equipment	2021 Vessels	2021 Total
Carrying amount as at 1 January	**300**	**59**	**45**	**119**	**523**	**241**	**63**	**41**	**93**	**438**
Exchange rate adjustments	(3)	-	-	-	(3)	11	-	-	-	11
Depreciation charge for the year	(77)	(37)	(19)	(19)	(152)	(74)	(37)	(17)	(18)	(146)
Impairment losses for the year	(36)	-	-	-	(36)	-	-	-	-	-
Reversal of impairment	7	-	-	-	7	(7)	-	-	-	(7)
Addition of right-of-use assets for the year	86	25	13	5	129	132	33	21	44	230
Disposal of right-of-use assets for the year	(27)	-	-	-	(27)	(3)	-	-	-	(3)
Transfers	(5)	4	1	-	-	-	-	-	-	-
Transfer to assets held for sale	(3)	-	-	-	(3)	-	-	-	-	-
Carrying amount as at 31 December	**242**	**51**	**40**	**105**	**438**	**300**	**59**	**45**	**119**	**523**

Vestas leases several assets including properties, vehicles, vessels and equipment. Rental contracts are typically made for fixed periods of one to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, index-regulations, maintenance, deposits and guarantees etc.

Some property leases contain variable payment terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas' entire lease payments.

Total lease expenses recognised in the income statement

mEUR	2022	2021
Variable lease payments not included in the measurement of lease liabilities	0	1
Expenses relating to short-term leases and leases of low-value	51	31

Total leases recognised in the statement of cash flows

mEUR	2022	2021
Short-term leases and leases of low value	51	31
Payment of lease liability including interest	159	148
Total cash outflow for leases	**210**	**179**

Lease liabilities

Lease liabilities are included in financial debts and amount to EUR 493m as at 31 December 2022 (2021: EUR 545m). Refer to note 4.1 for disclosure on contractual cash flows.

Accounting policies

Vestas as Lessee

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

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

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.
The right-of-use assets are from the commencement date depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted in accordance with lease liabilities.

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

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

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

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

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

3.4 Impairment

Valuation of goodwill

As at 31 December 2022, Management performed the annual impairment test of goodwill. Based on the test, no impairment was identified (2021: No impairment).

In the impairment tests, the carrying amount of the assets are compared to the discounted value of future expected cash flows. The annual tests of goodwill were performed on three operating segments: Power Solutions Onshore, Power Solutions Offshore and Service, these being the lowest level of cash-generating units as defined by management.

The main part of the carrying amount of goodwill in Vestas subject to impairment testing are related to several acquisitions specified as follows.

- The acquisition of NEG Micon A/S in 2004, included acquisition of goodwill of EUR 180m allocated to Vestas Power Solutions Onshore and EUR 35m allocated to the Service segment.
- The acquisition of UpWind Solutions, Inc. in 2015, included acquisition of goodwill of EUR 40m, which was allocated to the Service segment.
- The acquisition of Availon GmbH in 2016 included acquisition of goodwill of EUR 56m, which was allocated to the Service segment.
- The acquisition of Utopus Insights, Inc. in 2018 included acquisition of goodwill of EUR 70m, which was allocated to the Service segment.
- The acquisition of MHI Vestas Offshore Wind A/S in 2020 included acquisition of goodwill of EUR 1,126m. The goodwill arising from the acquisition was allocated with EUR 893m to Power Solutions Offshore and EUR 233m to the Service segment.

Assumptions underpinning impairment test of goodwill
Budgets and business plans for the next three years are based on Vestas' investments in progress and contracted investments, and the risks relating to the key parameters have been assessed and incorporated in the expected future cash flows underpinning the impairment test of goodwill. In addition, the budgets and business plans are based on management's expectations of the current market conditions and future growth expectations.

For the Power Solutions Onshore and Service, projections for 2026 and onwards are based on general market expectations and risks in the impairment test.

The acquisition of MHI Vestas Offshore Wind A/S in 2020 was based on a business case related to the introduction of a new wind turbine platform. The expected cash inflows from this new technology are not expected until after 2024. For this reason, the impairment test of Power Solutions Offshore include the same business case and an extended budget and forecast period including the years 2023 to 2029. Projections for year 2030 and onwards are based on general market expectations and risks in the impairment test.

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

Power Solutions Onshore	Power Solutions Offshore	Service
Order backlog of EUR 16.4bn as at 31 December 2022	Order backlog of EUR 2.7bn as at 31 December 2022	Service order backlog of EUR 30.4bn as at 31 December 2022
Expectations on changing market environment, including future market prices and high cost pressure	Expectations on changing market environment, including future market prices and high cost pressure	Expectations on changing market environment, including future market prices and future development in cost reductions
Expectations on future orders received, among other things based on expected market share of the global market outlook	Expectations on future orders received, among other things based on expected market share of the global market outlook including expectation of high growth in offshore market	Expectations on continued servicing of the existing installed base of wind turbines as well as future service contracts received, among other things based on expected market share
Expectations on continuing developments in mature and emerging markets	Expectations on continuing developments in mature and emerging markets	Capture full potential and accelerate profitable growth strategy from historically technology acquisitions and developments
Expectations on support schemes in both mature and emerging markets	Expectations on support schemes in both mature and emerging markets	Growth supported by market developments and organic growth

↑ The above main information is used in determining revenue, EBIT, and capital expenditure.

	2022			2021		
	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)	Discount rate before tax (%)	Growth rate in terminal period (%)	Carrying amount of goodwill (mEUR)
Power Solutions Onshore	10.6	2	178	9.5	2	180
Power Solutions Offshore	10.2	2	894	9.8	2	893
Service	10.9	2	442	10.1	2	435

3.5 Investments in joint ventures and associates

Amounts in the balance sheet

mEUR	2022	2021
Investments in joint ventures	42	25
Investments in associates	604	584
Carrying amount as at 31 December	**646**	**609**

Amounts in the income statement

mEUR	2022	2021
Joint ventures	(7)	18
Associates	17	18
Income/(loss) from investments in joint ventures and associates	**10**	**36**

Investments in joint ventures and associates

	Joint ventures		Associates	
mEUR	2022	2021	2022	2021
Cost as at 1 January	91	53	585	52
Additions	21	36	4	533
Disposals	-	-	-	(1)
Effect of exchange rate adjustment	10	2	(1)	1
Cost as at 31 December	**122**	**91**	**588**	**585**
Value adjustments as at 1 January	(66)	(34)	(1)	(14)
Proceeds from sale of projects	-	-	-	-
Dividends received	(2)	(50)	(3)	(10)
Impairment losses	-	-	(8)	-
Share of profit/(loss)	(7)	18	17	18
Share of other comprehensive income	-	-	14	3
Effect of exchange rate adjustment	(5)	-	(3)	2
Value adjustments as at 31 December	**(80)**	**(66)**	**16**	**(1)**
Carrying amount as at 31 December	**42**	**25**	**604**	**584**

Name of entity	Place of business	% of ownership	Measurement method	Investment type
Copenhagen Infrastructure Partners Holding P/S	Copenhagen, Denmark	25	Equity	Associate
Blakilden Fäbodberget Holding AB	Solna, Sweden	40	Equity	Associate

Material investments

In 2022, Vestas made no material investments in associates or joint ventures. In February 2021, Vestas acquired a 25 percent stake in Copenhagen Infrastructure Partners P/S' parent companies. The total consideration of EUR 500m included a EUR 180m upfront payment and a EUR 320m contingent consideration related to performance in the period 2023 to 2029. Refer to note 4.3 for further information on the fair value measurement of the contingent consideration.

The associated companies listed above are material to Vestas and have share capital consisting solely of ordinary shares, which are held directly by Vestas.

Income/(loss) from investments in joint ventures and associates presented in and after EBIT in 2023
Vestas' Development business continues to grow and reflects an increasingly financial and strategic importance. In 2023, we expect a significant increase in income from investments in joint ventures and associates related to development activities. As a consequence, income/(loss) from investments in joint ventures and associates which are deemed to pertain to our core business activities will be included in EBIT before special items. The profit/(loss) from investments in joint ventures and associates will be presented below EBIT before special items when deemed outside Vestas' core business activities.

Accounting policies

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

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

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

3.5 Investments in joint ventures and associates – continued

Summarised financial information for joint ventures and associates

Set out below is the summarised financial information for Copenhagen Infrastructure Partners P/S and Blakliden Fäbodberget Holding AB as of 31 December 2022, which are accounted for using the equity method. The information below reflects the amounts presented in the financial statements of the entities (and not Vestas' share of those amounts) material to Vestas in 2022. The investment in Copenhagen Infrastructure Partners P/S include investment in companies related to and managed by Copenhagen Infrastructure Partners P/S and for this reason the financial amounts presented below include financial information from several consolidated and none consolidated entities related to Copenhagen Infrastructure Partners P/S.

Other joint ventures and associates that are individually and aggregated immaterial to Vestas, have not been included in the summarised financial information.

Summarised statement of comprehensive income	Associate, 25 percent Copenhagen Infrastructure Partners P/S		Associate, 40 percent Blakliden Fäbodberget Holding AB	
mEUR	2022	2021	2022	2021
Revenue	141	114	-	-
Depreciation and amortisation	(4)	(2)	-	-
Interest cost	0	(1)	(9)	(3)
Profit before tax	294	138	(13)	(3)
Post-tax profit from continuing operations	**294**	**138**	**(13)**	**(3)**
Other comprehensive income	-	-	31	9
Total comprehensive income	**294**	**138**	**18**	**6**

Summarised balance sheet	Associate, 25 percent Copenhagen Infrastructure Partners P/S		Associate, 40 percent Blakliden Fäbodberget Holding AB	
mEUR	2022	2021	2022	2021
Current				
Cash and cash equivalents	18	26	19	8
Other current assets (excluding cash)	26	19	21	10
Total current assets	**44**	**45**	**40**	**18**
Other current liabilities				
Total current liabilities	(10)	(14)	(89)	(91)
Non-current				
Total non-current assets	555	296	348	228
Total non-current liabilities	(16)	(3)	(289)	(183)
Net assets	**573**	**324**	**10**	**(28)**

Reconciliation of summarised financial information	Associate, 25 percent Copenhagen Infrastructure Partners P/S		Associate, 40 percent Blakliden Fäbodberget Holding AB	
mEUR	2022	2021	2022	2021
Opening net assets as at 1 January	324	-	(28)	(34)
Acquired net assets	-	229	-	-
Distributions	(45)	(43)	-	-
Contributions	-	-	20	-
Profit/(loss) for the year	294	138	(13)	(3)
Other comprehensive income	-	-	31	9
Closing net assets	**573**	**324**	**10**	**(28)**
Interest in joint venture and associate (ownership of net assets)	143	81	4	(11)
Re-assessment of milestone payments, PPA adjustments, and other adjustments	397	439	47	54
Carrying value	**540**	**520**	**51**	**43**

3.6 Provisions

Provisions

mEUR	2022 Warranty provision	2022 Other provisions	2022 Total provisions	2021 Warranty provision	2021 Other provisions	2021 Total provisions
Carrying amount as at 1 January	1,197	135	1,332	1,189	87	1,276
Impact on change in accounting policy	-	22	22	-	-	-
Adjusted carrying amount as at 1 January	**1,197**	**157**	**1,354**	**1,189**	**87**	**1,276**
Exchange rate adj.	-	-	-	-	-	-
Addition during the year	926	196	1,122	748	70	818
Utilised during the year	(633)	(59)	(692)	(852)	(4)	(856)
Addition from business combination	-	-	-	55	-	55
Reclassification	-	-	-	57	-	57
Reversed during the year	-	(11)	(11)	-	(18)	(18)
Carrying amount as at 31 December	**1,490**	**283**	**1,773**	**1,197**	**135**	**1,332**
Non-current	765	179	944	655	31	686
Current	725	104	829	542	104	646
Carrying amount as at 31 December	**1,490**	**283**	**1,773**	**1,197**	**135**	**1,332**

Warranty provision charged to the income statement

mEUR	2022	2021
Gross warranty provision	926	748
Supplier reclaims	(11)	(69)
Net warranty provision	915	679

← The table shows movements in warranty provision and other provisions. Other provisions mainly relate to provisions for legal claims and loss making contracts.

Product risks

Vestas invests significant resources in improving products and increasing their reliability to mitigate major warranty provisions. This work comprises design, production, installation, and continuous maintenance. The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, and increase the competitiveness of the products.

Key accounting estimates

Provisions for warranties

The product warranties, which in the great majority of cases includes component defects and functional errors are usually granted for a two-year period from legal transfer of the wind turbine. In certain cases, a warranty of up to five years is provided. For the customer, the specific warranty period and the specific warranty terms are part of the basis of the individual contract.

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

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

During 2022, net warranty provisions charged to the income statement amounted to EUR 915m (2021: EUR 679m), equivalent to 6.3 percent of revenue. The net amount consists of a gross warranty provision of EUR 926m less supplier claims of EUR 11m. The warranty provisions in 2022 included additional warranty provisions of EUR 124m due to increased repair costs caused by external cost inflation, hereof EUR 93m related to offshore projects. Warranty consumption amounted to EUR 633m compared to EUR 852m in 2021.

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

Accounting policies

Provisions are recognised as a consequence of a past event when Vestas has a legal or constructive obligation and it is probable that there will be an outflow of Vestas' financial resources to settle the obligation. Provisions are measured at management's best estimate of the costs required to settle the obligation. Discounting is applied where relevant.

Vestas accrues for the estimated cost of the warranty upon recognition of the sale of the product. The costs are estimated based on actual historical costs incurred and on estimated future costs related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

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

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

Provision for legal disputes are recognised where a legal or constructive obligation has been incurred as a result of past events and it is possible that there will be an outflow of resources that can be reliably estimated. In this case, Vestas arrives at an estimate on the basis of an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities, refer to note 6.4.

4 Risk management and capital structure

EUR 46m

The interest bearing position (net), at the end of 2022.

4.1 Financial risk management

Vestas' policy for managing financial risks

Financial risk management is an integrated part of Vestas' operating activities. Vestas is exposed to a number of financial risks through its international operations. Financial risks are monitored and managed centrally. The Treasury Policy outlines the overall objectives and policies for Vestas' financial risk management. The Treasury Policy is approved by the Board, and revised on a continuous basis to adapt to the changing financial risks and market situation. The Treasury Policy sets the limits for the various financial risks as well as Vestas' hedging policy. It is Vestas' policy only to use derivatives to hedge commercial exposures and not to enter into any speculative transactions.

Capital structure

The Board and Executive Management regularly assess whether Vestas' capital structure is in the shareholders' best interest. The objective is to create the necessary flexibility and stability to implement strategic development work, while in the long-term achieving Vestas' financial ambitions and maintain our capital structure target of a net interest-bearing debt/ EBITDA ratio below 1x.

Liquidity risks

Vestas manages its liquidity risk in line with the Treasury Policy to ensure having sufficient financial resources to service its financial obligations. Financial resources are managed through a combination of cash and money market deposits, committed and uncommitted credit facilities, and highly rated marketable securities.

In 2022, Vestas further strengthened its access to liquidity and long-term funding by establishing a EUR 3,000m EMTN programme. This programme is a versatile platform available for quick and flexible access to the corporate bond market from short maturities (1-yr) to very long maturities (15+-yr).

Vestas' main credit facility, a EUR 2,000m committed revolving multi-currency credit facility with a group of leading banks is available for general corporate purposes, including guarantees issuance, carries a 6-year tenor with one one-year extension option. As at end of 2022, EUR 771m of this revolving credit facility was converted into ancillary bank guarantees issuance facilities leaving EUR 1,229m available for cash drawings. The revolving credit facility is subject to customary undertakings, a change of control clause resulting in repayment of the credit facility in the event of change in control and a financial covenant. The financial covenant has not been breached in 2022, and is not expected to be breached in 2023.

Liquidity is managed and optimised centrally by using cash pools, in-house bank solutions, and ongoing diligent cash- and working capital management practices. As part of managing short term liquidity Vestas also has access to and make use of a number of uncommitted money market facilities (EUR 500m in total) granted by core relationship banks. The committed revolving credit facility combined with the uncommitted money market lines provide the necessary financial headroom for the Group. Further funding can be provided by the EMTN programme.

On 15 March 2022, Vestas secured long-term funding by issuing two EUR 500m sustainability-linked bonds. The two bonds will mature in 2029 and 2034, respectively. The EMTN programme remaining capacity is EUR 2,000m. On July 17 2022, Vestas drew EUR 475m from a green loan facility granted by the European Investment Bank (EIB) to fund its research, development, and innovation (RDI) activities. The green loan facility carries a 10-year tenor.

Accounting policies

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

Cash and cash equivalents with disposal restrictions are included in day-to-day cash management and fulfills the criteria as cash and cash equivalents. Cash with disposal restrictions includes cash pledged to guarantee providers as security for guarantee obligations to obtain lower commission rates.

Financial risk	How Vestas manages the risk
Liquidity risk	Availability of committed credit lines and borrowing facilities
Credit risk	Diversification of bank exposure, credit limits and guarantees
Market risk, foreign exchange	Currency forward contracts and currency swaps
Market risk, interest risk	Fixed interest loans
Market risk, commodity price	Fixed price agreements with suppliers and commodity contracts

The table shows Vestas' liquidity position and available credit facilities.

Available financial resources

mEUR	2022	2021
Liquidity position		
Financial investments	95	216
Cash and cash equivalents without disposal restrictions	2,352	2,394
Cash and cash equivalents with disposal restrictions	26	26
Cash and cash equivalents as at 31 December	**2,378**	**2,420**
Credit facilities		
Main credit facility	1,229	1,329
Other credit facilities	80	80
Total available financial resources	**3,782**	**4,045**

4.1 Financial risk management – continued

Maturity of financial assets and liabilities mEUR	2022 Contractual cash flows 0-1 year	1-2 years	>2 years	Total	Carrying amount financial instruments	2021 Contractual cash flows 0-1 year	1-2 years	>2 years	Total	Carrying amount financial instruments
Total financial assets, non-current and current	**5,990**	**112**	**13**	**6,115**	**6,083**	**6,475**	**26**	**1**	**6,502**	**6,466**
Financial liabilities, non-current and current										
Leasing liabilities	142	104	371	617	493	144	110	354	608	545
Other financial debts	175	26	1,658	1,859	1,613	571	0	0	571	571
Total financial debts	**317**	**130**	**2,029**	**2,476**	**2,106**	**715**	**110**	**354**	**1,179**	**1,116**
Foreign currency derivatives	305	37	6	348	348	254	119	4	377	377
Commodity derivatives	14	2	-	16	16	9	-	-	9	9
Other liabilities	257	6	-	263	263	107	8	-	115	115
Other liabilities and derivative financial instruments	**576**	**45**	**6**	**627**	**627**	**370**	**127**	**4**	**501**	**501**
Trade payables	4,089	-	-	4,089	4,089	4,286	-	-	4,286	4,286
Contingent consideration	115	32	181	328	321	3	115	213	331	320
Financial guarantee contracts	46	-	-	46	-	17	-	-	17	-
Total financial liabilities, non-current and current	**5,143**	**207**	**2,216**	**7,566**	**7,143**	**5,391**	**352**	**571**	**6,314**	**6,223**

Changes to financial liabilities mEUR	2022 Lease liabilities	Issued bonds	Credit facilities	Contingent consideration	Total	2021 Lease liabilities	Issued bonds	Credit facilities	Contingent consideration	Total
Balances as at 1 January	**545**	**0**	**571**	**320**	**1,436**	**446**	**513**	**395**	**0**	**1,354**
Addition from business combination and investments in associates	-	-	-	-	-	-	-	-	320	320
Loss of control of subsidiary	-	-	-	-	-	-	-	(26)	-	(26)
Proceeds from borrowings	-	990	766	-	1,756	-	-	642	-	642
Additional lease liabilities	102	-	-	-	102	230	-	-	-	230
Payment of lease liabilities	(147)	-	-	-	(147)	(135)	-	-	-	(135)
Disposal of right-of-use asset	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Payments of financial debt	-	-	(713)	-	(713)	-	(513)	(447)	-	(960)
Unwinding of financial liabilities	-	1	-	1	2	-	-	-	-	-
Transfer to liabilities held for sale	(4)	-	-	-	(4)	-	-	-	-	-
Exchange rate adjustments	(2)	-	(2)	-	(4)	6	-	7	-	13
Balances as at 31 December	**493**	**991**	**622**	**321**	**2,427**	**545**	**0**	**571**	**320**	**1,436**

4.1 Financial risk management – continued

Credit risks

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

As at 31 December 2022, Vestas considers the maximum credit risk related to financial institution counterparties to be EUR 2,473m (2021: EUR 3,136m), and the total credit risk is considered to be EUR 5,719m (2021: EUR 6,194m).

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

Upon signing a contract for the delivery of wind turbines or wind power plants with a customer, a prepayment is received. The remaining consideration is usually invoiced and paid in instalments at different stages of the project. For service contracts, customers are usually invoiced in equal instalments over the duration of the service contract. Payment terms are typically one month from the invoice date.

Contract assets are by nature not overdue. Vestas does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Therefore, Vestas does not adjust any of the transaction prices for the time value of money.

Trade receivables from customers are grouped based on loss patterns in assessing the expected credit losses. Contract assets are grouped with trade receivables as these relate to unbilled work in progress with same credit risk as trade receivables.

The allowance for expected lifetime credit losses is determined using a provisional matrix based on past due dates, historical loss rates and current and forward-looking information, including geographical risk, the level of security obtained as well as individual assessment.

The past due date analysis and expected credit loss allowance for trade receivables and contracts assets is set out in the following tables.

As at 31 December 2022, Vestas' trade receivables and contract assets per geographical areas can be specified as follows: 59 percent in EMEA, 30 percent in America, and 11 percent in Asia Pacific (31 December 2021: 70 percent in EMEA, 18 percent in America and 12 percent in Asia Pacific).

As at 31 December 2022, no single customer accounted for more than 10 percent of Vestas' total trade receivables (31 December 2021: 0).

The commercial credit risk relating to the outstanding trade receivables balance as of 31 December 2022 was mitigated by EUR 535m (31 December 2021: EUR 552m) received as security, such as third party guarantees. Historically, Vestas has not incurred significant losses on trade receivables.

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

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

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

Expected credit losses on trade receivables and contract assets

mEUR	2022 Carrying amount	2022 Expected loss rate	2022 Loss allowance	2021 Carrying amount	2021 Expected loss rate	2021 Loss allowance
Not overdue	2,404	0.1%	(2)	2,402	0.1%	(2)
Overdue 0-60 days	115	0.2%	0	186	0.1%	0
Overdue 61-120 days	39	1.8%	(1)	72	2.2%	(2)
Overdue 121-180 days	21	4.8%	(1)	15	4.7%	(1)
Overdue 181-365 days	52	5.9%	(3)	44	9.1%	(4)
Overdue more than 365 days	48	33.9%	(25)	39	41.4%	(27)
Total	**2,679**		**(32)**	**2,758**		**(36)**
Write-down as at 1 January			(36)			(25)
Reversal of write-downs			7			2
Write-downs realised			2			2
Write-downs in the year			(5)			(15)
Write-down as at 31 December			**(32)**			**(36)**

Netting of financial assets and liabilities

mEUR	2022 Carrying amount balance sheet	2022 Netting agreements not offset in the balance sheet	2022 Net amount	2021 Carrying amount balance sheet	2021 Netting agreements not offset in the balance sheet	2021 Net amount
Foreign currency derivatives	349	(197)	152	377	(188)	189
Financial assets	**349**	**(197)**	**152**	**377**	**(188)**	**189**
Foreign currency derivatives	364	(197)	167	377	(188)	189
Financial liabilities	**364**	**(197)**	**167**	**377**	**(188)**	**189**

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

4.1 Financial risk management – continued

Market risks

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

Foreign currency risks
Vestas' international business activities involves local Vestas entities making transactions in currencies other than the entity's functional currency. Consequently, Vestas's income statement, balance sheet and cash flows are exposed to fluctuations in foreign currencies. The foreign currency exposures arise primarily from purchases of materials and the sales of wind turbines and service agreements.

Vestas objective is to reduce the impact from short-term fluctuations in foreign currencies on the income statement and to increase the predictability of the financial results. Foreign currency risks are reduced by purchasing and producing in local markets and by hedging the foreign currency exposures in according to the Treasury Policy.

Vestas hedges foreign currency exposures related to its firm wind turbine order backlog. It is Vestas' aim to hedge between 80 percent and 100 percent of the consolidated exposure. For committed exposures with durations of 18 months or more, hedging is performed with shorter maturity. Furthermore, Vestas hedges foreign currency exposure relating to monetary balances. It is Vestas' aim to hedge between 90 percent and 100 percent of all exposures.

Vestas distinguishes between entities in restricted and un-restricted countries, when determining the level of exposure to be hedged. Foreign currency risks related to long-term investments and it's service business are not hedged based on an overall risk, liquidity and cost perspective.

Foreign currency exposures are primarily hedged through foreign currency forward contracts and foreign currency swaps. Vestas hedge strategy is to centralise foreign currency exposure in Vestas Wind Systems A/S through internal contracts and trade the net currency exposures in the market.

The majority of Vestas's sales are in USD and EUR. The EUR exchange rate risk is regarded as low in Danish entities due to Denmark's fixed exchange rate policy towards EUR. EUR sales outside Europe are limited. Despite the significant sales in USD, Vestas' currency exposure in USD has decreased as a result of increased sourcing of materials and components in USD. Due to Vestas being by nature a project business, the risk exposures towards specific foreign currencies changes from one year to another, depending on the geographical areas in which Vestas has its activities.

Commodity price risks
Commodity price risks in Vestas mainly relate to fluctuations in raw materials which are used directly or indirectly in the production and delivery of wind turbines. The commodity price risk can be divided into a direct exposure and an indirect exposure. The direct exposure is related to purchase of the raw material. The indirect exposure is related to the purchase of components as well as transportation costs, primarily by sea, where the price is linked to the prices of commodities such as metals and bunker fuel. The risk is managed in accordance with the Treasury Policy, primarily by entering into fixed price agreements with suppliers, where possible, and by entering into commodity swaps.

Interest rate risks
Interest rate risk mainly relates to interest-bearing debt with floating interest rates and cash and cash equivalents.

As at 31 December 2022, cash and cash equivalents amounted to EUR 2,378m and interest-bearing debt with floating interest rates amounted to EUR 475m. An increase in relevant interest rates of 1%-point would have increased profit before tax in 2022 by EUR 19m (2021: decreased by EUR 19m).

Sensitivity analysis mEUR	Change	2022 Effect on profit/ (loss) before tax	2022 Effect on equity before tax	2021 Effect on profit/ (loss) before tax	2021 Effect on equity before tax
Foreign currency risk					
USD	10%	(49)	159	(20)	146
AUD	10%	6	(81)	2	(51)
BRL	10%	15	(59)	5	9
GBP	10%	(13)	(88)	7	(58)
TWD	10%	(12)	(107)	(3)	(32)
CNY	10%	(16)	72	(26)	122
Commodity price risks					
Metals	10%	-	16	-	11
Fuels	10%	-	4	-	-

↑
The sensitivity analysis shows the impact on net profit/(loss) before tax and other comprehensive income of a 10 percent increase in our most significant currencies towards the Euro as well as our most significant commodities. The analysis includes the impact from cash flow hedging instruments on equity before tax and excludes the impact from the hedged exposures such as future purchases or sales since these are not recognised in the balance sheet. If the hedged exposures were included the impact from hedge instruments would be offset in their entirety. The analysis is based on the assumption that all other variables remain constant.

4.2 Hedge accounting

In 2022, Vestas used derivative financial instruments to hedge foreign currency risk and commodity price risk.

Foreign currency risks
The risks relating to purchases and sales in foreign currencies as well as monetary balances denominated in foreign currencies are hedged using foreign currency forward contracts and foreign currency swaps. Currency forward contracts and currency swaps relating to highly probable forecasted sales and purchases are designated as cash flow hedges. Currency forward contracts and currency swaps relating to recognised monetary balances are designated as fair value hedges.

Some sales agreements contain foreign currency elements. In sales agreements where the sales currency is not closely related to the functional currency nor a commonly used currency in the country in which the sales takes place, the foreign currency element is treated as an embedded financial derivative. The embedded financial derivative is designated as a cash flow hedge of forecasted purchases.

As at 31 December 2022, the average exchange rates for cash flow hedges in EUR contracts were AUD 0.6 (2021: 0.6), BRL 0.2 (2021: 0.2), CNY 0.1 (2021: 0.1), GBP 1.1 (2021: 1.1), TWD 0.03 (2021: 0.03) and USD 0.9 (2021: 0.8). The average exchange rates for fair value hedges in EUR contracts were USD 0.9 (2021: 0.9), CNY 0.1 (2021: 0.1) and GBP 1.2 (2021: 1.1).

Commodity price risk
The commodity price risks relating to fluctuations in the prices of raw materials used directly or indirectly in the production is hedged using commodity forward contracts. Commodity forward contracts related to highly probable forecasted purchases are designated as cash flow hedges.

As at 31 December 2022, the average forward price in EUR per metric tonne for cash flow hedges were for copper: 9,604 (2021: 6,990), coking coal: 332 (2021: 206), iron ore: 127 (2021: 129), aluminium: 2,506 (2021: none), bunker fuel: 697 (2021: none).

Accounting policies

Derivative financial instruments are initially measured at fair value at the trade date and subsequently remeasured at fair value at the reporting date. The fair value of derivative financial instruments are presented in other receivables or other liabilities.

Changes in the effective portion of the fair value of cash flow hedges are recognised in other comprehensive income. Upon realisation of the hedged item, gains or losses on the cash flow hedges are transferred from the equity hedging reserve into the initial carrying amount of the hedged item. Changes in any ineffective portion of the fair value of cash flow hedges are recognised in the income statement as financial items. Ineffectiveness is mainly resulting from differences in the timing of the cash flows of the hedged items and the hedging instruments and resulting from changes to the forecasted amount of cash flows of hedged items. Changes in the fair value of fair value hedges are recognised in the income statement as financial items.

Maturity of hedging instruments	2022				2021			
	Contract notional amount	Expected recognition			Contract notional amount	Expected recognition		
mEUR		2023	2024	After 2024		2022	2023	After 2023
Cash flow hedges								
Foreign currency risk	**(2,098)**	**(512)**	**(907)**	**(679)**	**159**	**236**	**(65)**	**(12)**
AUD	(863)	(449)	(414)	-	(432)	(319)	(113)	-
BRL	(1,100)	(467)	(633)	-	(448)	(486)	38	-
CNY	876	592	283	1	1,484	1,197	287	-
GBP	(746)	(244)	(159)	(343)	(239)	(219)	(20)	-
TWD	(951)	(298)	(315)	(338)	(472)	(190)	(270)	(12)
USD	1,455	731	700	24	1.346	893	408	45
Other	(769)	(377)	(369)	(23)	(1,080)	(640)	(395)	(45)
Commodity	**213**	**177**	**36**	**-**	**93**	**80**	**13**	**-**
Metals	171	136	35		93	80	13	-
Fuels	42	41	1	-	-	-	-	-
Fair value hedges	**510**	**510**	**-**	**-**	**379**	**362**	**11**	**6**
USD	34	34	-	-	(329)	(329)	-	-
GBP	205	205	-	-	23	6	11	6
CNY	367	367	-	-	309	309	-	-
Other	(96)	(96)	-	-	376	376	-	-
Total	**(1,375)**	**175**	**(871)**	**(679)**	**571**	**618**	**(41)**	**(6)**

←
The table shows the contract notional amount and expected timing of recognition of hedging instruments as at 31 December 2022. Positive amounts reflect that Vestas on a net basis have contracts to purchase the respective foreign currencies or commodities, and negative amounts reflect that Vestas on a net basis have contracts to sell the respective foreign currencies or commodities.

4.2 Hedge accounting – continued

Carrying amount of hedging instruments mEUR	2022 Contract notional amount	2022 Carrying amount Asset	2022 Carrying amount Liabilities	2021 Contract notional amount	2021 Carrying amount Asset	2021 Carrying amount Liabilities
Foreign currency risk						
Cash flow hedges	(2,098)	321	311	159	365	361
Fair value hedges	510	24	30	379	12	16
Commodity price risk						
Cash flow hedges	213	3	23	93	10	9
Interest rate risk						
Cash flow hedges	480	17	-	530	0	-
Total	**(895)**	**365**	**364**	**1,161**	**387**	**386**
Recognised in income statement	990	41	30	909	12	16
Recognised in other comprehensive income	(1,885)	324	334	252	375	370
Total	**(895)**	**365**	**364**	**1,161**	**387**	**386**

↑
In the table the effect from hedging instruments on the balance sheet, profit and loss and other comprehensive income is shown.

Carrying amount of hedged items mEUR	2022 Carrying amount of hedged items Asset	2022 Carrying amount of hedged items Liabilities	2022 Change in fair value used for measuring ineffectiveness	2021 Carrying amount of hedged items Asset	2021 Carrying amount of hedged items Liabilities	2021 Change in fair value used for measuring ineffectiveness
Currency risk						
Forecast sales and purchases	-	-	185	-	-	74
Monetary balances	1,230	1,950	(6)	2,845	3,230	(5)
Commodity risk						
Forecast sales and purchases	-	-	(19)	-	-	2
Total	**1,230**	**1,950**	**160**	**2,845**	**3,230**	**71**

Cash flow hedge reserve

mEUR	2022	2021
Hedge reserve as at 1 January	**16**	**(21)**
Change in fair value		
Foreign currency hedges	171	74
Commodity price hedges	(5)	2
Amount reclassified to profit and loss		
Foreign currency hedges recognised in revenue	(46)	20
Foreign currency hedges recognised in production costs	(86)	(14)
Interest rate hedge recognised in financial items	(2)	-
Amount transferred to non-financial items		
Foreign currency hedges recognised as prepayment from customers	4	0
Foreign currency hedges recognised as inventory	(49)	(28)
Commodity hedges recognised as inventory	(14)	(6)
Tax effect	10	(11)
Hedge reserve as at 31 December	**(1)**	**16**

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

←
The carrying amounts of hedged items on the balance sheet are shown in the table.

4.3 Financial assets and liabilities

		2022						2021					
					Categories of financial instruments						Categories of financial instruments		
mEUR	Note	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Fair value – hedging instruments	Fair value through profit or loss	Amortised cost	Total carrying amount in the balance sheet	Carrying amount non-financial instruments	Carrying amount financial instruments	Fair value – hedging instruments	Fair value through profit or loss	Amortised cost
Financial assets, non-current and current													
Other investments		88	-	88	-	62	26	81	-	81	-	58	23
Financial investments		95	-	95	-	95	-	216	-	216	-	100	116
Foreign currency derivatives		346	-	346	346	-	-	377	-	377	377	-	-
Commodity derivatives		3	-	3	3	-	-	10	-	10	10	-	-
Other derivatives		17	-	17	17	-	-	-	-	-	-	-	-
Other receivables		1,075	598	477	-	-	477	952	348	604	-	-	604
Trade receivables		1,280	-	1,280	-	-	1,280	1,531	-	1,531	-	-	1,531
Contract assets	2.3	1,399	-	1,399	-	-	1,399	1,227	-	1,227	-	-	1,227
Cash and cash equivalents		2,378	-	2,378	-	-	2,378	2,420	-	2,420	-	-	2,420
Total financial assets, non-current and current		**6,681**	**598**	**6,083**	**366**	**157**	**5,560**	**6,814**	**348**	**6,466**	**387**	**158**	**5,921**
Financial liabilities, non-current and current													
Financial debts		2,106	-	2,106	-	-	2,106	1,116	-	1,116	-	-	1,116
Foreign currency derivatives		348	-	348	348	-	-	377	-	377	377	-	-
Commodity derivatives		16	-	16	16	-	-	9	-	9	9	-	-
Other liabilities		1,044	781	263	-	-	263	568	453	115	-	-	115
Trade payables		4,089	-	4,089	-	-	4,089	4,286	-	4,286	-	-	4,286
Contingent consideration		321	-	321	-	321	-	320	-	320	-	320	-
Total financial liabilities, non-current and current		**7,924**	**781**	**7,143**	**364**	**321**	**6,458**	**6,676**	**453**	**6,223**	**386**	**320**	**5,517**

The fair value of financial assets and liabilities, measured at amortised cost, is not materially different from the carrying amount, except for instruments classified as financial debt.

Financial investments

Financial investments consist of interest-bearing investments which do not meet the definition for cash and cash equivalents. On initial recognition financial investments are recognised in the balance sheet at fair value. Subsequently assets held within the business model hold to collect are re-measured at amortised cost and assets hold to sell are remeasured at fair value through profit or loss. Any changes in the fair values of financial investments remeasured at fair value are recognised in the income statement as financial items.

Other investments and financial investments

Other investments include investments in non-listed equity shares and rental deposits. The equity investments were irrevocably designated at fair value through profit and loss.

Financial investments comprise short-term deposits and marketable securities managed on a fair value basis with a continuously observation of their performance.

Financial debts

At 31 December 2022, financial debts comprise green loan facility (EUR 475m), sustainability-linked bonds (EUR 991m), other credit facilities (EUR 147m) and lease liability (EUR 493m). As at 31 December 2022, the fair value of sustainability-linked bonds amounted to (EUR 859m). As at 31 December 2021, financial debts comprise a bilateral bridge facility (EUR 500m), other credit facilities (EUR 71m) and lease liability (EUR 545m).

4.3 Financial assets and liabilities – continued

Fair value hierarchy

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

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

Other investments and Financial Investments
Other investments in non-listed equity shares are measured at fair value determined using generally accepted valuation techniques based on unobservable inputs, and are categorised as Level 3. Financial investments in marketable securities are measured at fair value based on market prices, and are categorised as Level 1.

Derivatives
Foreign currency forward contracts, embedded derivatives and commodity forward contracts are measured at fair value using generally accepted valuation techniques based on observable market prices and forward market rates, and are categorised as Level 2.

Renewable energy certificates
Vestas has a commitment in the US to purchase Renewable Energy Certificates (RECs) during a 4 year period from 2028-31 based on production of MW in this period at a fixed price. It has been assessed that the contract qualifies as a financial instrument. The fair value measurement is based on level 3 input. As per 31 December 2022, the estimated maximum nominal commitment under the contract is EUR 19m (2021: EUR 18m for a 10 year commitment period). Market prices depend on which market the RECs are traded, ranging from an estimated average market price of 11.06 USD/MWh to 28.04 USD/MWh (2021: USD 6.1/MWh to USD 23.4/MWh), hence the contract would have had an estimated value in the range of EUR 2m to EUR 27m (2021: EUR (6)m to EUR 21m) as at 31 December 2022. Given the uncertainties underpinning the future market for selling RECs, Management has determined that the best evidence of fair value for the RECs is the transaction price. Consequently, the net fair value of the contract has been measured at EUR 0.

Financial instruments measured at fair value mEUR	Valuation technique	2022 Carrying amount	2022 Fair value Total	2022 Level 1	2022 Level 2	2022 Level 3	2021 Carrying amount	2021 Fair value Total	2021 Level 1	2021 Level 2	2021 Level 3
Other investments	**Market prices/ Discounted cash flow**	**62**	**62**	**-**	**-**	**62**	**58**	**58**	**-**	**-**	**58**
Financial investments	**Market prices**	**95**	**95**	**95**	**-**	**-**	**100**	**100**	**100**	**-**	**-**
Renewable energy certificates (RECs)	**Forward pricing**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign currency derivatives	Forward pricing and swap models	346	346	-	346	-	377	377	-	377	-
Commodity derivatives	Forward pricing	3	3	-	3	-	10	10	-	10	-
Interest rate swap	Swap Model	17	17	-	17	-	-	-	-	-	-
Other receivables and derivative financial instruments		**366**	**366**	**-**	**366**	**-**	**387**	**387**	**-**	**387**	**-**
Financial assets		**523**	**523**	**95**	**366**	**62**	**545**	**545**	**100**	**387**	**58**
Financial debts	**Market prices**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign currency derivatives	Forward pricing and swap models	348	348	-	348	-	377	377	-	377	-
Commodity derivatives	Forward pricing	16	16	-	16	-	9	9	-	9	-
Other liabilities and derivative financial instruments		**364**	**364**	**-**	**364**	**-**	**386**	**386**	**-**	**386**	**-**
Contingent consideration	Discounted cash flow	321	321	-	-	321	320	320	-	-	320
Financial liabilities		**685**	**685**	**-**	**364**	**321**	**706**	**706**	**-**	**386**	**320**

Contingent consideration
Contingent consideration relating to Vestas' acquisition of a 25 percent stake in Copenhagen Infrastructure Partners P/S' parent companies in February 2021 is classified as financial debt and measured at fair value. As at 31 December 2022, the fair value amounted to EUR 321m based on expected total payments of EUR 331m in the period 2023 to 2026 discounted using a 1 percent normalised financing interest rate. The contingent consideration is categorised as Level 3.

4.4 Share capital

Number of shares	2022	2021
Number of shares as at 1 January	1,009,867,260	201,973,452
Share split 1:5	-	807,893,808
Number of shares as at 31 December	**1,009,867,260**	**1,009,867,260**
Shares outstanding	1,006,177,558	1,005,144,100
Treasury shares	3,689,702	4,723,160
Number of shares as at 31 December	**1,009,867,260**	**1,009,867,260**

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

	2022	2021
Average share price, purchases (DKK)	-	237
Purchase amount (mEUR)	-	12

Treasury shares are acquired to cover issues of shares under Vestas' incentive programmes or as part of its capital structure strategy. The share capital has been fully paid.

Net proposed cash distribution to shareholders

mEUR	2022	2021
Dividend	-	50

Dividend excluding treasury shares.

Movements in share capital
During 2018 there was a reduction of share capital by DKK 9,800,944 nominally by cancelling 9,800,944 shares from Vestas' holding of treasury shares. During 2019, there was a reduction of share capital by DKK 6,974,040 nominally by cancelling 6,794,040 shares from Vestas' holding of treasury shares. During 2020, there was a reduction of share capital by DKK 1,977,848 nominally by cancelling 1,977,848 shares from Vestas' holding of treasury shares. Vestas Wind Systems A/S has completed a capital increase of nominally DKK 5,049,337, representing 5,049,337 shares of nominally DKK 1 each. During 2021, a share split of Vestas' shares with a ratio 1:5 was carried out with effect as of 28 April 2021. Consequently, each share of nominally DKK 1.00 was split into five new shares of nominally DKK 0.20. Except for these six transactions, the share capital has not changed in the period 2018-2022. All shares rank equally.

Accounting policies

Treasury shares
Treasury shares are deducted from the share capital upon cancellation at their nominal value of DKK 0.20 per share. Differences between this amount and the amount paid to acquire treasury shares are deducted directly in equity.

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

4.5 Earnings per share

	2022	2021
Profit for the year (mEUR) – owners of Vestas Wind Systems A/S	**(1,572)**	**134**
Weighted average number of ordinary shares	1,009,867,260	1,009,867,260
Weighted average number of treasury shares	(3,689,702)	(4,818,797)
Weighted average number of ordinary shares outstanding	**1,006,177,558**	**1,005,048,463**
Dilutive effect of restricted performance shares	-	2,922,121
Average number of shares outstanding including restricted performance shares	**1,006,177,558**	**1,007,970,584**
Earnings per share, EPS (EUR)	(1.56)	0.13
Earnings per shares, diluted, EPS-D (EUR)	(1.56)	0.13

5 Tax

7%

The effective tax rate 2022
Our Corporate Tax Policy can be downloaded from our corporate website.

5.1 Income tax

Income tax for the year

mEUR	2022	2021
Current tax on profit for the year	134	(60)
Deferred tax on profit for the year	(317)	123
Tax on profit for the year	**(183)**	**63**
Change in income tax rate	-	(2)
Adjustments relating to previous years (net)	59	20
Income tax for the year recognised in the income statement, expense/(income)	**(124)**	**81**
Deferred tax on other comprehensive income for the year	(15)	11
Tax recognised in other comprehensive income, expense/(income)	**(15)**	**11**
Deferred tax on equity transactions	1	9
Tax recognised in equity	**1**	**9**
Total income taxes for the year, expense/(income)	**(138)**	**101**

Computation of effective tax rate

Percent	2022	2021
Income tax rate in Denmark	22	22
Adjustment relating to previous years (net)	(4)	9
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate (net)	(2)	3
Income and expenses non-taxable	(4)	7
Change in write-down of deferred tax assets and tax provisions	(5)	(5)
Income/loss from investments in joint ventures	-	0
Effective tax rate	7	36

Key accounting estimates

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

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

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

The provision for uncertain tax positions has been derived by applying probability weighted outcomes for all uncertainties with multiple potential outcomes and in scenarios where the outcome is determined by a single point it is determined by the most probable outcome.

Accounting policies

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

Following developments in ongoing tax disputes primarily related to transfer pricing cases, uncertain tax positions are assessed individually and are generally presented as part of non-current tax receivables or non-current tax payables. The uncertain tax positions that materialize and become certain or virtually certain are classified as current 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.

5.1 Income tax – continued

Income tax assets and liabilities

mEUR	2022	2021
Income tax as at 1 January, net assets/(liabilities)	(70)	(95)
Exchange rate adjustments	6	-
Adjustment from business combination	-	(235)
Income tax for the year	(134)	60
Adjustments relating to previous years	(50)	5
Settlements against VAT receivables	20	21
Income tax paid in the year	144	174
Income tax as at 31 December, net assets/(liabilities)	**(84)**	**(70)**
Receivables specified as follows:		
0-1 year	51	102
> 1 year	100	229
Income tax receivables	**151**	**331**
Liabilities specified as follows:		
0-1 year	(58)	(75)
> 1 year	(177)	(326)
Income tax liabilities	**(235)**	**(401)**

5.2 Deferred tax

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

Deferred tax recognised on tax losses is mainly in jurisdictions where there are no expiry limits. As at 31 December 2022, the value of recognised deferred tax assets amounted to EUR 497m (2021: EUR 378m), of which EUR 399m (2021: EUR 86m) relates to tax loss carry-forwards. Out of recognised tax loss carry forwards of EUR 399m (2021: EUR 86m) EUR 8m (2021: EUR 44m) are subject to expiry if not used within 5-10 years whereas the remaining EUR 391m (2021: EUR 42m) are not subject to any limitations. Following the Group transfer pricing policy these losses are expected to be utilised.

Of the total deferred tax relating to tax loss carry-forwards written down, EUR 60m (2021: EUR 0m) relates to Denmark. The recognised loss carry-forward relating to Denmark amounts to EUR 1,727m (2021: EUR 0m).

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

Key accounting estimates

Valuation of deferred tax assets

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

Of the total tax loss carry-forwards, EUR 61m (2021: EUR 31m) is expected to be realised within 12 months, and EUR 416m (2021: EUR 65m) is expected to be realised later than 12 months after the balance sheet date.

The assessment in 2022 resulted in an additional write-down of deferred tax assets by EUR 21m (2021 EUR 32m reversal of write-down) with the write down being primarily due to the fact that certain jurisdictions have more tax assets than what is expected to be utilised in the foreseeable future.

The value of non-recognised tax assets totals EUR 122m (2021: EUR 101m), of which EUR 122m (2021: EUR 101m) relates to write-down of tax assets that are not expected to be utilised in the foreseeable future.

5.2 Deferred tax – continued

mEUR	2022	2021
Deferred tax as at 1 January, net assets	16	177
Impact from change in accounting policy	-	4
Adjusted deferred tax as at 1 January, net assets	**16**	**181**
Exchange rate adjustments	1	-
Deferred tax on profit for the year	317	(123)
Adjustment relating to previous years	(9)	(25)
Changes in income tax rate	-	2
Deferred tax on equity transactions	(1)	(9)
Addition related to acquisitions and equity adjustments	-	1
Tax on other comprehensive income	15	(11)
Deferred tax as at 31 December, net assets	**339**	**16**
Deferred tax assets specified as follows:		
Tax value of tax loss carry-forwards (net)	477	86
Intangible assets	(328)	(8)
Property, plant and equipment	(18)	(32)
Current assets	236	182
Provisions	131	139
Write-down of tax assets	(122)	(101)
Other[1]	121	112
Deferred tax assets	**497**	**378**
Deferred tax provisions specified as follows:		
Tax value of tax loss carry-forwards (net)	-	(13)
Intangible assets	1	318
Property, plant and equipment	43	50
Current assets	89	71
Provisions	13	(17)
Other	12	(47)
Deferred tax provisions	**158**	**362**

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

Accounting policies

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

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

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

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

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

6 Other disclosures

>130 entities

registered in more than 70 different countries.

6.1 Audit fees

mEUR	2022	2021
Audit:		
PricewaterhouseCoopers	4	3
Total audit	**4**	**3**
Non-audit services:		
PricewaterhouseCoopers		
Assurance engagements	0	0
Tax assistance	1	1
Other services	1	1
Total non-audit services	**2**	**2**
Total	**6**	**5**

Vestas's policy is to follow the 70 percent fee cap restriction on non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, the auditor of the parent company. PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab complies with the 70 percent fee cap restriction in 2022.

Non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, amounted to EUR 1m, relating to advisory services and tax compliance advices.

6.2 Assets and liabilities held for sale

On 9 August 2022, Vestas signed an agreement for the sale of the converters & controls business to KK Wind Solutions. The transaction is expected to close in the first quarter of 2023, subject to receipt of approvals from the relevant regulatory authorities and separation of the converters and controls business. Therefore, it has been classified as held for sale as at 31 December 2022.

Assets held for sale includes property, plant and equipment of EUR 62m and inventory of EUR 111m. Liabilities held for sale include lease liabilities of EUR 1m and other liabilities of EUR 2m.

The expected gain on the sale is approx. EUR 150m.

6.3 Related party transactions

mEUR	2022	2021
Joint ventures		
Revenue for the period	139	402
Proceeds from investments in JV's	2	50
Capital contribution	21	38
Receivables as at 31 December	4	52
Prepayments received balance as at 31 December	14	11
Other receivables balance as at 31 December	1	6
Associates		
Revenue for the period	15	106
Reversal of revenue	(64)	-
Proceeds from investments in associates	11	10
Capital contributions	9	3
Payable capital contribution as at 31 December	36	47
Receivables as at 31 December	-	23
Other liabilities as at 31 December	85	-
Prepayments paid balance as at 31 December	-	10
Other assets balance at 31 December	-	28

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

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

Transactions with the Board and Executive Management
Transactions with the Executive Management only consist of normal management remuneration, refer to note 1.4.

With the exception of the board members elected by the employees, no members of the Board have been employed by Vestas in 2022.

As disclosed in note 2.6, as at 31 December 2022, other liabilities include payments received relating to assets sold to associates that do not meet the criteria for derecognition at the balance sheet date.

As disclosed in note 1.2, revenue in the amount of EUR 64m and related production costs in the amount of EUR 19m has been reversed in 2022 relating to a share purchase agreement entered into with an associate in 2021 for the sale of an onshore wind power plant under development.

6.4 Contingent assets, liabilities, and contractual obligations

Guarantees and indemnities

Vestas provides indemnities and guarantees to third parties on behalf of non-Vestas entities and joint ventures with a notional amount of EUR 46m (2021: EUR 17m). No guarantees have been utilised during 2022 or in previous years and none of the indemnities are expected at the balance sheet date to be utilised.

Contingent liabilities

Vestas has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2023 and future periods at a value of EUR 91m (2021: EUR 85m).

Vestas has made commitments to invest in funds managed by Copenhagen Infrastructure Partners P/S. As at 31 December 2022, undrawn commitments amounted to EUR 182m.

In March 2022, a number of lawsuits was filed against Vestas in relation to a framework agreement which Vestas contends has expired. Vestas believes the claims to be without merit and hence has made no provision in relation to the complaints. In the event that Vestas is not successful in its defence of these cases, there potentially could be a financial impact on Vestas.

Vestas is also involved in a number of litigation proceedings. It is Management's assessment that these proceedings will not have a material effect on the financial position of the Group beyond what is already recognised in assets and liabilities as at 31 December 2022.

Refer to note. 5.2 concerning contingent liabilities on transfer pricing.

Contingent assets

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

6.5 Non-cash transactions

mEUR	2022	2021[1]
Amortisation, impairment and depreciation for the year of intangible assets and property, plant and equipment	1,088	982
Share of (profit)/loss from investments in joint ventures and associates, incl. other relating transactions	(11)	(36)
Write-down of inventory	260	8
Warranty provisions in the year (net)	293	(104)
Other provisions in the year	127	48
Interest income	(37)	(19)
Interest expenses	37	39
Income tax for the year	(146)	81
Cost of share-based payments	7	13
Gains from property, plant and equipment	(8)	6
Other adjustments for non-cash transactions incl. foreign currency adjustments	103	(20)
Total	**1,713**	**998**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2.

6.6 Subsequent events

Full stop of our activities in Russia
The environment in and around Russia leaves Vestas with no viable options to continue to pursue orderly corporate liquidations and activity wind down. On 31 January 2023 Vestas therefore exited Russia by putting a full stop to all remaining corporate activities in Russia without delay, including terminating remaining employees and leaving stranded assets including cash idle.

Vestas will from 31 January deconsolidate its Russian entities, Vestas Manufacturing RUS and Vestas RUS with a minor impact to special items in 2023.

Other than the events disclosed above or recognised or disclosed elswhere in the consolidated financial statements, no events have occurred subsequent to 31 December 2022 which could have a significant impact on the consolidated financial statements.

6.7 Legal entities[1]

Name and country	Ownership (%)
Parent company	
Vestas Wind Systems A/S, Denmark	
Production units	
Vestas Nacelles America, Inc., USA	100
Vestas Blades America, Inc., USA	100
Vestas Manufacturing A/S, Denmark	100
Vestas Blades Deutschland GmbH, Germany[2]	100
WPT Nord GmbH, Germany	100
Vestas Blades Italia S.r.l., Italy	100
Vestas Wind Technology (China) Co. Ltd., China	100
Vestas Manufacturing Spain S.L.U., Spain	100
Vestas Control Systems Spain S.L.U., Spain	100
Vestas Nacelles Deutschland GmbH, Germany[2]	100
Vestas Manufacturing RUS OOO, Russia[3]	100

Name and country	Ownership (%)
Sales and service units	
Vestas Americas A/S, Denmark	100
Vestas America Holding Inc., USA	100
Vestas - American Wind Technology Inc., USA	100
Vestas - Canadian Wind Technology Inc., USA	100
Vestas - Portland HQ LLC, USA	100
Vestas Upwind Solutions Inc., USA	100
Availon Inc., USA	100
Steelhead Americas, LLC, USA	100
Steelhead Wind 1 LLC, USA	100
Steelhead Wind 2 LLC, USA	100
Steelhead Wind 2a LLC, USA	100
Vestas Asia Pacific A/S , Denmark	100
Vestas Asia Pacific Wind Technology Pte. Ltd., Singapore	100
Vestas - Australian Wind Technology Pty. Ltd., Australia	100
Vestas Korea Wind Technology Ltd., South Korea	100
Vestas New Zealand Wind Technology Ltd., New Zealand	100
Vestas Taiwan Ltd., Taiwan	100
Vestas Wind Technology (Beijing) Co. Ltd., China	100

Name and country	Ownership (%)
Vestas Wind Technology India Pvt Limited, India	100
Vestas Japan Co. Ltd., Japan	100
Vestas Wind Technology Pakistan (Private) Limited, Pakistan	100
Vestas Wind Technology (Thailand) Ltd., Thailand	100
Vestas Wind Technology Vietnam LLC, Vietnam	100
Vestas Mongolia LLC, Mongolia	100
Vestas Central Europe A/S, Denmark	100
Vestas Deutschland GmbH, Germany[2]	100
Vestas Services GmbH, Germany[2]	100
Vestas Benelux B.V., The Netherlands	100
Vestas Österreich GmbH, Austria	100
Vestas Czech Republic s.r.o., Czech Republic	100
Vestas Hungary Kft., Hungary	100
Vestas Bulgaria EOOD, Bulgaria	100
Vestas CEU Romania S.R.L, Romania	100
Vestas Central Europe-Zagreb d.o.o, Croatia	100
Vestas Slovakia spol S.r.o., Slovakia	100
Vestas RUS OOO, Russia[3]	100
Vestas Eastern Africa Ltd., Kenya	100

Name and country	Ownership (%)
Vestas Southern Africa Pty. Ltd., South Africa	80
Vestas Ukraine LLC, Ukraine	100
Vestas Central Europe d.o.o. Beograd, Serbia	100
Vestas Belgium NV, Belgium	100
Vestas Georgia LLC, Georgia	100
Availon Holding GmbH, Germany	100
Availon GmbH, Germany[2]	100
Vestas Mediterranean A/S, Denmark	100
Vestas Italia S.r.l., Italy	100
Vestas Hellas Wind Technology S.A., Greece	100
Vestas Eólica S.A., Spain	100
Vestas France SAS, France	100
Vestas WTG Mexico S.A. de C.V., Mexico	100
Vestas Mexicana del Viento S.A. de C.V., Mexico	100
Vestas do Brasil Energia Eolica Ltda., Brazil	100
Vestas Argentina S.A., Argentina	100
Vestas Chile Turbinas Eólica Limitada Santiago, Chile	100
Vestas Rüzgar Enerjisi Sistemleri Sanayi Ve Ticaret Ltd. Sirketi, Turkey	100
Vestas Turbinas Eólicas de Uruguay S.A., Uruguay	100

1 Companies of immaterial significance have been left out of the overview.
2 Vestas Deutschland GmbH, Vestas Blades Deutschland GmbH, Vestas Nacelles Deutschland GmbH, Vestas Services GmbH and Availon GmbH, wholly owned subsidiaries of Vestas Wind Systems A/S, claiming not to prepare notes and management report to its financial statements pursuant to the relief provision of section 264 Abs. 3 HGB.
3 The companies are in a liquidation process.

6.7 Legal entities[1] – continued

Name and country	Ownership (%)
Vestas MED (Cyprus) Ltd., Cyprus	100
Vestas Nicaragua SA, Nicaragua	100
Vestas CV Limitada, The Republic of Cape Verde	100
Vestas Wind Systems Dominican Republic S.R.L., Dominican Republic	100
Vestas Peru S.A.C., Peru	100
Vestas Middle East S.L.U., Spain	100
Vestas Costa Rica S.A., Costa Rica	100
Vestas Moroc SARLAV, Casablanca, Morocco	100
Vestas Jamaica Wind Technology Ltd., Jamaica	100
Vestas Guatemala, Guatemala	100
Availon LDA Portugal, Portugal	100
Availon Iberia S.L., Spain	100
Vestas Northern Europe A/S, Denmark	100
Vestas - Celtic Wind Technology Ltd., United Kingdom	100
Vestas Northern Europe AB, Sweden	100
Vestas Poland Sp.z.o.o., Poland	100
Vestas Ireland Ltd., Ireland	100
Vestas Norway AS, Norway	100
Vestas Finland Oy, Finland	100
Vestas Mediterranean A/S Sucursal, Bolivia	100

Name and country	Ownership (%)
UpWind Solutions Canada, Ltd., Canada	100
Vestas Kazakhstan LLP, Kazakhstan	100
Vestas Overseas Panamá S.A., Panama	100
Vestas Portugal, LDA, Portugal	100
Vestas Senegal S.A.R.L.U, Senegal	100
Vestas Wind Lanka (PVT) Ltd., Sri Lanka	100
Vestas Kompozit Kanat Sanayi Ve Ticaret Anonim Şirketi Şirketi, Turkey	100
UpWind Holdings, LLC, USA	100
Utopus Insights, Inc., USA	100
NEG Micon UK Ltd., United Kingdom	100
NEG Micon Australia Pty. Ltd., Australia	100
Vestas Honduras, S.A. De C.V., Honduras	100
Vestas Colombia S.A.S, Colombia	100
Vestas Saudi Arabia Limited Co., Saudi Arabia	100
Vestas El Salvador, S.A. De C.V., El Salvador	100
Roaring Fork Wind, LLC, USA	100
Vestas Offshore Wind Sweden AB, Sweden	100
Vestas Offshore Wind UK Ltd., United Kingdom	100
Vestas Offshore WInd Blades UK Ltd., United Kingdom	100
Vestas Offshore Wind France SAS, France	100

Name and country	Ownership (%)
Portugal Unipessoal Lda. Portugal	100
Vestas Offshore Wind Poland Z.O.O, Poland	100
Vestas Offshore Wind Belgium NV, Belgium	100
Vestas Offshore Wind US inc., USA	100
Vestas Offshore Wind Taiwan Ltd., Taiwan	100
Vestas Offshore Wind Japan Ltd, Japan	100
Covento A/S, Denmark	**100**
Other subsidiaries	
Vestas Wind Systems (China) Co. Ltd., China	100
Vestas Switzerland AG, Switzerland	100
Vestas Services Philippines Inc., Philippines	100
Vestas India Holding A/S, Denmark	100
Wind Power Invest A/S, Denmark	100
Vestas Technology (UK) Limited, United Kingdom	100
Vestas Technology R&D (Beijing) Co. Ltd., China	100
Vestas Technology R&D Chennai Pte. Ltd., India	100
Vestas Development A/S, Denmark	100
Vestas Shared Service (Spain), S.L.U., Spain	100

Name and country	Ownership (%)
Vestas Shared Service A/S, Denmark	100
Vestas Service Delivery Center - Szczecin sp Z.o.o., Poland	100
Vestas Cantabria Prototype SL, Spain	100
Joint ventures	
Emerging Markets Power (Holdings) Limited, Ireland	50
Airpower Windfarms Private Ltd., India	50
AQN SRW2 Holdings, LLC, USA	21
Helena Wind Holdco, LLC, USA	20
Panorama Wind, LLC, USA	20
BSW US Holdings, LLC, USA	20
Associates	
Blakliden Fäbodberget Holding AB, Sweden	40
SoWiTec Group GmbH, Germany	25
Copenhagen Infrastructure Partners P/S, Denmark	25

1 Companies of immaterial significance have been left out of the overview.
2 Vestas Deutschland GmbH, Vestas Blades Deutschland GmbH, Vestas Nacelles Deutschland GmbH, Vestas Services GmbH and Availon GmbH, wholly owned subsidiaries of Vestas Wind Systems A/S, claiming not to prepare notes and management report to its financial statements pursuant to the relief provision of section 264 Abs. 3 HGB.

7 Basis for preparation

7.1 General accounting policies

The Annual Report of Vestas Wind Systems A/S comprises the consolidated financial statements of Vestas Wind Systems A/S and its subsidiaries and separate financial statements of the parent company, Vestas Wind Systems A/S.

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

Basis of preparation

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

The consolidated financial statements are presented in million Euro.

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

Materiality in the financial reporting

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

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

Consolidated financial statements

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

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

An overview of Vestas legal entities is provided on pages 121-122.

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

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

Translation policies

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

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

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

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

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

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

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

Assets and liabilities held for sale

Assets (or disposal groups) are classified as held for sale if the carrying amount will be recovered principally through a sales transaction rather than through continuing use and when the assets are expected to be disposed of within 12 months. Liabilities of a disposal group that are directly related to assets held for sale are presented correspondingly. Assets and liabilities held for sale are presented separately on the balance sheet. Immediately before the initial classification as held for sale, the carrying amounts of the assets and liabilities are measured in accordance with their applicable accounting policy. Assets and liabilities held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are not depreciated.

7.1 General accounting policies – continued

Equity

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

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

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

Cash flow statement

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

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

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

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

ESEF Regulation

The ESEF Regulation sets out the following main requirements: (1) Issuers shall draw up and disclose their annual financial reports using the XHTML format; and (2) issuers that draw-up their primary consolidated financial statements in accordance with IFRS as endorsed by the EU shall block-tag the primary statements and notes in the consolidated financial statements using inline eXtensible Business Reporting Language (iXBRL).

iXBRL tags shall comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation.

As part of the tagging process, financial statement line items and notes are marked up to elements in the ESEF taxonomy. If a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxonomy is created. Extensions have to be anchored to elements in the ESEF taxonomy, except for extensions which are subtotals.

The Annual Report submitted to the Danish Financial Supervisory Authority (The Officially Appointed Mechanisms) consists of the XHTML document together with some technical files all included in a ZIP file named VWS-2022-12-31.zip.

7.2 Change in accounting policies

New accounting standards, amendments and interpretations
The following accounting standards, amendments and interpretations have been implemented as at 1 January 2022:
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Annual Improvements to IFRS Standards 2018-2020, and
- Reference to the Conceptual Framework – Amendments to IFRS 3

The implementation has not had a significant impact on recognition, measurement or disclosures in the Annual Report 2022 and is not expected to have significant impact on the financial reporting for future periods.

IAS 37, Cost of Fulfilling a Contract
As of 1 January 2022, Vestas adopted the amendment to IAS 37 relating to onerous contracts. The amendment specifies that an allocation of directly related production costs, such as depreciations of production plants, machinery and equipment, should be included in the cost of fulfilling a contract when applying IAS 37. Historically, Vestas' accounting policy has not included an allocation of such costs in the cost of fulfilling a contract.

The application of the amendment resulted in the recognition of an increased provision for onerous contracts related to prior years of EUR 22m with a net impact of EUR 17m on retained earnings as at 1 January 2022. Vestas has applied the amendment using the cumulative effect method. Under this method, the comparative information is not restated.

IAS 38, Configuration or customisation costs in a cloud computing arrangement
In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision relating to configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

Vestas' accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the Balance sheet. The adoption of this agenda decision resulted in a reclassification of these intangible assets to either a prepaid asset in the balance sheet and/or recognition as an expense in the income statement, impacting both the current and/or prior periods presented.

Vestas has restated comparative information in the financial statements to reflect this change in accounting policy, and has adjusted opening balances in the balance sheet as at 1 January 2021.

The impact of the change in accounting policy in the financial information of the Group at the beginning of the comparative period, during and at the end of the comparative period is disclosed below.

Had the change in accounting policy not occurred, operating costs would have been EUR 42m lower and depreciations would have been EUR 7m higher.

Adjustments to the balance sheet, 1 January 2021

Assets mEUR	Reported	Effect of new policy	Adjusted
Completed development projects	621	(1)	620
Software	164	(17)	147
Development projects in progress	317	(17)	300
Total intangible assets	**2,888**	**(35)**	**2,853**
Deferred tax	335	4	339
Total other non-current assets	**1,003**	**4**	**1,007**
Total non-current assets	**5,913**	**(31)**	**5,882**
Total assets	**18,160**	**(31)**	**18,129**

Liabilities mEUR	Reported	Effect of new policy	Adjusted
Retained earnings	4,773	(31)	4,742
Attributable to the owners of Vestas	4,654	(31)	4,623
Total equity	**4,703**	**(31)**	**4,672**
Total equity and liabilities	**18,160**	**(31)**	**18,129**

Adjustments to the income statement, 1 January – 31 December 2021

Income statement mEUR	Reported	Effect of new policy	Adjusted
Production costs	(14,027)	(4)	(14,031)
Gross profit	**1,560**	**(4)**	**1,556**
Research and development costs	(364)	(25)	(389)
Distribution costs	(367)	(4)	(371)
Administration costs	(368)	-	(368)
Operating profit (EBIT) before special items	**461**	**(33)**	**428**
Operating profit (EBIT)	**322**	**(33)**	**289**
Profit before tax	**257**	**(33)**	**224**
Income tax	(81)	0	(81)
Profit for the year	**176**	**(33)**	**143**
Profit is attributable to:			
Owners of Vestas Wind Systems A/S	167	(33)	134
Earnings per share (EPS):			
Earnings per share (EUR)	0.17	(0.04)	0.13
Earnings per share (EUR), diluted	0.17	(0.04)	0.13

7.2 Change in accounting policies – continued

Adjustments to the balance sheet, 31 December 2021

Assets mEUR	Reported	Effect of new policy	Adjusted
Completed development projects	619	(1)	618
Software	140	(17)	123
Development projects in progress	426	(50)	376
Total intangible assets	**3,130**	**(68)**	**3,062**
Deferred tax	374	4	378
Total other non-current assets	**1,627**	**4**	**1,631**
Total non-current assets	**6,848**	**(64)**	**6,784**
Total assets	**19,712**	**(64)**	**19,648**

Liabilities mEUR	Reported	Effect of new policy	Adjusted
Retained earnings	4,699	(64)	4,635
Attributable to the owners of Vestas	4,748	(64)	4,684
Total equity	**4,761**	**(64)**	**4,697**
Total equity and liabilities	**19,712**	**(64)**	**19,648**

Adjustments to the statement of cash flows, 1 January – 31 December 2021

Statement of cash flows mEUR	Reported	Effect of new policy	Adjusted
Profit for the year	176	(33)	143
Adjustments for non-cash transactions	1,005	(7)	998
Cash flow from operating activities before change in net working capital	987	(40)	947
Cash flow from operating activities	**996**	**(40)**	**956**
Purchase of intangible assets	(400)	40	(360)
Cash flow from investing activities before acquisitions of subsidiaries, joint ventures, associates and financial investments	**(813)**	**40**	**(773)**
Cash flow from investing activities	**(939)**	**40**	**(899)**

Adjustments to the statement of changes in equity, 1 January – 31 December 2021

Statement of changes in equity mEUR	Total	Effect of new policy	Total
Equity as at 1 January	4,703	(31)	4,672
Profit for the year	176	(33)	143
Total comprehensive income for the year	**373**	**(33)**	**340**
Equity as at 31 December	**4,761**	**(64)**	**4,697**

New standards and interpretations, not yet effective
The IASB has issued new or amended accounting standards and interpretations that have not yet become effective and have consequently not been implemented in the consolidated financial statements. Vestas will adopt the accounting standards and interpretations when they become mandatory.

- Effective from 1 January 2023, IFRS 17, Insurance Contracts will replace IFRS 4, Insurance Contracts. Vestas has assessed that the multibrand service contracts fall under the definition of insurance contracts as per IFRS 17. The share of multibrand service business is not significant.
- Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction.
- Amendments to IAS 1: Classification of liabilities a current or non-current
- Amendments to IAS 8: Definition of accounting estimates

Based on the current nature of the business and level of activities, none of these standards and interpretations are expected to have a material impact on the recognition and measurement in the consolidated financial statements.

New standards and interpretations, not yet adopted by EU
IASB has issued new or amended accounting standards and interpretations that have not yet become effective and have consequently not been implemented in the consolidated financial statements for 2022. Vestas will adopt the accounting standards and interpretations when they become mandatory.

7.3 Key accounting estimates and judgements

When preparing the consolidated financial statements of Vestas, Management makes several accounting estimates and assumptions which impact the recognition and measurement of Vestas' financial statements.

The key accounting estimates and judgements, which may have a significant impact on the financial statements are listed below. The nature of accounting impact of key accounting estimates and judgements is described in the relevant notes.

The impact of key accounting estimates and judgements is divided into three categories from low to high. The rating is based on a combined assessment of materiality, complexity, subjectivity and estimation uncertainty and indicates the impact on amounts recognised and carrying values of assets or liabilities.

Climate-related risks
Vestas continuously monitors risks related to climate change and has considered them while preparing consolidated financial statements, where they may affect reported amounts materially. The group has performed an extended risk assessment in 2022 relating to assets in our manufacturing facilities that significantly contribute to property plant and equipment, presented in note 3.2.

Further reference is made to 'climate risks' in the Risk Management section on page 51 for more details on this process.

Note	Key accounting estimates and judgements	Estimate/ judgement	Impact of accounting estimates and judgements
1.2 Revenue	Estimate regarding recognition of contract elements	Estimate	Medium
	Estimate of stage of completion	Estimate	High
	Judgement regarding method for recognition of revenue from Supply-and-installation contracts	Judgement	Medium
	Judgement regarding service contract modifications	Judgement	Low
	Judgement regarding sale of onshore wind farm project	Judgement	Medium
1.6 Special items	Judgement regarding classification in the income statement	Judgement	Low
	Estimate regarding the valuation of assets and liabilities in Russia and Ukraine	Estimate	Medium
2.2 Inventories	Estimates of net realisable value	Estimate	Low
2.5 Other receivables	Estimates of allowance for doubtful VAT receivables	Estimate	Medium
3.1 intangible assets 3.2 Tangible assets	Estimates of future cash flows used for impairment test of acquired assets relating to MVOW	Estimate	Medium
3.6 Provisions	Estimates for warranty provisions	Estimate	High
5.1 Income tax	Estimates included in income tax assessment and uncertain tax position	Estimate	High
5.2 Deferred tax	Estimate of deferred tax assets valuation	Estimate	Medium

Key accounting estimates

The key accounting estimates made are based on assumptions, that are supported by experience, historical trends and other factors that Management assesses to be reasonable, but that by nature are associated with inherent uncertainty and unpredictability.

The estimates and underlying assumptions are reviewed on an ongoing basis. If necessary, changes are recognised in the period in which the estimate is revised. Management considers the key accounting estimates to be reasonable and appropriate based on currently available information.

Key accounting judgements

Key accounting judgments are made when applying certain accounting policies. Management considers the accounting judgements made are consistent and reflect the most fair and true view of Vestas' financial position and results of the Group's operations.

Parent company financial statements and notes

Income statement

1 January – 31 December

mEUR	Note	2022	2021[1]
Revenue	1.1	**835**	**1,443**
Production costs	1.2	(2,258)	(1,480)
Gross profit		**(1,423)**	**(37)**
Administration costs	1.2	(473)	(460)
Operating profit (EBIT)		**(1,896)**	**(497)**
Income/loss from investments in subsidiaries	3.4	5	353
Income/loss from investments in associates	3.4	(1)	0
Financial income	4.3	118	84
Financial costs	4.3	(181)	(111)
Profit before tax		**(1,955)**	**(171)**
Income tax	5.1	281	220
Profit for the year		**(1,674)**	**49**
Proposed distribution of profit:			
Reserve for net revaluation under the equity method		5	353
Retained earnings		(1,679)	(354)
Proposed dividends		-	50
Profit for the year		**(1,674)**	**49**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.1.

We are 28,438 dedicated Vestas employees who are working on supplying sustainability energy solutions to the world's populations.

Balance sheet

31 December

Assets

mEUR	Note	2022	2021[1]
Intangible assets	3.1	**2,547**	**2,600**
Property, plant, and equipment	3.2, 3.3	**352**	**402**
Investments in subsidiaries	3.4	2,755	4,245
Investments in associates	3.4	3	4
Marketable securities		95	100
Other investments		13	5
Other receivables		61	67
Tax receivables		241	339
Total financial fixed assets		**3,168**	**4,760**
Total non-current assets		**6,067**	**7,762**
Inventories	2.1	**234**	**202**
Receivables from subsidiaries		5,198	7,005
Other receivables		357	345
Prepayments	3.5	29	28
Deferred tax		157	-
Tax receivables		17	312
Total receivables		**5,758**	**7,690**
Cash and cash equivalents		**1,731**	**1,963**
Total current assets		**7,723**	**9,855**
Total assets		**13,790**	**17,617**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.1.

Equity and liabilities

mEUR	Note	2022	2021[1]
Share capital		27	27
Reserve for net revaluation under the equity method		783	843
Reserve for capitalised development cost		846	706
Translation reserve		14	15
Dividend		-	50
Retained earnings		980	2,737
Total equity		**2,650**	**4,379**
Warranty provisions	3.6	762	541
Deferred tax	5.2	-	225
Other Provisions		136	-
Total non-current provisions		**898**	**766**
Other liabilities		17	6
Financial debts	4.2	594	146
Total non-current debt		**611**	**152**
Total non-current liabilities		**1,509**	**918**
Financial debts	4.2	38	536
Warranty provisions	3.6	724	649
Trade payables		390	354
Payables to subsidiaries		8,249	10,589
Other liabilities		230	192
Total current liabilities		**9,631**	**12,320**
Total liabilities		**11,140**	**13,238**
Total equity and liabilities		**13,790**	**17,617**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.1.

Statement of changes in equity

1 January – 31 December 2022

mEUR	Share capital	Reserves: Reserve under the equity method	Reserves: Reserve for capitalised development cost	Reserves: Translation reserve	Dividend	Retained earnings	Total[1]
Equity as at 1 January	**27**	**843**	**706**	**15**	**50**	**2,738**	**4,379**
Impact on change in accounting policy	-	(17)	-	-	-	-	(17)
Adjusted equity as at 1 January	**27**	**826**	**706**	**15**	**50**	**2,738**	**4,362**
Exchange rate adjustments relating to foreign entities	-	(13)	-	-	-	-	(13)
Exchange rate adjustments	-	-	-	(1)	1	-	-
Fair value adjustments of derivative financial instruments	-	31	-	-	-	-	31
Tax on fair value adjustments of derivative financial instruments	-	(12)	-	-	-	-	(12)
Paid dividend	-	-	-	-	(50)	-	(50)
Paid dividend related to treasury stock	-	-	-	-	(1)	1	-
Capitalised development cost	-	-	180	-	-	(180)	-
Tax on capitalised development cost	-	-	(40)	-	-	40	-
Share-based payments	-	(6)	-	-	-	13	7
Tax on share-based payments	-	-	-	-	-	(1)	(1)
Disposal	-	(48)	-	-	-	48	-
Profit for the year	-	5	-	-	-	(1,679)	(1,674)
Equity as at 31 December	**27**	**783**	**846**	**14**	**-**	**980**	**2,650**

1 Comparative figures for 2021 have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.1.

1 Result for the year

1.1 Revenue

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

1.2 Costs

For information regarding remuneration to the Board of Directors and to the Executive Management for the parent company, refer to note 1.4 to the consolidated financial statements. Pension schemes in the parent company consist solely of defined contribution plans and the company does therefore not carry the actuarial risk or the investment risk. For management incentive programmes, refer to note 1.5 to the consolidated financial statements.

Profit for the year includes costs of non-recurring nature related to impairment of intangible assets of EUR 127m and tangible assets of EUR 28m relating to the V164/174 offshore activity and provisions of EUR 81m relating to claims brought against Vestas following the cessation of activities in Russia.

Staff costs

mEUR	2022	2021
Staff costs are specified as follows:		
Wages and salaries, etc.	288	256
Pension schemes	19	17
Other social security costs	3	2
Total	**310**	**275**
Average number of employees in Vestas Wind Systems A/S	2,843	2,452

2 Working capital

2.1 Inventories

Inventories relate to spare part activities.

mEUR	2022	2021
Raw materials and consumables	228	197
Work in progress	6	5
Total	**234**	**202**

3 Other operating assets and liabilities

3.1 Intangible assets

Included in software are internally completed IT projects amounting to EUR 42m as at 31 December 2022 (2021: EUR 82m).

For development projects in progress, refer to note 3.1 to the consolidated financial statements.

Goodwill

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

mEUR	Goodwill	Completed development projects	Software	Other intangible assets	Development projects in progress	Total
Cost as at 1 January	1,145	2,536	555	509	418	5,163
Impact from change in ac counting policy	-	-	(42)	-	(50)	(92)
Adjusted cost as at 1 January	**1,145**	**2,536**	**513**	**509**	**368**	**5,071**
Additions	-	-	1	-	442	443
Disposals	-	-	(6)	-	-	(6)
Transfers	-	164	35	-	(199)	-
Cost as at 31 December	**1,145**	**2,700**	**543**	**509**	**611**	**5,508**
Amortisation as at 1 January	78	1,917	421	79	-	2,495
Impact from change in accounting policy	-	-	(24)	-	-	(24)
Adjusted amortisation as at 1 January	**78**	**1,917**	**397**	**79**	**-**	**2,471**
Amortisation for the year	57	221	49	42	-	369
Impairment losses for the year	-	127	1	-	-	128
Disposals	-	-	(7)	-	-	(7)
Amortisation as at 31 December	**135**	**2,265**	**440**	**121**	**-**	**2,961**
Carrying amount as at 31 December	**1,010**	**435**	**103**	**388**	**611**	**2,547**
Amortisation period	**20 years**	**2-5 years**	**3-5 years**	**3-7 years**		

3 Other operating assets and liabilities – continued

3.2 Property, plant and equipment

mEUR	Land and buildings	Plant and machinery	Other fixtures and fittings, tools, and equipment	Property, plant and equipment in progress	Right-of-use assets	Total
Cost as at 1 January	204	104	265	47	242	862
Additions	1	6	46	17	12	82
Disposals	-	-	(22)	-	-	(22)
Exchange rate adjustments	-	-	-	-	(1)	(1)
Transfers	-	20	13	(33)	-	-
Cost as at 31 December	**205**	**130**	**302**	**31**	**253**	**921**
Depreciation as at 1 January	151	77	162	-	70	460
Depreciation for the year	7	8	50	-	38	103
Impairment	-	21	7	-	-	28
Depreciation on disposals for the year	-	-	(22)	-	-	(22)
Depreciation as at 31 December	**158**	**106**	**197**	**-**	**108**	**569**
Carrying amount as at 31 December	**47**	**24**	**105**	**31**	**145**	**352**
Depreciation period	10–40 years	3–10 years	3–5 years		2–20 years	

3.3 Leases

Vestas leases several assets including properties, vehicles and equipment. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions including payment terms, terminations rights, index-regulations, maintenance, deposits and guarantees etc.

Some property leases contain variable payments terms that are linked to an index e.g. a consumer price index. Overall the variable payments constitute less than 1 percent of Vestas' entire lease payments. Extension and termination options may be included in leases. These terms are used to maximise operational flexibility in terms of managing contracts.

Right-of-use assets

mEUR	2022 Property	2022 Vehicles	2022 Equipment	2022 Total	2021 Property	2021 Vehicles	2021 Equipment	2021 Total
Right-of-use assets as at 1 January	**139**	**6**	**27**	**172**	**73**	**5**	**27**	**105**
Exchange rate adjustments	(1)	-	-	(1)	-	-	-	-
Depreciation charge for the year	(24)	(4)	(10)	(38)	(24)	(4)	(6)	(34)
Addition of right-of-use assets for the year	-	3	9	12	90	5	6	101
Right-of-use assets as at 31 December	**114**	**5**	**26**	**145**	**139**	**6**	**27**	**172**

Maturity analysis – contractual undiscounted cash flow

mEUR	2022	2021
Less than one year	38	35
One to five years	81	93
More than five years	48	63
Total undiscounted lease liabilities as at 31 December	**167**	**191**
Lease liabilities included in the statement of financial position as at 31 December	**157**	**182**
Current	38	36
Non-current	119	146

Lease liabilities
Lease liabilities are included in financial debts which amounts to EUR 157m as at 31 December 2022 (2021: EUR 182m). The lease liabilities included in financial debts can be specified as described above.

Total lease expenses recognised in the income statement

mEUR	2022	2021
Interest expense on lease liabilities	2	2
Variable lease payments not included in the measurement of lease liabilities	0	0
Expenses relating to short-term leases and leases of low-value	17	15

3 Other operating assets and liabilities – continued

3.4 Investments in subsidiaries and associates

Refer to note 6.7 to the consolidated financial statements for an overview of the legal entities within the Group.

Investments in subsidiaries and associates

mEUR	2022	2021
Subsidiaries	2,755	4,245
Associates	3	4
Carrying amount as at 31 December	**2,758**	**4,249**

Income/(loss) from investments in subsidiaries and associates

mEUR	2022	2021
Subsidiaries	5	353
Associates	(1)	(0)
Total	**4**	**353**

Income from subsidiaries

mEUR	2022	2021
Share of profit in subsidiaries after tax	39	384
Amortisation of goodwill	(34)	(31)
Total	**5**	**353**

Investments in subsidiaries

mEUR	2022	2021
Cost as at 1 January	3,402	3,398
Exchange rate adjustments	-	3
Additions	4	1
Disposals	(1,434)	-
Cost as at 31 December	**1,972**	**3,402**
Value adjustments as at 1 January	843	340
Impact on change in accounting policy	(17)	-
Exchange rate adjustments	(13)	122
Share of profit/loss for the year after tax	39	384
Changes in equity, share-based payment	(6)	(11)
Changes in equity, derivative financial instruments	19	39
Dividend	-	-
Amortisation of goodwill	(34)	(31)
Disposal	(48)	-
Value adjustments as at 31 December	**783**	**843**
Carrying amount as at 31 December	**2,755**	**4,245**
Remaining positive difference included in the above carrying amount as at 31 December	506	509

Accounting policies

Investments in subsidiaries and associates are recognised and measured in the financial statements of the parent company under the equity method.

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

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

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

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

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

3 Other operating assets and liabilities – continued

3.5 Prepayments

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

3.6 Provisions

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

Product risks
Vestas invest significant resources in improving products and increasing their reliability to mitigate major warranty provisions. This work comprises design, production, installation, and continuous maintenance. The goal of these initiatives is to reduce Vestas' warranty costs, to secure customer returns, to increase the competitiveness of the products, and to improve customer earnings.

The other provision relate to risks stemming from Vestas ´ cessation of activities in Russia, including claims brought against Vestas outside Russia.

	2022			2021		
mEUR	**Warranty provision**	**Other provisions**	**Total provisions**	**Warranty provision**	**Other provisions**	**Total provisions**
Carrying amount as at 1 January	1,190	-	1,190	979	-	979
Addition during the year	929	136	1,065	748	-	748
Utilised during the year	(633)	-	(633)	(852)	-	(852)
Addition from business combination	-	-	-	258	-	258
Reclassification	-	-	-	57	-	57
Carrying amount as at 31 December	**1,486**	**136**	**1,622**	**1,190**	**-**	**1,190**
Non-current	762	136	898	649	-	649
Current	724	-	724	541	-	541
Carrying amount as at 31 December	**1,486**	**136**	**1,622**	**1,190**	**-**	**1,190**

3.7 Contingent assets and liabilities, and contractual obligations

Vestas provides indemnities and guarantees to third parties on behalf of non-Vestas entities with a notional amount of EUR 46m (2021: EUR 17m). No guarantees have been utilised during 2022 or in previous years and none of the indemnities are expected at the balance sheet date to be utilised.

Vestas provides indemnities and guarantees for bank and bonding facilities to third parties on behalf of subsidiaries. In addition, the company provides indemnities and guarantees to third parties in connection with project supplies in subsidiaries, and their warranty obligations to customers. To secure guarantees issued by banks, the company has given securities in cash and cash equivalents with disposal restrictions, refer to note 4.1 to the consolidated financial statements.

Vestas has entered into binding contracts concerning purchase of property, plant and equipment to be delivered in 2022 and future periods at a value of EUR 23m (2021: EUR 36m).

Vestas has made commitments to invest in funds managed by Copenhagen Infrastructure Partners P/S. As at 31 December 2022, undrawn commitments amounted to EUR 182m.

Vestas is involved in a number of litigation proceedings. It is Management's assessment that these proceedings will not have a material effect on the financial position of the Group beyond what is already recognised in assets and liabilities as at 31 December 2022.

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

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

4 Capital structure and financing items

4.1 Financial risks

For the use of derivative financial instruments and risks and capital management refer to note 4.1 to the consolidated financial statements.

4.2 Financial liabilities

mEUR	2022	2021
Green corporate eurobond		-
Credit facilities	475	500
Lease liabilities	157	182
Total	**632**	**682**
Financial debts break down as follows:		
< 1 year	38	536
1–2 years	22	32
> 2 years	572	114
Total	**632**	**682**

4.3 Financial items

mEUR	2022	2021
Financial income		
Interest income	21	5
Interest income from subsidiaries	93	59
Financial instruments	-	16
Other financial income	4	4
Total	**118**	**84**
Financial costs		
Interest costs	16	20
Interest costs to subsidiaries	96	48
Interest on lease liabilities	2	2
Exchange rate adjustments	17	28
Financial instruments	33	2
Other financial costs	17	11
Total	**181**	**111**

5 Tax

5.1 Income tax

mEUR	2022	2021
Current tax on profit for the year	134	(386)
Deferred tax on profit for the year	(449)	159
Foreign taxes	8	2
Write down of deferred tax (assets)	60	-
Adjustment related to previous years	(34)	5
Income tax for the year recognised in the income statement, (income)	**(281)**	**(220)**
Deferred tax on equity	-	9
Tax recognised in equity, expense/(income)	**-**	**9**
Total income taxes for the year, (income)	**(281)**	**(211)**

5.2 Deferred tax

mEUR	2022	2021
Deferred tax as at 1 January, net liabilities	(225)	(98)
Impact from change in accounting policy	-	4
Adjusted deferred tax as at 1 January, net liabilities	**(225)**	**(94)**
Deferred tax on profit for the year	449	(159)
Tax on entries in equity	(1)	(9)
Reclassification to tax receivables, non-current	(17)	-
Adjustment relating to previous years	11	37
Write down to assessed value	(60)	-
Deferred tax as at 31 December, net liabilities	**157**	**(225)**

6 Other disclosures

6.1 Audit fees

mEUR	2022	2021
Audit:		
PricewaterhouseCoopers	2	1
Total audit	**2**	**1**
Non-audit services:		
PricewaterhouseCoopers		
Tax assistance	0	0
Other services	1	1
Total non-audit services	**1**	**1**
Total	**3**	**2**

6.2 Related party transactions

All transactions with related parties have been carried out at arm's length principle. Definition of related parties and concerning other transactions with related parties, refer to note 6.3 to the consolidated financial statement.

6.3 Ownership

The company has registered the following shareholders with more than 5 percent of the share capital or nominal value:
- BlackRock Inc, Wilmington, DE U.S.A.

7 Basis of preparation

7.1 General accounting policies

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

With the exception of the items described below, the accounting policies of the parent company are identical to the accounting policies of the group, see the notes to the consolidated financial statements. The denomination of the items in the parent company's financial statements complies with the requirements under DK GAAP.

Change in accounting policy
Except for the application of the IFRS Interpretation Committee's decision on configuration or customisation costs in a cloud computing arrangement as described in note 7.2 to the consolidated financial statements, the accounting policies applied are unchanged from those applied in the previous year. Vestas has restated comparative information in the financial statements to reflect this change in accounting policy by adjusting the opening balances in the balance sheet as at 1 January 2021. The impact on the comparative information as at 31 December 2021 in the financial statements was a decrease in equity of EUR 64m, a decrease in intangible assets of EUR 68m, a decrease in deferred tax liability of EUR 4m and a decerase in profit for the year of EUR 33m.

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

Cash flow statement
Vestas Wind Systems A/S applies an exemption under DK GAAP whereby the parent company is not required to prepare a separate cash flow statement as it is included in the consolidated cash flow statement, refer to page 79 in the consolidated financial statements.

Statements

Safety first . . .

Our safety rules and procedures are set out in our Supplier Code of Conduct. It is crucial that health and safety of everyone involved in turbine installation and service is protected at all time.

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 2022.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The parent company financial statements of Vestas Wind Systems A/S have been prepared in accordance with the Danish Financial Statements Act. The Management's Review is also prepared in accordance with the Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and parent company as at 31 December 2022 and of the results of Group's and parent company's operations and consolidated cash flows for the financial year 1 January to 31 December 2022.

In our opinion, the Management's Review includes a true and fair review of the development in the operations and financial circumstances of the Group and parent company, of the results for the year and of the financial position of the Group and parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and parent company.

In our opinion, the social and environmental statements have been prepared in accordance with the accounting policies applied. They give a fair review of the Group's social and environment performance.

In our opinion, the annual report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2022 identified as VWS-2022-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend that the Annual General Meeting approve the Annual Report.

Aarhus, 8 February 2023

Executive Management

Henrik Andersen
Group President & CEO

Hans Martin Smith
Executive Vice President & CFO

Board of Directors

Bert Nordberg
Chair

Anders Runevad
Deputy chair

Kentaro Hosomi

Karl-Henrik Sundström

Helle Thorning-Schmidt

Michael Abildgaard Lisbjerg

Bruce Grant

Sussie Dvinge

Eva Merete Søfelde Berneke

Claus Christensen

Lena Olving

Pia Kirk Jensen

Independent Auditor's Reports

To the shareholders of Vestas Wind Systems A/S

Report on the audit of the Financial Statements

Our opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2022 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2022 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2022 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What 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 2022 comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of Vestas Wind Systems A/S on 5 May 1999 for the financial year 1999. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 24 years including the financial year 2022.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2022. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Recognition of the Group's revenue is complex due to several types of customer contracts utilised, including sale of wind turbines and wind power plants (supply-only, supply-and-installation and turnkey), service sales and sale of spare parts. We focused on this area as recognition of revenue involves significant judgement and accounting estimates made by Management including, whether contracts contain multiple performance obligations which should be accounted for separately and the most appropriate method for recognition of revenue for the identified performance obligations in the contracts. This includes assessing whether performance obligations in supply-and-installation contracts are satisfied at a point in time or over time. Further, it comprises the point in time when transfer of control has occurred regarding sale of wind turbines and sale of spare parts, and assessing the degree of completion of project and service contracts, which are accounted for over time. Significant estimates are involved in allocation of the consideration to the individual performance obligations in a contract. Further, significant estimates are also involved in estimating the variable elements of the consideration for service contracts, and the degree of completion for project and service contracts regarding the remaining cost to complete the contracts. Furthermore, the reduction in revenue related to damages or penalties regarding project and service contracts is subject to significant estimates. Refer to Note 1.2, Note 2.3 and Note 2.4 in the Consolidated Financial Statements.	We carried out risk assessment procedures in order to obtain an understanding of IT systems, business processes and relevant controls regarding recognition of revenue. For the controls, we assessed whether they were designed and implemented to effectively address the risk of material misstatement. For selected controls that we planned to rely on, we tested whether they were performed on a consistent basis. We reviewed samples of both project and service contracts to assess whether the method for recognition of revenue was relevant and consistent with the Group's accounting policy. We focused on contract classification, allocation of fixed and variable consideration and cost to the individual performance obligations and timing of transfer of control. For supply-and-installation projects with revenue recognition over time we reviewed a sample of projects and challenged the judgement made by Management in terms of no alternative use of the project. Where a contract contained multiple elements, we considered Management's judgements as to whether they comprised performance obligations that should be accounted for separately, and, in such cases, challenged the significant assumptions used in the allocation of the consideration to each performance obligation. We evaluated and challenged the significant judgements and estimates made by Management in applying the Group's accounting policy to a sample of specific contracts and separable performance obligations of contracts. We tested the point in time when transfer of control occurred by obtaining evidence, including inspecting signed contracts, delivery records, cash receipts and project plans and reconciled the revenue recognised to the underlying accounting records. We obtained a sample of Management's calculations of the degree of completion of project and service contracts, which are accounted for over time, and matched a sample of source data used in Management's calculation to evidence, and evaluated the judgements and assumptions applied. We further challenged the estimated cost to complete and reductions in revenue related to damages or penalties for the sampled contracts. We also considered the historical outcome of accounting estimates made in prior periods. We reviewed the disclosures included in the notes and sample tested additional disclosure information to accounting records.

Independent Auditor's Reports – continued

Key audit matter	How our audit addressed the key audit matter
Warranty provisions The Group's product warranties primarily cover expected costs to repair or replace components with defects or functional errors. Warranties are usually granted for a two-year period from legal transfer of the turbine, however, in certain cases, a warranty of up to five years is granted. We focused on this area as the amounts involved are significant and the completeness and valuation of the expected outcome of warranty provisions require significant Management judgement and estimates. This includes the use of significant assumptions concerning expected failure rates and expected repair costs. Refer to Note 3.6 in the Consolidated Financial Statements.	We carried out risk assessment procedures in order to obtain an understanding of IT systems, business processes and relevant controls regarding provision for warranty. For the controls, we assessed whether they were designed and implemented to effectively address the risk of material misstatement. For selected controls that we planned to rely on, we tested whether they were performed on a consistent basis. We performed substantive audit procedures on the methodology, data, assumptions and model used by Management to calculate the provisions and reviewed a sample of specific warranty cases. We challenged the significant assumptions applied in the valuation of provi sions by checking and corroborating the inputs used to calculate the provisions, including interviewing project managers, cost controllers and Management regarding individual cases. We assessed specific warranty provisions held for individual cases to evaluate whether the warranty provisions were sufficient to cover expected costs at year-end and whether the disclosures included in the notes appropriately reflected the risk. Further, we assessed the level of historical warranty claims to assess whether the total warranty provisions held at year-end were sufficient to cover expected costs in light of known and expected cases.
Tax risks The Group operates in a complex multinational tax environment and the Group is part in tax cases with domestic and foreign tax authorities. The Group has recognised provisions in respect of uncertain tax positions. Furthermore, the Group has recognised write-downs on deferred tax assets related to the uncertainty about potential future utilisation of these tax assets. We focused on this area as the amounts involved are material and as the valuation of the provision and deferred tax assets is associated with significant accounting estimates and judgements. Refer to Note 5.1 and Note 5.2 in the Consolidated Financial Statements.	We carried out risk assessment procedures in order to obtain an understanding of IT systems, business processes and relevant controls regarding recognition for uncertain tax positions and valuation of deferred tax assets. For the controls, we assessed whether they were designed and implemented to effectively address the risk of material misstatement. For selected controls that we planned to rely on, we tested whether they were performed on a consistent basis. In understanding and evaluating Management's accounting estimates and judgements, we considered the status of recent tax authority audits and enquiries, the outcome of previous claims, judgmental positions taken in tax returns and estimates and developments in the tax environment. We used PwC tax specialists to evaluate and challenge the adequacy of Management's significant assumptions and read correspondence with tax authorities to assess Management's significant accounting estimates. We evaluated the Group's model for valuation of deferred tax assets, including the data used to estimate the expected future taxable income. We also considered the historical outcome of accounting estimates made in prior periods. We reviewed the disclosures included in the notes and sample tested additional disclosure information to accounting records.

Statement on Management's Review
Management is responsible for Management's Review, pages 3-69 and pages 145-153.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty

Independent Auditor's Reports – continued

exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on compliance with the ESEF Regulation

As part of our audit of the Financial Statements we performed procedures to express an opinion on whether the annual report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2022 with the filename VWS-2022-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements including notes.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy for all financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human-readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements including notes;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report of Vestas Wind Systems A/S for the financial year 1 January to 31 December 2022 with the file name VWS-2022-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 8 February 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Rune Kjeldsen
State Authorised Public Accountant
mne34160

Independent limited assurance report on the Sustainability key figures

To the stakeholders of Vestas Wind Systems A/S

Vestas Wind Systems A/S ("Vestas") engaged us to provide limited assurance on the Sustainability key figures described in the section "What are we assuring" and set out in the Annual Report of Vestas on page 14 for the period 1 January - 31 December 2022.

Our conclusion
Based on the procedures we performed and the evidence we obtained, nothing came to our attention that causes us not to believe that the Sustainability key figures stated on page 14 in the 2022 Annual Report for the period 1 January - 31 December 2022 of Vestas are prepared, in all material respects, in accordance with the accounting policies developed by Vestas as stated on pages 151 - 153, Notes to Sustainability key figures ("accounting policies").

This conclusion is to be read in the context of what we state in the remainder of our report.

What we are assuring
The scope of our work was limited to assurance on the Sustainability key figures for the period 1 January - 31 December 2022 on page 14 in the Annual Report 2022 of Vestas (the "Sustainability key figures").

We express limited assurance in our conclusion.

Professional standards applied and level of assurance
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements'. The quantification of greenhouse gas emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine the emissions factors and the values needed to combine emissions of different gases.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control
We have complied with the independence requirements and other ethical requirements in the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and ethical requirements applicable in Denmark.

PricewaterhouseCoopers applies International Standard on Quality Management 1, ISQM 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies
The Sustainability key figures need to be read and understood together with the accounting policies. The accounting policies used for preparation of the Sustainability key figures are the applied accounting policies developed by Vestas, which Management is solely responsible for selecting and applying.

The absence of a significant body of established practice on which to draw to evaluate and measure the Sustainability key figures allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed
We are required to plan and perform our work to consider the risk of material misstatements of the Sustainability key figures. In doing so and based on our professional judgement, we:

- Evaluated the appropriateness of the accounting policies used, their consistent application in the Sustainability key figures;
- Made inquiries and conducted interviews with Vestas' Management with responsibility for management and reporting of the Sustainability key figures to assess reporting and consolidation process, use of company-wide systems and controls performed;
- Performed limited substantive testing on a sample basis to underlying documentation and evaluated the appropriateness of quantification methods and compliance with the accounting policies for preparing the Sustainability key figures at corporate head officeand in relation to selected Vestas reporting sites;
- Performed analytical review and trend explanation of the Sustainability key figures; and
- Evaluated the evidence obtained.

Management's responsibilities
Management of Vestas is responsible for:

- Designing, implementing and maintaining internal control over information relevant to the preparation of the Sustainability key figures in the Annual report 2022 that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing the Sustainability key figures;
- Measuring and reporting the information in the Sustainability key figures based on the accounting policies; and
- The content of the Sustainability key figures for the period 1 January - 31 December 2022, in the Annual Report 2022.

Our responsibility
We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Sustainability key figures for period 1 January - 31 December 2022 are prepared, in all material respects, in accordance with the relevant accounting policies;
- Forming an independent conclusion, based on the procedures performed and the evidence obtained; and
- Reporting our conclusion to the stakeholders of Vestas.

Hellerup, 8 February 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 3377 1231

Claus Lindholm Jacobsen
State Authorized Public Accountant
mne23328

Rune Kjeldsen
State Authorized Public Accountant
mne34160

Additional information

13 GW

In 2022, we installed 3,357 wind turbines corresponding to a capacity of 13,071 MW across 38 countries.

Quarterly financial and operational key figures

Financial highlights

mEUR	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Income statement				
Revenue	**2,485**	**3,305**	**3,913**	**4,783**
- of which onshore wind turbines	1,705	2,527	2,723	3,443
- of which offshore wind turbines	157	78	373	325
- of which Service	623	700	817	1,015
Gross profit	22	97	161	(162)
Operating profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	(20)	41	101	(185)
Operating profit (EBIT) before special items	(329)	(182)	(127)	(514)
Operating profit (EBIT) after special items	(894)	(147)	(114)	(441)
Profit before tax	(889)	(139)	(171)	(480)
Profit for the period	(765)	(119)	(147)	(541)
Balance sheet				
Net working capital	(609)	(448)	93	(1,349)
Cash flow statement				
Cash flow from operating activities	(928)	(188)	(614)	1,535
Cash flow from investing activities before acquisitions of subsidiaries, joint ventures, associates and financial investments	(193)	(174)	(138)	(253)
Free cash flow before acquisitions of subsidiaries and financial investments	(1,121)	(362)	(752)	1,282
Free cash flow	(1,123)	(381)	(644)	1,274

Financial ratios[1]

mEUR	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Gross margin (%)	0.9	2.9	4.1	(3.4)
EBITDA margin (%) before special items	(0.8)	1.2	2.6	(3.9)
EBIT margin (%) before special items	(13.2)	(5.5)	(3.2)	(10.7)
EBIT margin (%)	(36.0)	(4.4)	(2.9)	(9.2)
Net interest-bearing debt / EBITDA before special items	NA[2]	(0.2)	2.6	NA[2]

Operational key figures

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Order intake (bnEUR)	3.0	2.1	2.0	4.8
- of which onshore	2.4	2.1	2.0	4.8
- of which offshore	0.6	0	-	-
Order intake (MW)	2,948	2,153	1,895	4,193
- of which onshore	2,329	2,123	1,895	4,193
- of which offshore	619	30	-	-
Order backlog – wind turbines (bnEUR)	18.9	18.9	18.1	19.1
- of which onshore	15.4	15,4	15.1	16.4
- of which offshore	3.5	3.5	3.0	2.7
Order backlog – service (bnEUR)	30.0	31.3	32.8	30.4
- of which onshore	26.0	27.3	28.9	26.6
- of which offshore	4.0	4.0	3.9	3.8
Produced and shipped wind turbines (MW)	3,969	3,758	2,441	2,938
Deliveries (MW)	2,236	3,140	3,569	4,383
- of which onshore	2,123	3,053	3,187	4,077
- of which offshore	113	87	382	306

1 The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios).
2 The ratio of net interest-bearing debt/EBITDA cannot be calculated as at 31 December 2022 as the EBITDA is negative..

Financial highlights[1,2]

mEUR	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Income statement				
Revenue	**1,962**	**3,536**	**5,538**	**4,551**
- of which onshore wind turbines	1,346	2,195	3,730	3,494
- of which offshore wind turbines	92	719	1,191	336
- of which Service	524	622	617	721
Gross profit	189	375	599	393
Operating profit before financial income and costs, depreciation and amortisation (EBITDA) before special items	128	313	557	343
Operating profit (EBIT) before special items	(78)	94	318	94
Operating profit (EBIT) after special items	(78)	94	199	74
Profit before tax	(84)	115	163	30
Profit for the period	(64)	83	116	8
Balance sheet				
Net working capital	(380)	(616)	(526)	(1,049)
Cash flow statement				
Cash flow from operating activities	(754)	352	513	845
Cash flow from investing activities before acquisitions of subsidiaries and financial investments	(144)	(169)	(213)	(247)
Free cash flow before acquisitions of subsidiaries and financial investments	(898)	183	300	598
Free cash flow	(1,090)	166	385	596

Financial ratios[1,2]

mEUR	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Gross margin (%)	9.7	10.6	10.8	8.6
EBITDA margin (%) before special items	6.5	8.9	10.1	7.5
EBIT margin (%) before special items	(3.9)	2.7	5.7	2.1
EBIT margin (%)	(3.9)	2.7	3.6	1.6
Net interest-bearing debt / EBITDA before special items	(0.3)	(0.2)	(0.5)	(0.9)

Operational key figures

	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Order intake (bnEUR)	1.6	4.5	3.0	2.5
- of which onshore	1.6	3.6	3.0	2.5
- of which offshore	-	0.9	-	-
Order intake (MW)	2,016	5,290	3,727	2,863
- of which onshore	2,016	4,557	3,727	2,863
- of which offshore	-	733	-	-
Order backlog – wind turbines (bnEUR)	19.4	21.2	19.3	18.1
- of which onshore	15.5	17.0	16.3	15.4
- of which offshore	3.9	4.2	3.0	2.7
Order backlog – service (bnEUR)	25.3	26.9	28.0	27.8
- of which onshore	21.8	23.2	24.1	24.2[3]
- of which offshore	3.5	3.7	3.9	3.6[3]
Produced and shipped wind turbines (MW)	4,530	5,775	3,945	3,595
Deliveries (MW)	1,925	3,767	6,020	4,882
- of which onshore	1,839	3,178	5,048	4,522
- of which offshore	86	589	972	360

1 Figures have been adjusted following the accounting policy change for configuration and customisation cost in cloud computing arrangements, refer to note 7.2, page 126.
2 The ratios have been calculated in accordance with the guidelines from "Finansforeningen" (The Danish Finance Society) (Recommendations and Financial ratios).
3 The number disclosed in the 2021 annual report for the Service order backlog has been corrected from EUR 29.2bn to EUR 27.8m

Overview of deliveries

MW	2022	2021
Finland	1,185	838
France	1,002	668
Poland	957	739
Germany	818	598
United Kingdom	790	2,129
Netherlands	578	388
Sweden	480	679
Italy	256	321
Greece	215	40
Austria	213	91
Ireland	178	0
Spain	156	76
Ukraine	114	-
Belgium	123	90
Denmark	95	235
Turkey	89	88
Egypt	82	24
Latvia	59	
Portugal	46	97
Faroe Islands	14	11
Russian Fed.	13	473
South Africa	4	330
Norway	-	413
Saudi Arabia	-	245
Jordan	-	38
EMEA	**7,467**	**8,611**
- hereof offshore	700	2,007

MW	2022	2021
USA	2,275	3,065
Brazil	1,528	1,892
Canada	325	151
Colombia	142	41
Chile	128	314
Argentina	80	-
Dominican Rep.	29	-
Mexico	7	200
Puerto Rico	6	11
Bolivia	-	39
Panama	-	25
El Salvador	-	9
Americas	**4,520**	**5,747**
- hereof offshore	0	0
Japan	399	170
Austrlia	376	389
Vietnam	179	1,132
India	162	157
Taiwan	126	35
China	54	319
South Korea	23	1
New Zealand	22	30
Sri Lanka	0	3
Asia Pacific	**1,341**	**2,236**
- hereof offshore	188	0
Total	**13,328**	**16,594**
- hereof offshore	888	2,007

Since 2011, three V112-3.0 MW™ turbines with a height of 140 metres have delivered electricity and heating to all citizens of Hvide Sande, Denmark.

Definition of terms

Average Selling Price (ASP)
The value of the order intake (order intake in mEUR) divided by the capacity (order intake in MW).

Capital Employed
Capital Employed is the carrying value/sum of total equity and interest-bearing debt.

Deliveries
The capacity of wind turbines delivered during the reporting period. The capacity is considered delivered and is deducted from the wind turbine order backlog when the related revenue is recognised. Deliveries on EPC/turnkey and non-standard Supply-and-installation projects are included and deducted from the order backlog over time, based on the percentage of completion.

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

EBIT margin
Operating profit as a percentage of revenue.

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

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

Engineering, Procurement and Construction (EPC) project
Within the Power Solutions segment, Vestas differentiates between three main types of wind power projects: Supply-only, Supply-and-installation, and Engineering, Procurement and Construction (EPC). EPC or turnkey projects, are projects where Vestas supplies the wind turbines, takes care of the installation, and finally also handles commissioning.

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

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

Gross margin
Gross profit/loss as a percentage of revenue.

IFRS
International Financial Reporting Standards.

IAS
International Accounting Standards .

IASB
International Accounting Standards Board.

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

Investments
Same as 'Cash flow from investing activities'.

iXBRL
iXBRL tags (or Inline XBRL tags) are hidden meta-information embedded in the source code of an XHTML document in accordance with the Inline XBRL 1.1 specification, which enables the conversion of XHTML-formatted information into a machine-readable XBRL data record by appropriate software.

Management's Review
Management's Review comprises:
- In brief
- Strategy and ambitions
- Business progress
- Governance
- Additional information

Net interest-bearing debt
Net interest-bearing debt is the sum of cash and cash equivalents and financial investments less financial debts.

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

Net working capital (NWC)
Inventories, trade and other receivables, contract assets, contract cost, less trade and other payables and contract liabilities.

Order backlog (EUR)
The value of future deliveries and services under firm and unconditional orders. The value of the order backlog is measured as the expected revenue to be recognised in the future, related to performance obligations that are unfulfilled or partially unfulfilled at the end of the period.

Order backlog (MW)
The capacity of future turbine deliveries measured as the total capacity of turbines to be delivered under firm and unconditional orders less deliveries made at the end of the period.

Order intake
Orders that have become firm and unconditional during the period and adjustments to existing contracts measured as either value (EUR) or capacity (MW) .

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

Reporting segments
In a reporting context, we distinguish between the Power Solutions and Service segments. In this context, Power Solutions covers revenue derived from the three business areas Onshore wind, Offshore wind, and Development.

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

Return on equity
Profit/loss after tax for the year divided by average equity.

Solvency ratio
Equity at year-end divided by total assets.

Supply-and-installation
In Supply-and-installation projects, Vestas supplies the wind turbines and takes care of the construction of the wind park.

Supply-only projects
When selling a Supply-only project, Vestas delivers the wind turbines at site.

TCFD reporting overview

We are taking a step-wise approach to incorporate climate-related disclosures as per the Task Force on Climate-Related Financial Dislosures (TCFD) recommendations into our reporting. Below an overview of the 11 TCFD recommendations and where to find our 2022 disclosures regarding the topic in question.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

TCFD Recommended Disclosures	Our reporting
Describe the board's oversight of climate-related risks and opportunities.	– CDP[1], Climate questionnaire 2022, section C2
Describe management's role in assessing and managing climate related risks and opportunities	– Annual Report 2022, Risk management, pages 50-51 – CDP, Climate questionnaire 2022, section C2

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

TCFD Recommended Disclosures	Our reporting
Describe the climate related risks and opportunities the organisation has identified over the short, medium, and long term.	– Annual Report 2022, Strategy and ambitions, pages 18-25 and Risk Management, page 51 – CDP, Climate questionnaire 2022, section C3
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	– Annual Report 2022, Strategy and ambitions, pages 18-25 and Risk Management, page 51 – CDP, Climate questionnaire 2022, section C3
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	– CDP, Climate questionnaire 2022, section C3

Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

TCFD Recommended Disclosures	Our reporting
Describe the organisation's processes for identifying and assessing climate related risks.	– Annual Report 2022, Risk management, pages 50-52 – CDP, Climate questionnaire 2022, section C3
Describe the organisation's processes for managing climate-related risks.	– Annual Report 2022, Risk management, pages 50-52 – CDP, Climate questionnaire 2022, sections C1 and C2
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	– Annual Report 2022, Risk management, pages 50-52 – CDP, Climate questionnaire 2022, section C1 and C2

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

TCFD Recommended Disclosures	Our reporting
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	– Annual Report 2022, Sustainability highlights, page 8 – Sustainability Report 2022, pages 8-10, and 27-30
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	– Annual Report 2022, Sustainability highlights, page 8 – Sustainability Report 2022, pages 28-30 and 76-77 – CDP, Climate questionnaire 2022, sections C2 and C4
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	– Annual Report 2022, Sustainability highlights, page 8 – Sustainability Report 2022, pages 28-30 and 76-77

1 The Carbon Disclosure Project, Climate Change Questionnaire 2022, available on our corporate website.

Notes to Sustainability key figures

Basis for preparation of the statement

General reporting approach
The below description of accounting policies refers to the environmental, social, and governance indicators presented on page 14.

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

Defining materiality
Vestas performs its materiality assessment based on an analysis of significant economic, environmental and social impacts of the company's activities. The analysis is based on internal priorities as well as experience from dialogue with and direct involvement of customers, investors, policy makers, employees, and media. The result of the analysis is incorporated in the Vestas Sustainability Report, which is published on an annual basis.

Environmental

Vestas' environmental key figures encompass the Vestas Group in an operational control perspective (including owned and leased entities) ensuring a comprehensive and accurate statement of these figures. This approach applies to all environmental indicators that are reported for the accounting period, based on data registered locally in the Vestas reporting system, consolidated on Group level.

Utilisation of resources

Consumption of energy (GWh)
This indicator includes electricity, gas, oil, biomass, LPG, diesel, gasoline, marine gas oil and district heating. Energy is reported based on quantities consumed, including cars owned and leased by Vestas, employee benefit cars, and fuel for transportation on project sites, production equipment, and machinery. Consumption of electricity comprises electricity purchased externally. Oil for heating is based on external purchases and met re readings at the end of the reporting period.

Renewable energy (%)
Electricity from renewable energy sources is calculated on the basis of supplier statements.

Renewable electricity for own activities (%)
Electricity from renewable energy sources is calculated on the basis of supplier statements. Only 100 percent renewable electricity is counted as renewable electricity.

Withdrawal of fresh water (1,000 m3)
The withdrawal of water is measured by withdrawal of fresh water based on supplier statements and metre readings.

Waste

Volume of waste from own operations (1,000 tonnes) and - of which collected for recycling (1,000 tonnes)
Volume of waste is based on weight. Waste disposal method is based on supplier statements.

Recyclability rate of hub and blade (%)
Recyclability rate of hub and blade is calculated as the recyclable share of the total rotor (i.e. hub and blade) mass. The measure is based on the material composition of all turbine types that were produced and shipped in the reporting year. Recyclability rates of different materials and component types are quantified and estimated based on information from life cycle assessment (LCA) reports.

Material efficiency (tonnes of waste excl. recycled materials per MW produced and shipped)
Material efficiency is defined as the total tonnes of non-recycled waste materials from Vestas' own manufacturing per MW capacity produced and shipped during the reporting period. Non-recycled waste materials include those that are incinerated or landfilled.

CO_2e emissions
Carbon emissions are measured using the carbon dioxide equivalent (CO_2e) to include all relevant greenhouse gasses according to the Greenhouse Gas Protocol. A distinction is made between scope 1, 2, and 3 emissions, as also defined by the Greenhouse Gas Protocol.

Direct emissions of CO_2e (scope 1) (1,000 t)
Scope 1: Direct emissions of CO_2e are calculated based on determined amounts of fuel for own transport and the direct consumption of fossil-based fuels (e.g., oil and gas), with the usage of standard factors published by the UK Department for Business, Energy & Industrial Strategy (BEIS) (2022).

Indirect emissions of CO_2e (scope 2) (1,000 t)
Scope 2: Covers emissions released in connection with the consumption of purchased electricity and heat. Indirect market-based emissions of CO_2e from consumption of electricity are calculated using national grid emission factors published by the International Energy Agency (2022). Indirect CO_2e emissions from district heating are calculated using BEIS (2022) emission factors.

Indirect emissions of CO_2e from the supply chain (scope 3) (million t)
Scope 3: Indirect emissions of CO_2e from the value chain are reported based on the Greenhouse Gas Protocol. Scope 3 categories 8, 9, 10, 11, 13 and 15 are immaterial for Vestas and category 14 is not applicable.

Wind plant: The largest part of the emissions is in category 1 'Purchased goods and services', emissions from materials going into products are calculated based on LCAs following ISO 14040 & 14044, publicly available at vestas.com. The CO_2e emissions of different materials and component types are based on the total quantity of annual produced and shipped turbines and the material composition of the individual turbine types as stated in the LCA reports. Based on this, the global material mass balance is calculated for all materials consumed during the production and CO_2e emissions are calculated using GaBi (2022) emission factors per material group for raw materials used in production and manufacturing processes. The actual steel mass for all produced and shipped turbines is used to calculate global CO_2e emissions for the raw material production of steel and for foundation materials. The CO_2e emissions from concrete and steel used in foundations is based on the same LCA reports as the remaining material groups.

Construction: The CO_2e emissions emitted during the construction of a wind farm is estimated based on the quantity of diesel-fuel consumed per wind turbine produced and shipped in markets in which Vestas is responsible for installing the wind turbine. LCA studies for the diesel combustion per turbine installation and respective BEIS emission factors (2022) are applied.

Service: CO_2e emissions from service operations are estimated using the quantity of spare parts that are replaced and repaired in the reporting year, as well as expected repair and replacement levels. GaBi (2022) emission factors for the raw materials are applied to estimate global CO_2e emissions.

Capital goods: Other purchased goods and services and capital goods (category 2) and waste generated in operations (category 5) are estimated based on spend data using BEIS factors for Indirect emissions from the supply chain (2011). Fuel- and energy-related activities are calculated using BEIS factors for emissions related to the production of fuel and NREL factors for renewable energy.

Transportation: Emissions from upstream transportation (category 4) are based on supplier information and estimated based on the LCA reports for weight and distance of components transported and BEIS (2022) carbon emissions factors. Business travel (category 6) emissions for air flights are activity-based data provided by the travel agency used for all bookings. Employee commuting (category 7) is reported on daily commute by car, which is estimated based on the average number of FTEs and a selected sample of commuting distance. It applies standard factors published by the BEIS (2022).

End-of-life treatment: of sold products (category 12) is estimated based on material composition of all produced and shipped wind turbines in the reporting year. For materials that are not recyclable, an average GaBi (2022) emission factor for inert landfill is applied.

Indirect emissions of CO_2e from the supply chain (scope 3) (kg CO_2e per MWh generated)

The amount of MWh generated is based on the number and type of wind turbines produced and shipped in the financial year along with values for wind turbine capacity factor and site-specific lifetime. In relation to the target to reduce carbon emissions in the value chain, indirect emissions of CO_2e from the value chain per MWh generated include 70 percent of the scope 3 emissions.

Products

CO_2e avoided is to be understood as the volume of emissions avoided by using the wind turbines as an electricity source, compared to the latest updated IEA World average level of CO_2e impact involved in electricity generation.

Expected CO_2e avoided over the lifetime of the capacity produced and shipped during the period (million tonnes)

This is based on total wind turbines (MW) produced and shipped during the reporting period. A weighted average capacity factor was applied in 2022, based on actual hourly performance data from the wind turbine types produced and shipped in the reporting year. Vestas applies an expected lifetime based on site-specific agreed lifetimes where this differs from the standard design lifetime. The avoided CO_2e is based on the latest updated standard factor of global average carbon emissions for electricity from the International Energy Agency (2022).

Annual CO_2e avoided by the total aggregated installed fleet (million tonnes)

Annual CO_2e avoided by the total aggregated installed fleet is calculated based on total annual installed capacity and global average CO_2e emissions avoided in one year of operation. Vestas applies a fleet average capacity factor in 2022. The avoided CO_2e is based on the latest updated standard factor of global average carbon emissions for electricity from the International Energy Agency (2022).

Social

Safety

Total Recordable Injuries (number)

The total recordable injuries (TRI) include fatalities, lost time incidents, restricted work injuries and medical treatment injuries.

TRI includes injuries for employees and externally employed workers under Vestas' supervision. Supervision of an external worker is day-to-day working directions.

'Of which Lost Time injuries': The lost time injuries are based on incidents reported in Vestas ´ reporting system, with more than one day of absence from work, including externally employed workers under Vestas' supervision.

'Of which fatal injuries': The fatal injuries are based on incidents reported in Vestas' reporting system, including externally employed workers under Vestas ´ supervision.

Total Recordable Injuries per million working hours (number)

Total Recordable Injury Rate (TRIR) represents all injuries reported in the Vestas reporting system per one million working hours, including externally employed workers under Vestas' supervision.

Lost Time Injuries per million working hours (number)

Lost Time Injuries are injuries that have caused at least one workday of absence after the day of the injury per one million working hours. The Lost Time Injury Rate (LTIR) represents all Lost Time injuries reported per one million working hours. The number of working hours and external supervised workers are registered and measured on the same basis as the Total Recordable Injuries. The LTIR includes fatalities.

The number of working hours is measured on the basis of hours registered in the system for hourly-paid employees, and prescribed working hours for salaried employees excluding e.g. holidays, absence due to illness and maternity leave.

Employees

Average number of employees (FTEs)

The average number of employees is calculated as the twelve-month average number of full-time equivalents (FTEs). The employees included are under Vestas' financial control (i.e. have standard and temporary contracts directly with Vestas).

Employees at the end of the period (FTEs)

Employees at the end of the period are calculated based on total full-time equivalents (FTE). The employees included are under Vestas' financial control (i.e. have standard and temporary contracts directly with Vestas).

Diversity and inclusion

The share of women in the Board, the Executive management team and leadership positions are calculated based on headcounts at the end of the reporting period. Headcount is based on number of individuals employed , irrespective of contract (full-time/part-time).

Women in the Board and Executive Management team at the end of the period (%)

Women in the Board and Executive Management team is the share of women among the members of the Board who are elected by the Annual General Meeting and the share of women among the members of the Executive Management combined.

Women in leadership positions at the end of the period (%)

The share of women in leadership positions is calculated based on headcounts at the end of the reporting period. The parameter is calculated based on the number of women in leadership positions divided by the total number of leadership positions. Employee information is from the company's ordinary registration systems with specification of gender and management level. Leadership positions comprise managers, specialists, project managers, and above.

Human rights

Community grievances (number)

The number of community grievances is calculated based on incidents registered in the reporting system. The measure "Community grievances" covers the total number of community complaints registered in the reporting system in the reporting year. Vestas registers and handles community incidents caused by Vestas or its contractors on communities that turn into a grievance, where a "community" is a person or group that is either directly or indirectly affected by Vestas or Vestas' activities. The cases occur in connection with a wind farm project and its associated facilities (e.g. accommodation facilities), a Vestas factory or a Vestas Research and Development Centre.

Community beneficiaries (number)

Community beneficiaries are defined as individuals that have benefitted by participating in Vestas' community development initiatives intended to upgrade skills or by receiving financial or equivalent aid.

These initiatives are implemented during the reporting period in connection to a wind farm project and associated facilities, a Vestas factory, or Vestas Research and Development Centre.

Community development initiatives are identified in collaboration with local stakeholders, such as local authorities and members of the local community to ensure that the initiatives meet local needs. This indicator only includes defined community members that benefit directly. It does not include

Vestas employees or community members in cases where the number of beneficiaries is undefined e.g. installation of solar cells on a village health clinic. Where the beneficiary is a household, Vestas calculates the total beneficiaries based on the average number of individuals per household defined by the UN Department of Economic and Social Affairs (UN 2017).

Social Due Diligence on projects in scope (%)
This measures the share of wind power projects, materialised as firm orders, that have been subject to social due diligence (SDD) processes in the reporting period. Wind farm projects in scope for SDD are: 1) Engineering, Procurement and Construction (EPC) projects in emerging markets.; 2) all Supply-and-installation projects of 100 MW or above in emerging markets; and 3) projects in OECD countries with a risk rating of 'Extreme' or 'High' according to the Verisk Maplecroft's "Indigenous People" risk index on risks related to indigenous people's lands, territories or livelihoods under threat. In this context, 'Emerging markets' are defined as non-OECD, high-income countries, as defined by the World Bank classifications. SDD procedures include: 1) a high-level country assessment; 2) 'Know Your Customer' assessment; and 3) an in-depth project assessment on social matters.

Governance

Whistle-blower system
EthicsLine cases (number)
All whistleblower cases reported to the EthicsLine whistleblower hotline are investigated by the EthicsLine function supported by the relevant Ethics Committee, with the purpose of identifying whether a violation of the Code of Conduct has taken place.

Of which substantiated (number) or unsubstantiated (number): Upon the completion of the investigation, cases are classified as either substantiated or unsubstantiated. At the end of the reporting year, the variance between the total number of reported cases and the combined total of substantiated and unsubstantiated cases are calculated to identify the number of open cases still under investigation. These are expected to be assessed during the following reporting year, and included in the number of substantiated or unsubstantiated cases in the reporting year when the case is closed.

Disclaimer and cautionary statement

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

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

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

Want to read more?

Find the full reporting
for 2022 at vestas.com

Our Sustainability Report
Mandatory annual statutory sustainability reporting in accordance with the Danish Financial Statements Act on 99a, 99b,107d and the E.U. Sustainable Finance Taxonomy can be found in our Sustainability Report 2022.

Our Corporate Governance Report
Prepared in accordance with section 107b of the Danish Financial Statements Act. Describes our compliance with the Danish Committee on Corporate Governance recommendations.

Our Remuneration Report
Prepared in accordance with the EU Shareholder Rights Directive II and contains a transparent and comprehensive overview of the remuneration of our Board and our Executive Management.

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