MHI Vestas Offshore Wind A/S

Dusager 4, DK-8200 Aarhus N

CVR no. 27 91 80 42

Annual report 2018/19

Approved at the Company's annual general meeting on 6 June 2019

Chairman:

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Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of MHI Vestas Offshore Wind A/S for the financial year 1 April 2018 - 31 March 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's financial position at 31 March 2019 and of the results of the Group's and the Company's operations and consolidated cash flows for the financial year 1 April 2018 - 31 March 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 29 May 2019
Executive Board:

Philippe Kavafyan CEO	Lars Bondo Krogsgaard	Tatsuichiro Honda

Board of Directors:

Anders Erik Runevad Chairman	Michisuke Nayama Deputy Chairman	Anders Jakob Vedel
Yoshiyuki Hanasawa	Masayuki Fujisawa	Juan Araluce Martinez de Azagra

Independent auditor's report

To the shareholders of MHI Vestas Offshore Wind A/S

Opinion

We have audited the financial statements of MHI Vestas Offshore Wind A/S for the financial year 1 April 2018 - 31 March 2019, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 March 2019 and of the results of the Company's operations and cash flows for the financial year 1 April 2018 - 31 March 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of 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 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 in preparing the financial statements unless Management either intends to liquidate the 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 as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and 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.

Independent auditor's report

- 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 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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 29 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jens Weiersøe Jakobsen State Authorised Public Accountant mne30152	Michael Dahl Christiansen State Authorised Public Accountant mne34515

Management's review

Company details

Name Address	MHI Vestas Offshore Wind A/S Dusager 4, DK-8200 Aarhus N
CVR no.	27 91 80 42
Financial year	1 April - 31 March
Website E-mail	www.mhivestasoffshore.com contact@mhivestasoffshore.com
Telephone	+45 88 44 89 00
Board of Directors	Anders Erik Runevad, Chairman Michisuke Nayama, Deputy Chairman Anders Jakob Vedel Yoshiyuki Hanasawa Masayuki Fujisawa Juan Araluce Martinez de Azagra
Executive Board	Philippe Kavafyan Lars Bondo Krogsgaard Tatsuichiro Honda
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Vaerkmestergade 25, DK-8000 Aarhus C.

Group relationship

The Company is owned 50% by MHI Holding Denmark ApS and 50% by Vestas Wind Systems A/S.

Management's review

Group chart

Parent company

MHI Vestas Offshore Wind A/S
Denmark
Nom. EUR 13,689,676

Subsidiaries

- 100% — MHI Vestas Offshore Wind UK Ltd., United Kingdom, Nom. tGBP 11,500
- 100% — MHI Vestas Offshore Wind The Netherlands B.V., The Netherlands, Nom. tEUR 18
- 100% — MHI Vestas Offshore Wind Bligh Bank Nv, Belgium, Nom. tEUR 62
- 100% — MHI Vestas Offshore Wind Northwind (Belgium) NV, Belgium, Nom. tEUR 1,000
- 100% — MHI Vestas Offshore Wind Sweden AB, Sweden, Nom. tSEK 100
- 100% — MHI Vestas Offshore Wind Germany GmbH, Germany, Nom. tEUR 1,275
- 100% — MHI Vestas Offshore Wind Belgium NV, Belgium, Nom. tEUR 1,000
- 100% — MHI Vestas Offshore Wind Blades UK Ltd, United Kingdom, Nom. tGBP 7,000
- 100% — MVOW Portugal, Unipessoal, Lda., Portugal, Nom. EUR 1
- 100% — MHI Vestas Offshore Wind US, Inc., United States, Nom. USD 100
- 100% — MHI Vestas Offshore Wind Japan Ltd., Japan, Nom. tJPY 25,000
- 100% — MHI Vestas Offshore Wind Taiwan Ltd., Taiwan, Nom. tTWD 500

Management's review

Financial highlights for the Group

EUR'000	2018/19 (12 months)	2017/18 (12 months)	2016/17 (12 months)	2015/16 (12 months)	2014/15 (15 months)
Key figures					
Revenue	1,299,545	942,155	531,243	535,906	402,664
Gross profit	133,009	20,001	-11,892	30,848	49,595
Profit before financial items and depreciation/amortisation (EBITDA)	112,633	-7,775	-38,558	-981	17,709
Operating profit (EBIT)	20,882	-98,566	-119,453	-46,312	14,217
Profit/loss from financial income and expense	-1,314	1,587	5	2,351	-7,165
Profit for the year	**52,989**	**-98,287**	**-120,525**	**-44,216**	**8,320**
Total assets	1,628,376	1,376,666	1,369,898	840,652	791,539
Investments in property, plant and equipment	34,676	60,615	54,259	48,198	17,938
Equity	**168,922**	**195,749**	**313,171**	**436,990**	**415,561**
Cash flows from operating activities	179,635	113,682	113,055	62,187	136,945
Cash flows from investing activities	-78,663	-91,260	-103,554	-141,091	-350,226
Cash flows from financing activities	-20,000	-20,000	40,000	50,000	293,637
Total cash flows	**80,972**	**2,422**	**49,501**	**-28,904**	**80,356**
Financial ratios					
Gross margin	10.2%	2.1%	-2.2%	5.8%	12.3%
EBITDA margin	8.7%	-0.8%	-7.3%	-0.2%	4.4%
EBIT margin	1.6%	-10.5%	-22.5%	-8.6%	3.5%
Return on invested capital	55.5%	-57.5%	-38.7%	-13.3%	7.2%
Solvency ratio	10.4%	14.2%	22.9%	52.0%	52.5%
Return on equity	29.1%	-38.6%	-32.1%	-10.4%	3.3%
Average number of full-time employees	**2,704**	**2,193**	**1,435**	**882**	**444**

For terms and definitions, please see the accounting policies.

Management's review

Operating review

The operating review is structured into the following sections:

Executive summary

- Industry Development
- Global expansion
- Strong order activity
- Manufacturing expansion
- Excellence in installation, operations and service
- Legacy of innovation continues
- The year ahead

Financial performance

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- Balance sheet
- Cash flow
- Subsequent events

Risk management

- New markets
- Brexit
- Ensuring V164 manufacturing capability

Statutory corporate social responsibility and diversity statement

- Company Profile
- Governance Structure
- Sustainable Development Goals
- Sustainable Working Life
- 5 Safety Principles
- Sustainable Innovation
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Management's review

Operating review

Executive summary

Following a concerted effort, MHI Vestas successfully moved into a profitable position in the 2018/19 fiscal year, solidifying its place as a market leader in the offshore wind industry.

MHI Vestas continued to secure orders in core markets, including two landmark floating offshore wind projects, as well as establishing a presence in new markets. Notably, the company also launched the industry's first commercially available 10 MW wind turbine in September 2018, the V164-10.0 MW.

The industry's entrance into new markets, such as Taiwan and the US, is delivering progressive localisation efforts, competitive pricing, and early-stage activity for initial projects.

MHI Vestas was well-positioned at the forefront of this expansion with the award of three preferred supplier agreements in Taiwan totalling 900 MW. The company was also named as preferred supplier for the US market's first industrial scale offshore wind project, Vineyard Wind in Massachusetts, totalling 800 MW. To support these new markets, MHI Vestas announced new offices in Taipei and Boston.

Technological innovation continued to be a hallmark for the company throughout 2018/19. The V164-9.5 MW turbine achieved final type certification, the V174 rotor extension was introduced, and the company announced a pioneering portfolio of smart technologies, providing customers with a digital platform for unprecedented real-time monitoring, visibility, and control.

With strong order backlog of the V164 platform, MHI Vestas took major steps to ramp up manufacturing, including doubling the capacity of the Isle of Wight blade facility in the UK and increasing nacelle production from its factory in Lindoe, Denmark.

In 2019/20, MHI Vestas will continue profitability measures, secure and advance projects in both core and emerging markets, including the UK, Germany, Belgium, Taiwan, the US and Japan, and focus on quality, health, and safety throughout the company.

Industry Development

2018 was a pivotal year for the global offshore wind sector. The UK installed and connected 1.3 GW of offshore wind capacity, Germany 0.9 GW and China 1.8GW, according to the Global Wind Energy Council (GWEC).

In total, 4.5 GW of offshore wind was installed in 2018, bringing global installed capacity to 23.1 GW. Offshore wind now accounts for approximately 8% of all wind installations, its share more than doubling in the past five years alone.

The historic rise of offshore wind comes as a result of transparent volume targets and effective policy frameworks, proven technology and operational experience across the supply chain, and accelerating innovation in the sector.

APAC

Perhaps the most notable development for the sector in 2018 was the expansion into new markets beyond Europe. Taiwan staked out an early lead with a progressive auction plan and localisation framework geared to support 5.5 GW of offshore wind installed by 2025. Supply chain investments and projects are progressing as Taiwan seeks to capitalize on excellent offshore wind resources.

Japan made great strides toward offshore wind in 2018 through the passing of legislation which gives the Japanese government the mandate to define areas for development and subsequent competitive auctions. The timely law comes as Japan seeks to shore up an expected shortfall in power generation leading up to 2030.

The 3.4 GW Ke Ga project in Vietnam kickstarted the country's move into offshore wind. The project is slated to be installed in 600 MW allotments with the first of these project targeted for 2022.

Management's review

Operating review

AMERICAS

The combined volume targets of Massachusetts, New York, and New Jersey have now reached 16 GW by 2035, with the other eastern seaboard states' planned capacity pushing the total to over 19 GW. California has also begun to study its substantial floating offshore wind potential, all in all leading to a substantial advancement of the US offshore in 2018.

Vineyard Wind, the first industrial-scale offshore wind project in the US, selected MHI Vestas as preferred turbine supplier. The historic project, located in Massachusetts, is planned for construction in 2021.

EUROPE

In core Northern European markets, increased volume visibility and competitive auctions are laying the groundwork for continued cost reduction and accelerated growth over the next decade. Industry analysts expect core European markets to add 3-4 GW per year as first-mover countries such as the UK, Germany, Denmark, the Netherlands, and Belgium are experiencing offshore wind as a competitive, zero-carbon solution that can be deployed at scale and in relatively short time frames.

Two offshore wind auctions were executed in core European markets, namely Germany's second offshore auction and the other in the Netherlands, where costs continue to fall. At the time of publication, there are several other countries with auctions still pending, namely France, the Netherlands and the UK CfD auction round three.

According to WindEurope, 12 new offshore wind projects reached Financial Investment Decision (FID) in 2018, totalling 4.2 GW of additional capacity. 15 wind farms across Europe were completed (grid-connected). MHI Vestas held an installed-capacity market share of 24% at the end of 2018, having installed 150 turbines during the year, or 33% of all European installations for the year.

2018 proved to be another milestone year in the UK as offshore wind secured a coveted Sector Deal with the UK government, providing the industry with context and ambition - a bold vision to guide the next 10 years of industry development and a blueprint to achieve the offshore wind target of 30 GW by 2030.

Germany is currently considering a substantial increase in its 2030 volume target, France has declared 6 GW of offshore wind ambition by 2028, Belgium has raised its target to 4 GW by 2030, and Denmark has proposed the construction of three wind farms totalling 2.4 GW by 2030. Additionally, new European offshore markets like Poland announced that it has set its sights on 2.2 GW of offshore wind installations by 2024 to capitalize on exceptional wind resource in the Polish Baltic Sea.

As we have seen over the past several years, all major Original Equipment Manufacturers (OEMs) announced a planned increase in the capacity of their wind turbines, including, among others, the V164-10.0 MW and V174-9.5 MW from MHI Vestas.

Beyond turbine innovation and increased power output, the industry's floating offshore wind ambition took major steps forward in 2018 with two projects reaching Final Investment Decision (FID) - Windfloat Atlantic (25 MW) in Portugal and Kincardine (50 MW) in Scotland. Both projects will feature the V164 turbine platform from MHI Vestas, which, once installed, will be the largest turbine variant installed on a floating platform.

The activities across the sector in 2018 demonstrate that offshore wind is now on the agenda of governments around the world. The drastic cost reduction, combined with accelerating innovation and operational efficiencies, has galvanized the sector's status as a reliable, industrial-scale, clean energy solution.

Management's review

Operating review

Global expansion

As offshore wind took root in Taiwan and the US, MHI Vestas proved to be an early-mover.

Firming up localisation plans through a series of industrial agreements, the company signalled its commitment to the Taiwanese offshore wind market and to the advancement of its preferred supplier agreements for 900 MW of installed capacity.

MHI Vestas borrows on the the rich heritage of wind power expertise from Vestas in the region and decades of energy infrastructure experience from MHI in Taiwan as it ramps up operations. In October 2018, the company announced a new legal entity to be based in Taipei, MHI Vestas Offshore Wind Taiwan, Ltd.

The US market quickened its pace through the course of the year as Massachusetts (3.2 GW), New York (9 GW), and New Jersey (3.5 GW) set bold targets almost totalling 16 GW of offshore wind deployment up to 2035.

MHI Vestas announced a new office opening in Boston, buoyed by the company's selection as preferred wind turbine supplier for the country's first large-scale offshore wind farm, the 800 MW Vineyard Wind project in Massachusetts.

As new markets beyond Taiwan and the US advanced toward offshore wind, MHI Vestas signalled strong global ambitions when it joined the Global Wind Energy Council (GWEC) in August 2018. The company now sits on GWEC's Board of Directors and is playing an active role in the trade body's work to open up new markets for offshore wind around the world.

Strong order activity

MHI Vestas signed eight firm and unconditional orders in 2018/19 totaling 2,871.5 MW of installed capacity:

- Borssele 3 & 4 (NL) - 731.5 MW
- Deutsche Bucht Demonstration Project (DE) - 17 MW
- Triton Knoll (UK) - 860 MW
- WindFloat Atlantic Floating Offshore Wind Project (PT) - 25 MW
- Northwester 2 (BE) - 219 MW
- Moray East (UK) - 950 MW
- Borssele 5 Innovation Project (NL) - 19 MW
- Kincardine Floating Offshore Wind Project (UK) - 50 MW.

Further securing its order backlog, the company was also named as preferred turbine supplier for two projects totaling 1,276 MW:

- Vineyard Wind (US) - 800 MW
- Baltic Eagle (DE) - 476 MW.

Management's review

Operating review

Manufacturing expansion

Expansion efforts that begun in 2017/18 accelerated dramatically in 2018/19 to meet surging demand for the V164 platform. In the UK, MHI Vestas invested in the expansion of the Isle of Wight blade factory, adding 380 new direct jobs with more than 700 indirect and induced jobs coming to the region. The addition of the new blade mould in November 2018 and subsequent expansion at the paint and logistics facility in nearby Fawley broadens the company's manufacturing centre in the Solent Region of the UK.

In addition to the significant ramp-up in the UK, the company also expanded its footprint at the Lindoe nacelle factory in Denmark, hiring 50 new employees and implementing new testing schemes designed to increase the rate of production and improve the quality of the assembled nacelle. The company also added 10,000 square metres of factory space and 27,000 square metres of storage space for completed nacelles, effectively doubling the physical footprint.

Over the past year, MHI Vestas manufacturing facilities played host to a number of VIP's including a large delegation of Danish ambassadors and numerous high-level delegations from, among others countries, Japan, Taiwan, USA, and Poland. As offshore wind is proving itself to be an affordable and reliable source of clean power generation, visitors are keen to see how the allied supply chain can help to advance their own industrial plans.

Excellence in installation, operations and service

Marking the first major operational milestone for the V164 platform, MHI Vestas installed the 100th V164 wind turbine at Borkum Riffgrund 2 in Germany in May 2018 on its way to completing the project in partnership with Ørsted. The project was the first in German waters for MHI Vestas.

The company also completed the installation of the 406 MW Horns Reef 3 in Denmark in January 2019, installing 49 V164-8.3 MW turbines in partnership with Vattenfall.

Continuing the company's strong track record in Belgium, MHI Vestas began construction of Norther in February 2019, its fourth project in the country. Owing to strong market demand and bankability of the V164 platform, the 200th V164 installation milestone was achieved during construction of Norther in February 2019. Project construction was still underway at the close of the fiscal year.

Throughout 2018/19, MHI Vestas installation and commissioning teams optimized installation times with a particular emphasis on quality and safety. The result is that today, the company can install an 8 MW turbine in a shorter amount of time than it took to install a 3 MW turbine only a few years ago, marking an exceptional improvement in installation efficiency.

2018/19 also saw an extremely low level of Lost Production Factor (3.63) across the entire fleet of wind turbines serviced by MHI Vestas, including projects involving the V164 platform.

MHI Vestas has installed 1,148 wind turbines across 31 projects with over 3.6 GW currently under service, maintaining an exceptional safety track record at service sites.

Legacy of innovation continues

MHI Vestas continued to push technological boundaries throughout 2018/19, first with the announcement of the MVOW SMART Turbine product portfolio - a suite of smart technologies that enhance design assessments, turbine monitoring, and real-time decision-making.

The unveiling of the digital portfolio in April 2018 marked the company's commitment to lead the industry in the operational performance of the wind turbine. From faster real-time data to hand-held wind farm performance monitoring, the digital portfolio signals MHI Vestas' drive to optimise a customer's business case.

MHI Vestas celebrated another milestone for its flagship V164 turbine platform as the 9.5 MW model received its S-class type certificate in June 2018, only one year after announcing the turbine to the market. The final type certification provides MHI Vestas customers with the certainty and assurance that the 9.5 MW turbine will deliver on its promise.

Management's review

Operating review

The company pushed the boundaries of offshore wind once again in September 2018 when it announced the first double-digit wind turbine to be made commercially available. Upon launching the V164-10.0 MW, MHI Vestas has been able to leverage technological learnings and incremental innovations to push nominal power output from 8 MW to 10 MW, drawing on proven technology and providing a level of certainty and reliability for customers from day one.

The year ahead

Following on the company's move into a profit position in fiscal year 2018/19, 2019/20 is set to be a pivotal year for MHI Vestas.

As the new CEO team moves into its second year of optimising operations and putting down roots in new markets while consolidating its position in core markets, the company's strategic focus for 2019/20 will be on:

1. **Leveraging parent company strengths in new markets.** MHI Vestas is committed to creating value in the communities where it has a presence and therefore expects to develop a supply chain to support its entry into new markets, relying on both parent companies' guidance and in-country presence.

2. **Setting the industry standard for safety and quality.** With growing demand and an increasing global footprint - and with large installation projects around the corner - the flawless execution of projects has never been more important. From the quality of components and documentation to the health and safety of every employee, the management team is driven to set the industry standard for safety and quality.

3. **Manufacturing ramp-up excellence.** Meeting the strong demand for the V164 and V174 platforms has meant a significant ramp up at exising facilities in the UK and Denmark, as well as the exploration of industrial plans in Taiwan and the US. Managing this production growth effectively will be a priority focus for the company as large installation projects draw closer.

4. **Technology solutions for a winning future.** With major technology announcements in 2018/19, MHI Vestas has demonstrated its commitment to remain a market leader and will continue to do so in the future. MHI Vestas remains steadfast in its commitment to customers by providing reliable and robust technology based on a platform with a significant track record and service solutions that optimise their business case.

Management's review

Operating review

Financial performance

Income statement

Revenue for the year was realised with EUR 1,300m, which was mainly driven by the wind turbine projects Borkum Riffgrund, Horns Reef, Aberdeen and Norther as well as activity from the service contract portfolio. As expected the revenue increased significantly compared to last year due to high activity in the UK, Germany, Belgium and Denmark.

The project and service activity resulted in a gross profit of EUR 133m with a corresponding gross margin was 10.2% compared to 2.1% last year. This increase in profitability was mainly related to an increased activity in sale of turbines combined with increased profitability in the delivery of supply projects. The service activity also contributed with an increase in revenue of 25% with a corresponding increase in service income.

The expensed research and development costs decreased compared to last year, mainly driven by lower amortisation of the V164 development project due to a re-evaluated expected lifetime. As part of the yearly review of the useful lifetime and amortisation period for the intangible asset related to the V164 platform, the Company extended the amortisation period from eight to ten years. The change in the amortisation period resulted in a lower amortisation for the year of EUR 13m.

The developments above resulted in an Operating profit (EBIT) for the year of EUR 21m, which was in line with expectations. Besides the improvement in EBIT a deferred tax asset of EUR 35m was recognized in the income statement resulting in a profit for the year of EUR 53m.

Balance sheet

The value of the completed V164 development project after further capitalisation and amortisation in the year amounted to EUR 282m at 31 March 2019, which was a decrease of EUR 28m compared to last year.

Property, plant and equipment amounted to EUR 125m compared to EUR 127m last year.

As mentioned above a deferred tax asset of EUR 35m was recognised in the year, as it is expected that it will be utilised in periods in the foreseeable future. An additional deferred tax asset of EUR 20 m hasn't been recognised due to timing uncertainties.

An additional deferred tax asset of EUR 22m related to equity transactions has also been recognised in the balance sheet.

The net working capital amounted to EUR -496m compared to EUR -335m last year. The main drivers for the net working capital were again inventories of EUR 813m and prepayments from customers of EUR 868m, which were both related to on-going wind turbine projects.

The equity ended at EUR 169m compared to EUR 196m last year, corresponding to a solvency ratio of 10%.

Management's review

Operating review

Cash flow

The free cash flow ended at EUR 101m for the year.

Operating cash flow amounted to EUR 180m, which was a significant increase compared to last year. The increase was a result of the improved profitability for the year combined with the development in net working capital.

Cash flow from investment activities were at a continued high level and amounted to EUR 79m compared to EUR 91m last year. The net investment split on intangible assets and property, plant and equipment were EUR 46m and EUR 33m respectively.

After repayment of EUR 20m financial debt the total net cash flows for the year ended at EUR 81m and the cash and cash equivalents were EUR 196m at 31 March 2019.

Subsequent events

No events materially affecting the financial position and thereby assessment of the annual report have occurred after the balance sheet date.

Management's review

Operating review

Risk management

The major and special risks in MHI Vestas Offshore Wind are continuously identified, monitored and managed by the Management Board and the Board of Directors. Mitigating actions are initiated, when appropriate in order to reduce relevant risks to an acceptable level. The major and special risks facing MHI Vestas Offshore Wind are currently:

New markets

Description

MHI Vestas Offshore Wind experiences a high interest in offshore wind energy projects from countries outside Europe, hereunder in countries where there is very limited or no experience within offshore wind energy projects. Consequently, there may be no experienced value chain within the offshore wind industry in such countries and no mature regulatory framework.

Potential impact

Operating in markets with no experienced value chain within the offshore wind industry and no mature regulatory framework means that the likelihood of unforeseen challenges rises and that likewise the likelihood of project delay, cost overrun and ultimately distressed wind power projects may appear.

Mitigation

MHI Vestas Offshore Wind identifies and mitigates the risks of entering into new markets where there is no or limited experience in offshore wind energy projects by applying thorough due diligence- and planning processes prior to entering into such new markets. Further, MHI Vestas Offshore Wind ensures that projects in new markets are subject to focused contractual risk management, advice from skilled local advisors and that experience from the value chain in markets with high experience in offshore wind energy projects are used in new markets, including in relation to logistics, installation and service.

Brexit

Description

If the United Kingdom ("UK") ultimately leaves the European Union without a trade deal in place with the European Union, it may cause time delay due to customs clearance and the application of tariffs on goods that will be imported to - or exported from - the UK. MHI Vestas Offshore Wind has large future projects in the pipeline for installation in the UK for which components will be imported to the UK and further, MHI Vestas Offshore Wind exports blades and components out of the UK for projects to be installed in continental Europe.

Potential impact

The application of tariffs and the time delay for import from or export to the UK poses a risk to MVOW. The tariffs can increase the costs of projects to be installed both in the UK and on continental Europe and potentially lead to cost overrun. The time delay due to customs clearance can mean that projects are installed later than scheduled and MHI Vestas Offshore Wind could be exposed to delay liquidated damages.

Management's review

Operating review

Mitigation

MHI Vestas Offshore Wind has focused on applying contractual risk mitigation due to the risks of negative trade consequences arising from the UK leaving the European Union. This includes that, to the extent possible, the supply and installation agreements of MHI Vestas Offshore Wind includes contractual clauses whereby the exposure to delay liquidated damages have been materially reduced. In addition, MHI Vestas Offshore Wind has analyzed the future supply chain needs in relation to manufacturing and service and has in advance ordered key components and tools and thereby created relevant stock of such components and tools which can be used in case of time delays due to import from or export to the UK.

Ensuring V164 manufacturing capability

Description

The launch of the V164 wind turbine has been successful and our manufacturing facilities are running at high capacity. It is important that our manufacturing facilities and sub-suppliers continue to manufacture and deliver as planned in order to meet the delivery requirements under the turbine supply agreements with our customers.

Potential impact

A material delay in our manufacturing value chain can potentially impact our ability to timely deliver wind turbines and related equipment to our customers under the turbine supply agreements. Such delayed delivery may be subject to payment of delay liquidated damages by MHI Vestas Offshore Wind. Another potential consequence of a material delay in delivery is that the market confidence in MHI Vestas Offshore Wind may be negatively affected.

Mitigation

MHI Vestas Offshore Wind has a strong and continuous focus on ensuring that our manufacturing value chain comply with all time-, quality- and safety requirements. The management is closely following and monitoring the manufacturing performance and compliance with key performance indicators. In addition, MHI Vestas Offshore Wind has a tight focus on ensuring that our sub-suppliers deliver components to us that are fully compliant with all requirements of MHI Vestas Offshore Wind.

Management's review

Operating review

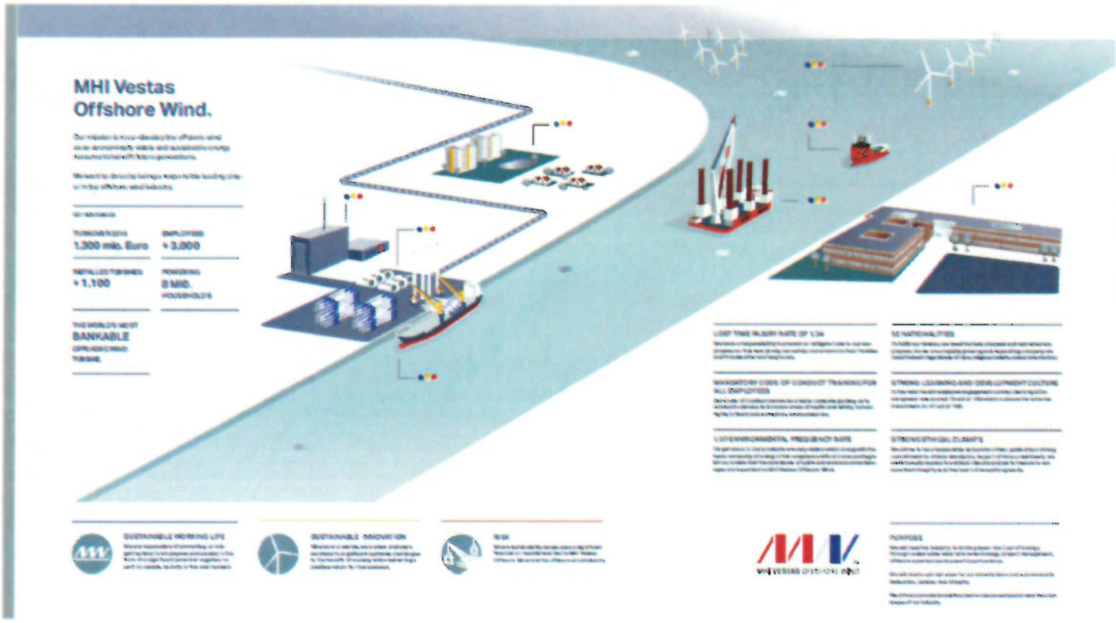
Statutory corporate social responsibility and diversity statement, see section 99a and 99b of the Danish Financial Statements Act

Company profile

The business of MHI Vestas Offshore Wind is to design, manufacture, install and service offshore wind turbines. MHI Vestas Offshore Wind has been an innovative force in the offshore wind industry since its inception in 2014, and the company is guided by its founding principles of collaboration, trust, technology and commitment.

The products and services of MHI Vestas Offshore Wind create sustainable value by driving capital and operating savings and increasing the power output of offshore wind parks. Today, we have the most bankable offshore wind turbine, and an installed fleet of more than 1,100 offshore wind turbines, currently powering more than 8 million households.

The growth in business has been rapid, and the number of employees has grown significantly from 400 in 2014/15 to more than 3,000 in 2018/19.



Materiality

We ensure that our CSR efforts have optimum effect by assessing the areas that are most important to us, our surroundings and our stakeholders.

Due to the significant growth, it is important for us to ensure that we are aware of and react to the changes in the external environment that can influence our business. Therefore, we revised our materiality assessment in 2017/18 based on specific parameters within economic, environmental, ethical and social issues.

Different stakeholder groups were mapped based on stakeholder interest to MHI Vestas Offshore Wind and influence on our business. The materiality assessment reflects the areas creating impact on our business success and playing an important role for our stakeholders.

Management's review

Operating review

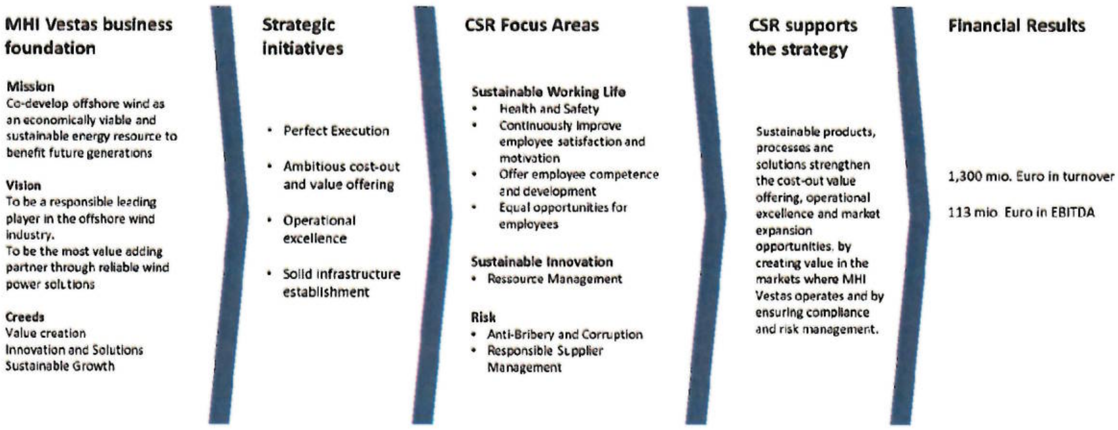
Based on the materiality assessment, the CSR Steering Committee decided to focus on three areas:

- **Sustainable Working Life:** Where we have a responsibility to prevent or mitigate risks to employees and society in the form of a significant potential negative impact on people or society
- **Sustainable Innovation:** Where we through our business have the capacity to pursue and scale solutions to the benefit of society and, at the same time, deliver a positive return for the business
- **Risk Management:** Where CSR issues pose a significant financial or reputational risk to MHI Vestas Offshore Wind and the offshore wind industry

CSR is embedded in the business model

As a renewable energy industry, sustainability expectations are rightfully high. In tackling climate change, we should make sure we are not creating new problems to face.

Our mission, vision and values constitute our business foundation, which is implemented as four strategic initiatives. The CSR action area is divided into a further seven CSR focus areas, which together contribute to supporting the business strategy, ensuring sustainable financial results and achieving business objectives.



Risk Analysis

An important element of CSR is to identify the risks associated with the company's business activities. This is not only risks for the company itself, but also risks for society at large. We have conducted a number of risk analyses throughout 2018/19, in order to identify any new risks that our rapid growth requires us to handle.

One of MHI Vestas Offshore Wind's current main risks is adapting to markets with greater complexity.

In some of these markets there are increased non-technical risks such as corruption, increased security concerns, community impact, etc.

In addition to these risks, the principal sustainability risks related to MHI Vestas Offshore Wind´s operations are identified as: occupational injuries of employees and contractors, the carbon footprint of wind turbines and generation of waste and use of electricity.

Policies and associated due diligence address these risks.

Management's review

Operating review

Governance Structure

Our effort on sustainability is embedded in the organisational behaviour through the roles and responsibilities and is defined as the governance structure. It is based on three levels, through which we contribute to the long-term sustainable development.

A cross-departmental CSR Steering Committee has been established with the overall responsibility of ensuring fulfilment of the CSR Strategy, and an overall responsible for the CSR program.

The Committee is chaired by the head of HR & HSE and currently consists of the following:

- Chief Technology Officer
- Head of Legal and Risk
- Chief Sales Officer
- Deputy CFO.

After each meeting, the Management team (CEO & Co-CEO) is informed about progress, decisions etc.

On **executive management level**, the guidance and direction for the comprehensive long-term work related to the CSR Strategy is decided

On a **business unit level**, we secure resource allocation to enhance a continuous sustainable development in the individual business areas.

On a local level, we carry out concrete initiatives and improvements in the respective departments and working groups in line with the overall direction of the CSR Strategy.

Management's review

Operating review

Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

The commitment by the world countries was made in 2015, and the goals will continue until 2030.

Achieving the global goals requires that companies and organisations work together.

MHI Vestas Offshore Wind consider it our commitment and task to impact the SDGs by making them operational and identifying future business opportunities. From the areas of importance determined by the materiality assessment, we consistently explore how we can support the SDGs, linking them to the value chain and our business. For now, we are considering the eight SDGs as the ones where MHI Vestas Offshore Wind has the biggest impact and thus ability to generate value for business and society.

MVOW focuses on reducing and phasing out hazardous and potential hazardous chemicals and substances within own and suppliers' value chains as well as reducing air, water and soil pollution and contamination.	MVOW focuses on participating in developing relevant skills and competences for own and potential new employees, including technical and professional skills to ensure decent jobs functions and overall employments.	MVOW focuses on contributing to productive and decent local activities and job creations, on offering an inclusive work environment, and on protecting labour rights and promoting safe and secure working environments.	MVOW focuses on promoting sound management of wastes and chemicals throughout their life cycle, on reducing waste generation through prevention, reduction, recycling and reuse. MVOW reports on sustainability performances and objectives.
MVOW focuses on providing affordable and scalable solutions enabling countries and communities leapfrog to cleaner, more resilient economies	MVOW focuses on preventing and reducing marine pollution, and on managing and protecting marine ecosystems to avoid adverse impacts, and we address actions for restoration where relevant and linked to our activities.	MVOW focuses on contributing to reducing corruption and bribery in all their forms both in cases within MVOW's own operational control and at business partners' activities up-stream and down-stream.	MVOW focuses on participating in partnerships, relations and co-operations with customers, our industry and other relevant fora for sustainable developments. Objectives are e.g. to share knowledge and expertise and to establish insights and transparency

There are multiple platforms for working with and communicating a company's CSR strategy and results. Albeit, the process of developing the CSR strategy did not take point of departure in the SDGs, it is clear that the strategy, and thus MHI Vestas Offshore Wind´s business strategy, supports the SDGs.

Sustainable Working Life

Employees

Throughout 2018/19, MHI Vestas Offshore Wind has steadily extended the business activity level and the company has continued its steady growth. As a result of this, MHI Vestas Offshore Wind increased the overall number of employees from 2,528 employees per March 2018 to 3,008 per March 2019, which means that 480 employees have been recruited and trained.

In- and direct production cost employees	1,687
Fixed cost employees	669
Service and Construction direct cost employees	652
Total	**3,008**

Management's review

Operating review

MHI Vestas Offshore Wind expects to continue building up the organisation with highly qualified, dedicated and diverse people to manage the planned execution of the company strategy, which means that especially the factories will be ramping up over the coming year.

Human Rights

MHI Vestas Offshore Wind commits to respect, support and act in consideration of human rights, social, environmental, and climate conditions. Consequently, the company will in all business activities and strategies ensure to prevent causing or contributing to adverse human rights impacts. Compliance with the International Bill of Human Rights is part of the company standards for acceptable behaviour for anyone acting on behalf of MHI Vestas Offshore Wind.

MHI Vestas Offshore Wind's respect for human rights is reflected throughout the business, and is one of the foundations for the Mission, Vision and Creeds, Code of Conduct and the business principles and policies.

Additionally, MHI Vestas Offshore Wind sets clear requirements for compliance with human rights to all business relationships that are directly linked to the company operations, products or service.

Code of Conduct training has been rolled-out in the organisation - including Human Rights - to all employees. For hourly paid workers it has been classroom training and for salaried employees it has been E-learning.

A potential new market was assessed for the risk of Labour and Human Rights violations. The risk was high, and a Code of Conduct assessment of suppliers was therefore included in the action plan for that particular market.

The completion level and result of the training has been in line with the expectations established by the CSR Steering Committee.

Health and Safety

MHI Vestas Offshore Wind considers its employees to be its most important asset. Therefore, health and safety are consistently given highest priority to provide and maintain a safe and secure workplace for all employees.

MHI Vestas Offshore Wind believes that all employees are entitled to a safe and secure workplace where no-one is exposed to unnecessary risk.

MHI Vestas Offshore Wind is therefore committed to:

- Continuous improvement in occupational health and safety;
- Giving employees the training and information they need to manage risks in their own work areas.

In the Fiscal Year (FY) 2017/18, the certification activity has been initiated in relation to the implementation of the two new updated standards; ISO 9001:2015 and ISO 14001:2015.

The OHSAS 18001:2008 (occupational health and safety) certificate has been reclassified for three additional years for MVOW. This resulting in 12 external and 32 internal audits being carried out during the FY18/19. In this context, several MVOW locations have been visited by DNV GL embracing all areas of the MVOW value chain which opened for improvements, but at the same time demonstrated that the MVOW management system was successfully implemented as part of the management system.

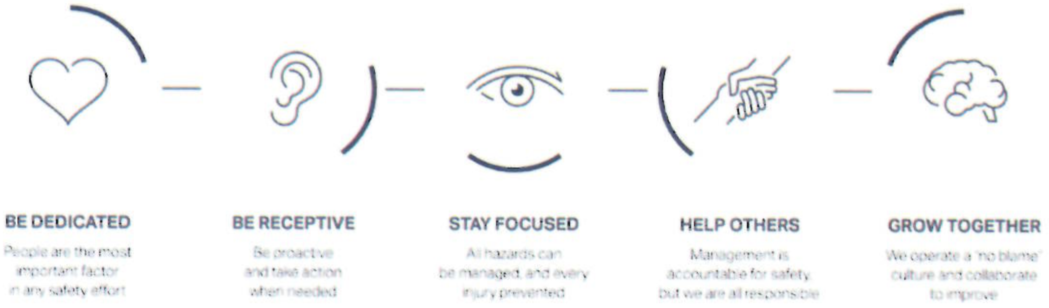
The Safety Awareness Training (SAT) programme launched in FY2016/17 has been taken to the next level in FY2018/19 to include not only classroom training, but also E-Learnings and a combination of the two. The assignment of classroom, E-Learnings or combined training modules is job role dependent.

The SAT programme evolves around the MHI Vestas Offshore Wind 5 Safety Principles, acknowledging people as the most important factor in any safety effort. The SAT course empowers employees to become proactive, being helpful and supportive towards each other and take responsibility of their own and colleague's safety.

Management's review

Operating review

MHI Vestas Offshore Wind 5 Safety Principles



The continued company growth in FY2018/19 combined with a steadily increasing activity level, is making an increased focus on safety paramount in all areas of the MVOW organisation. Consequently, additional efforts are put into preparing risk assessments for design, work instructions and processes in the entire MVOW value chain.

The KPI for completion of the SAT course was that 95 pct. of all MVOW employees should have completed the training by the end of February 2019. The target was met with the introduction of E-Learnings and by intensifying classroom trainings in all countries - all supported by top management.

Safety Dialogues with equal attention to positive and negative behaviours has been performed to enhance the one-to-one safety communication out in the business.

Having faced a steady increasing activity level throughout FY2018/19, MVOW has managed to realize the LTI (Lost Time Injuries) rate with 0.89 against a target of 1.5 (per 1.000.000 million working hours). The TRI (Total Recordable Injury) rate was realized with 10.73 against a target of 10 (total number of LTIs, Restricted Work Injuries and Medical Treatment Injuries per 1.000.000 working hours).

To further improve the safety performance and drive down the above injury rates, MHI Vestas Offshore Wind will continue to dedicate high attention to the human factor; In addition to the Safety Awareness training programme and Safety Dialogue continuity, the MHI Vestas Offshore Wind Health, Safety and Environment department will on an ongoing basis launch several local and area targeted Health, Safety and Environment campaigns throughout the entire organisation to anchor the MHI Vestas Offshore Wind safety message and awareness in all areas of the business.

Employee Competence, Development, Satisfaction and Motivation

Our employees are our greatest asset and the key to continue our journey towards affordable offshore wind. It is essential for MHI Vestas Offshore Wind to have the brightest minds working with us in all areas of the business and we therefore have a strong focus on attracting the right people with the right set of competencies, and on keeping our employees satisfied and motivated throughout their employment so that our good people stay with us.

Aims to create and maintain a high level of satisfaction and motivation are therefore incorporated in our HR processes and policies and a focus in the entire employee lifecycle.

In a rapidly changing business environment we make a point of ensuring that our employees have the necessary competences and skills to carry out their work safely, in a qualified manner and efficiently, both today and in the future.

The current competence development setup is aimed at being compliant with legislation and with requirements in customer contracts, and competence development is an important element in e.g. MHI Vestas Offshore Wind's quality certificates. Besides this we offer our employees opportunities of professional development defined by their individual needs combined with the needs of the business.

Management's review

Operating review

In MHI Vestas Offshore Wind we believe the direct manager plays a central role in keeping a high level of satisfaction and motivation with her/his employees. Therefore, we have continued to conduct extensive leadership training for people managers at all levels, including e.g. training at group lead level in some of our Manufacturing sites. To further support our people managers in their daily leadership conduct we are establishing a basic training/knowledge base for people managers.

The yearly People Review and Motivation & Performance Dialogue (MPD) processes are key tools for employee satisfaction, motivation and development. The two processes provide feedback and foster professional development and they create clear line of sight by linking the employees' targets and achievements to the company strategy, thereby supporting the sense of meaning for our employees.

The People Review aims to create insight into the performance and potential of our employees, and to have a structured and proactive approach to performance management, competency development, talent identification and management, and succession planning.

The Motivation & Performance Dialogue (MPD) ensures that all employees receive feedback on their performance and behaviour for the year, and that performance objectives are set for the coming 12 months. The yearly MPD is combined with ongoing, structured one-on-one communication between direct manager and employee on motivation, development and targets which ensures a consistent focus on the employees' motivation and development and creates the ground for open dialogue on the topics.

MHI Vestas Offshore Wind aims to continuously improve the working conditions for our employees and we believe we do this best by collaborating with our employees on the topic. In acknowledgement of the different regulations, laws and needs for our different sites we have different setups depending on the local needs. For some sites or functions the collaboration is structured in Works Councils or Employee Forums where employee representatives meet on a regular basis to discuss working conditions and improvements with management, whereas other places the discussion takes place within the different teams and with the direct management.

We focus on local initiatives to improve employee motivation and satisfaction and have this year in many areas focussed on supporting strong teams through team building sessions, personality and team profiles, feedback culture in the teams etc.

On a regular basis we conduct employee engagement surveys. The most recent result showed that the satisfaction and motivation of MHI Vestas Offshore Wind's employees were at index 69 out of 100, which is slightly above the GELx External Benchmark at 68 out of 100. The loyalty was at index 82 out of 100 with a benchmark index at 71 out of 100.

Training and people development are conducted and managed in different ways across the different parts of the value chain:

Technical & Safety Training is providing skills training for Wind Turbine Generator operators keeping our employees up to the current standards within safety and technical skills for the offshore wind industry.

Manufacturing training ensures that our manual labour employees at our production sites possess the necessary skills to produce the high-quality materials that are paramount to compete in the offshore wind sector.

The training conducted at our production sites are done through an on the job training approach where the skill progression of every single employee in the production site are assessed, recorded and tracked; providing a real time competency overview of our employees.

For the remaining organisation training needs are defined by law and quality requirements and/or identified through the People Review and MPD processes and in the ongoing one-on-one communication between manager and employee.

In the most recent employee engagement survey Learning & Development was scored 73 out of 100 which is above the external benchmark on 67 out of 100.

Management's review

Operating review

Diversity

It is MHI Vestas Offshore Wind's policy to offer all employees equal opportunities. When recruiting, MHI Vestas Offshore Wind always pursues the goal of having both genders and several nationalities represented, as well as a diverse age distribution. This also applies to the development and advancement opportunities offered to employees and the focus on diversity is an integral part of the HR processes. However, this focus must not compromise the principle of always choosing the best person for the job.

MHI Vestas Offshore Wind's workforce is per March 2019 represented by 52 different nationalities and the gender distribution among managers is that men represent 86% and females represents 14%. Despite hiring in numerous new employees in both production and office environments the gender distribution has remained at a stable level.

Gender distribution among managers

Gender	Percentage
Female	14 %
Male	86 %
Total	**100 %**

MHI Vestas Offshore Wind believes that a competitive advantage lies in continuing to develop a culture where all employees have the opportunity to realise their full potential, and the continued global expansion requires a diverse workforce. Consequently, MHI Vestas Offshore Wind has in 2018/19 conducted a baseline analysis to determine the future focal points for diversity. A new diversity initiative will be launched in 2019/20. Focus of the project will be to ensure the right knowledge level and procedures are in place to ensure continued focus on equal opportunities for women and men, valuing and respecting individual differences.

The Board of Directors recognises the benefits of a diverse board and continuously works to increase the diversity in particular regarding assessments of new Board candidates.

Current overview of the diversity of the board:

Nationalities	4
Men	6
Women	0
Average age	61

MHI Vestas Offshore Wind has defined a target outlining that members of the underrepresented gender should constitute one board member no later than 2018/19.

When proposing new Board candidates, the Board of Directors pursues the goal of having both genders and several nationalities represented as well as a diverse age distribution. However, this goal will never compromise the recruitment criteria's and overall competences of the candidate. Consequently, the goal for 2018/19 was unfortunately not reached. A new target has been defined outlining that members of the underrepresented gender should constitute one board member no later than 2021/22.

Management's review

Operating review

Sustainable Innovation

Material Resource Management

Consideration for the environment is a fundamental part of MHI Vestas Offshore Wind's business concept. MHI Vestas Offshore Wind strives to create wind turbines that are as environment -friendly as possible. To support this, MHI Vestas Offshore Wind wishes to make all its activities as sustainable as possible, and to persuade its business partners to do likewise.

Our environmental policies are clear and MHI Vestas Offshore Wind commits to:

- Promoting wind energy and buying renewable electricity for its own use to the largest extent possible;
- Complying fully with legal requirements for environmental protection;
- Considering the environmental consequences of all new products;
- Improving the utilization of resources;
- Reducing waste and emissions in all its activities.

With the rapid growth and geographical expansion of MHI Vestas Offshore Wind, the CSR Steering Committee decided an updated Resource Management Strategy was needed to streamline the existing practices and create synergies.

The new Resource Management Strategy is currently in an internal review and approval process and will be deployed in 2019.

In 2018, an analysis of the various methods for understanding the environmental footprint of MHI Vestas Offshore Wind´s activities has been conducted, and an overview of the operational initiatives has been created, together with a suggestion for an updated Resource Management Strategy.

A review of the existing decommissioning manual has been conducted. MHI Vestas Offshore Wind is also participating in industry initiatives to find solutions and maximize the environmental benefits of offshore wind - e.g. Wind Europe.

The KPI "Environmental Frequency Rate (EFR)" was officially introduced to the organisation in FY2016/2017 starting at 4.5 and has continuously been lowered. The target for FY2018/2019 is 2.5. The EFR is defined as environmental incidents being of medium, major or catastrophic severity per 1.000.000 working hours.

The EFR was realized with 1.07, which is a significant improvement compared to previous years.

Most of the landfill waste derives from the production of blades, highlighting the challenges for the wind turbine industry developing a sustainable solution for disposal of composites.

Managing Risks

Anti-bribery and Corruption

The MHI Vestas Offshore Wind Code of Conduct has a zero tolerance towards any form of bribery and any form of corruption.

It is therefore not acceptable to:

- Promise or offer a bribe in any form to a local or foreign official;
- Solicit, accept, promise or offer a bribe or kickback in any of MHI Vestas Offshore Wind's business relations.

MHI Vestas Offshore Wind does not permit facilitation payments and has a clear policy and procedure for recording and approving Gifts, Entertainment and Hospitality.

Management's review

Operating review

The global expansion of MHI Vestas Offshore Wind led to a request by the CSR Steering Committee to assess the risk associated with bribery and corruption. The assessment showed that the internal awareness and training of employees could be strengthened, to prepare employees for the potential exposure to new dilemmas. Therefore, a communication campaign about business ethics was launched in 2018, and 'hot spot' training has been conducted in selected functions.

In addition to this, an E-learning module about the MHI Vestas Offshore Wind Code of Conduct has been rolled out in January-March 2019, and all hourly paid workers received class-room training in the same period.

As a main rule, MHI Vestas Offshore Wind employees should report breaches of the MHI Vestas Offshore Wind Code of Conduct and applicable laws through the normal procedures. However, the MHI Vestas Offshore Wind Whistleblower System has been established to provide an alternative reporting opportunity, which can be used if an employee is concerned about the risk of harassment or retaliation.

To assess the level of policy knowledge, capability to solve dilemmas etc., a Business Integrity Survey was rolled out in March 2019.

The result of the Integrity Survey showed an improvement in the internalization of the business integrity processes and policies in the Code of Conduct.

Importantly, the survey also highlighted that employees feel that MHI Vestas Offshore Wind is committed to doing business with integrity, and employees do not feel that the business objectives of MHI Vestas Offshore Wind are not hindering that.

Supplier Code of Conduct

For MHI Vestas Offshore Wind, integrity throughout our business is vital. Acting responsibly is fundamental to the way we do business, and it is a prerequisite for creating long-term value. This entails being a responsible employer, demonstrating integrity in our business relationships, and acting with care for the societies and environments, in which we operate. Integrity and responsibility are therefore standards that we hold ourselves and our suppliers to.

MHI Vestas Offshore Wind has a risk-based approach to spotting and addressing violations of the Supplier Code of Conduct. This entails a segmentation of the supplier base according to their perceived risk. The purpose of the risk segmentation is to identify suppliers with a higher risk of having violations of the MHI Vestas Offshore Wind Supplier Code of Conduct. Thus, allocating resources to the group of suppliers that pose the highest risk to MHI Vestas Offshore Wind and society enables us to mitigate the risk and create societal value.

Thus far, the supply chain of MHI Vestas Offshore Wind has primarily been based in low risk countries. However, new markets are opening up for offshore wind energy, which have a different risk profile vis-à-vis the established markets. Consequently, the CSR Steering Committee commissioned a review of the existing due diligence process to be conducted in 2018.

The result of the assessment let to more resources being allocated to on-site audits of suppliers and a decision to purchase a web-based collaboration tool for MHI Vestas Offshore Wind and suppliers, which allows procurement to get access to easy-to-use, dynamic scorecards, and to monitor the sustainability performance of suppliers. This system will be rolled-out in the second quarter of 2019.

The risk segmentation of the MHI Vestas Offshore Wind supplier base showed that less than 1 pct. of the total number of suppliers are currently based in high risk countries. However, we expect that this percentage will change over time. Therefore, focus in 2018 has been on strengthening the process and setting up a scalable solution that provides MHI Vestas Offshore Wind with the necessary insight of supplier performance but also provides a platform for collaboration between MHI Vestas Offshore Wind and the supplier base.

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Income statement

		Consolidated		Parent company	
Note	EUR'000	2018/19	2017/18	2018/19	2017/18
2	**Revenue**	1,299,545	942,155	1,350,798	745,338
4	Production costs	-1,166,536	-922,154	-1,260,512	-749,807
	Gross profit	133,009	20,001	90,286	-4,469
3,4	Research and development costs	-58,553	-65,984	-58,108	-65,908
4	Distribution costs	-12,944	-11,568	-10,751	-10,052
4	Administration costs	-40,331	-41,015	-34,482	-36,619
	Other operating income	0	0	21,893	12,228
	Other operating costs	-299	0	0	0
	Operating profit (EBIT)	20,882	-98,566	8,838	-104,820
	Share of profit in group companies after tax	0	0	7,748	8,219
5	Financial income	693	2,731	5,400	796
6	Financial costs	-2,007	-1,144	-4,733	-3,221
	Profit before tax	19,568	-96,979	17,253	-99,026
7	Income tax	33,421	-1,308	35,736	739
	Profit for the year	52,989	-98,287	52,989	-98,287
18	**Proposed distribution of profit**				
	Transfer to reserve under the equity method	0	0	7,748	8,219
	Transfer to reserve under development costs	0	0	25,913	17,588
	Retained earnings	52,989	-98,287	19,328	-124,094
		52,989	-98,287	52,989	-98,287

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Balance sheet

		Consolidated		Parent company	
Note	EUR'000	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	ASSETS				
	Software	20,576	22,460	20,462	22,460
	Development projects in progress	29,707	6,859	29,707	6,859
	Completed development projects	282,492	310,869	282,492	310,869
8	**Total intangible assets**	332,775	340,188	332,661	340,188
	Plant and machinery	33,648	33,441	21,843	25,595
	Other fixtures and fittings, tools and equipment	77,706	73,445	67,161	66,480
	Property, plant and equipment under construction	13,718	19,704	10,638	16,327
9	**Total property, plant and equipment**	125,072	126,590	99,642	108,402
	Other receivables	1,373	927	1,337	903
13	Deferred tax	57,352	0	57,352	0
10	Investments in group companies	0	0	71,587	62,451
	Total other non-current assets	58,725	927	130,276	63,354
	Total non-current assets	516,572	467,705	562,579	511,944
11	**Inventories**	813,262	681,153	546,137	635,103
12	Trade receivables	80,062	86,270	5,120	1,731
	Receivables from group companies	0	0	54,898	35,298
	Receivables from shareholders	353	2,055	250	1,220
	Other receivables	16,182	16,014	11,922	13,478
14	Tax receivables	1,081	761	737	738
	Prepayments	5,041	8,084	3,755	4,587
	Total receivables	102,719	113,184	76,682	57,052
	Cash and cash equivalents	195,823	114,624	143,684	100,581
	Total current assets	1,111,804	908,961	766,503	792,736
	TOTAL ASSETS	1,628,376	1,376,666	1,329,082	1,304,680

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Balance sheet

		Consolidated		Parent company	
Note	EUR'000	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	EQUITY AND LIABILITIES				
15	Share capital	13,690	13,690	13,690	13,690
	Reserve under the equity method	0	0	35,551	26,722
	Reserve for development costs	0	0	80,125	54,212
	Retained earnings	155,232	182,059	39,556	101,125
	Total equity	168,922	195,749	168,922	195,749
16	Provisions	38,775	22,836	38,775	22,836
17	Financial debts	3,746	0	3,746	0
	Total non-current liabilities	42,521	22,836	42,521	22,836
16	Provisions	12,925	7,612	12,925	7,612
17	Financial debts	1,003	20,000	1,003	20,000
	Prepayments from customers	956,445	787,131	614,966	748,040
	Trade payables	260,500	262,028	213,789	215,622
	Payables to group companies	0	0	109,466	36,584
	Payables to shareholders	41,358	30,217	31,760	29,139
14	Tax payables	1,645	1,461	0	0
	Other liabilities	143,057	49,632	133,730	29,098
	Total current liabilities	1,416,933	1,158,081	1,117,639	1,086,095
	Total liabilities	1,459,454	1,180,917	1,160,160	1,108,931
	TOTAL EQUITY AND LIABILITIES	1,628,376	1,376,666	1,329,082	1,304,680

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Statement of changes in equity

Note	EUR'000	Consolidated		
		Share capital	Retained earnings	Total
	Equity as at 1 April 2017	13,690	299,481	313,171
	Exchange rate adjustments, EUR conversion	0	-417	-417
	Exchange rate adjustments on foreign entities	0	-617	-617
	Fair value adjustments of derivative financial instruments	0	-18,101	-18,101
18	Profit/(loss) for the year	0	-98,287	-98,287
	Equity as at 1 April 2018	13,690	182,059	195,749
	Exchange rate adjustments, EUR conversion	0	-347	-347
	Exchange rate adjustments, foreign entities	0	1,052	1,052
	Fair value adjustments of derivative financial instruments	0	-102,911	-102,911
	Tax on equity transactions	0	22,390	22,390
18	Profit/(loss) for the year	0	52,989	52,989
	Equity as at 31 March 2019	13,690	155,232	168,922

Note	EUR'000	Parent company				
		Share capital	Reserve under the equity method	Reserve for development costs	Retained earnings	Total
	Equity as at 1 April 2017	13,690	19,231	36,624	243,626	313,171
	Exchange rate adjustments, EUR conversion	0	-111	0	-306	-417
	Exchange rate adjustments on foreign entities	0	-617	0	0	-617
	Fair value adjustments of derivative financial instruments	0	0	0	-18,101	-18,101
18	Profit/(loss) for the year	0	8,219	17,588	-124,094	-98,287
	Equity as at 1 April 2018	13,690	26,722	54,212	101,125	195,749
	Exchange rate adjustments, EUR conversion	0	29	0	-376	-347
	Exchange rate adjustments, foreign entities	0	1,052	0	0	1,052
	Fair value adjustments of derivative financial instruments	0	0	0	-102,911	-102,911
	Tax on equity transactions	0	0	0	22,390	22,390
18	Profit/(loss) for the year	0	7,748	25,913	19,328	52,989
	Equity as at 31 March 2019	13,690	35,551	80,125	39,556	168,922

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Cash flow statement

Note	EUR'000	Consolidated 2018/19	2017/18
	Profit/(loss) for the year	52,989	-98,287
	Depreciation and amortisation, reversed	91,751	90,791
	Financial items, reversed	1,314	-1,587
	Income tax, reversed	-33,421	1,308
	Other adjustments	21,938	17,371
19	Change in net working capital	48,117	103,711
	Cash flows from operating activities before financial items and tax	182,688	113,307
	Financial items paid	-1,314	1,587
	Cash flows from operating activities before tax	181,374	114,894
	Income tax paid	-1,739	-1,212
	Cash flows from operating activities	179,635	113,682
	Purchase of intangible assets	-46,007	-36,421
	Disposal of intangible assets	0	5,847
	Purchase of property, plant and equipment	-34,676	-60,615
	Disposal of property, plant and equipment	2,466	133
	Purchase of other non-current assets	-446	-204
	Cash flows from investing activities	-78,663	-91,260
	Free cash flow	100,972	22,422
	Change in financial debt	-20,000	-20,000
	Cash flows from financing activities	-20,000	-20,000
	Net cash flows from operating, investing and financing activities	80,972	2,422
	Cash and cash equivalents as at 1 April	114,624	111,710
	Exchange rate adjustment on cash and cash equivalents	227	492
	Cash and cash equivalents as at 31 March	195,823	114,624

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

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Notes to the financial statements

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

1 Accounting policies

The annual report of MHI Vestas Offshore Wind A/S for 2018/19 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Compared to last year the presentation of the balance sheet have changed. Going forward assets and liabilities including provisions are presented as non-current and current assets and as non-current and current liabilities respectively. Comparative figures are adjusted accordingly.

The accounting policies are consistent with those of last year.

The annual report is presented in EUR 1,000.

This note describes the general accounting policies. Accounting policies described in the separate notes to the financial statements form part of the general description of accounting policies:

- Revenue note 2
- Research and development costs note 3
- Depreciation/amortisation note 4
- Financial income note 5
- Financial costs note 6
- Income tax note 7
- Intangible assets note 8
- Property, plant and equipment note 9
- Investment in group companies note 10
- Inventories note 11
- Trade receivables note 12
- Deferred tax note 13
- Tax payables and receivables note 14
- Provisions note 16

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

1 **Accounting policies (continued)**

Consolidated financial statements

The consolidated financial statements comprise the parent company, MHI Vestas Offshore Wind A/S, and subsidiaries in which MHI Vestas Offshore Wind A/S directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date. Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

Gains or losses on disposal of subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus non-amortised goodwill and anticipated disposal costs.

Acquisitions of enterprises are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Foreign currency translation

The functional currency of MHI Vestas Offshore Wind A/S is DKK, but due to the Company's international relations, the annual report is presented in EUR. Transactions in other currencies than the functional currency are transactions in foreign currency.

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial costs.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial costs.

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

1 **Accounting policies (continued)**

Foreign subsidiaries are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity. Foreign exchange adjustments of intra-group balances with independent foreign subsidiaries which are considered part of the investment in the subsidiary are recognised directly in equity. Foreign exchange gains and losses on loans and derivative financial instruments designated as hedges of foreign subsidiaries are also recognised directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. Income and expenses related to such hedges are transferred from equity by realisation of the hedged item and recognised in the same financial statement item as the hedged item.

Leases

For accounting purposes, lease contracts are classified as either finance or operating lease obligations.

A lease is classified as a finance lease when it transfers substantially all risks and rewards of the leased asset as if the asset had been owned. Other leases are classified as operating leases.

Finance lease assets are capitalised under property, plant and equipment and are depreciated over their expected useful lives. The corresponding finance lease obligations are recognised in liabilities. Operating lease expenses are recognised on a straight line basis in the income statement over the lease term.

Income statement

Production costs

Production costs, including warranty costs, comprise expenses incurred in generating the revenue for the year. Cost comprises raw material, consumables, direct labour costs and indirect expenses such as salaries, rental, tools and minor acquisitions as well as depreciation of production facilities.

Research and development costs

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

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

1 Accounting policies (continued)

Distribution costs

Distribution costs comprise costs incurred for the sale and distribution of products, etc. sold during the year. Also costs relating to staff and depreciation/amortisation are recognised.

Administration costs

Administration costs include costs incurred in the year for management and administration of the Group, including costs relating to administrative staff, management, office premises, office expenses and depreciation/amortisation.

Other operating income

Other operating income comprises items secondary to the activities of the enterprises, including service charges and gains on disposal of property, plant and equipment.

Other operating costs

Other operating costs comprises items secondary to the activities of the enterprises, including losses on disposal of property, plant and equipment.

Balance sheet

Other receivables

Other receivables comprise VAT receivables, deposits etc. and are measured at cost. Other receivables include foreign currency derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments.

Prepayments

Prepayments recognised as assets comprise prepaid expenses concerning subsequent financial years.

Equity and dividends

Reserve for net revaluation according to the equity method

Net revaluation of investments in subsidiaries compared to cost according to the equity method is recognized in the reserve for net revaluation.

The reserve can be eliminated in case of losses, recognized of investments or a change in accounting estimates.

The reserve cannot be recognized at a negative amount.

Reserve for development costs

The reserve for development costs comprises recognized development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognized development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

1 Accounting policies (continued)

Dividend

Dividend proposed for the year is recognized as a liability at the date when it is adopted at the annual general meeting. Dividend expected to be distributed for the year is disclosed as a separate item under equity.

Prepayments from customers

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

Other liabilities

Other liabilities comprise VAT payables, salary and holiday pay obligations, personal taxes etc. and are measured at cost. Other liabilities include foreign currency derivatives, designated as cash flow hedges to hedge highly probable forecast sales and purchases are measured at fair value as hedging instruments.

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

1 **Accounting policies (continued)**

Cash flow statement

The cash flow statement shows the Group's cash flows for the year, broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year. Cash flows relating to acquired entities are recognised from the date of acquisition. Cash flows relating to entities disposed of are recognised until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit for the year adjusted for non-cash operating items such as depreciation, amortisation, provisions and change in net working capital.

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.

Cash flows from financing activities

Cash flows from financing activities comprise changes to the amount or composition of the Group's share capital and related expenses as well as the raising of loans, repayment of interest-bearing debt and distribution of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash and cash equivalents and current bank debt.

Financial ratios

Gross margin	=	Gross profit x 100 / Net revenue
EBITDA margin	=	Profit before financial items and depreciation/amortisation x 100 / Net revenue
EBIT margin	=	Operating profit (EBIT) x 100 / Net revenue
Return on invested capital	=	Operating profit (EBIT) x 100 / Average assets excluding cash and non-interest bearing debt
Solvency ratio	=	Equity at year end x 100 / Total assets
Return on equity	=	Profit for the year x 100 / Average equity

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

2 Revenue

Accounting policies

Revenue comprises the sale of wind turbines and wind power systems, sale of after-sales service and sale of spare parts. Sale of individual wind turbines and small wind power systems based on standard solutions as well as spare parts sales are recognised in the income statement provided that the risk has been transferred to the buyer prior to the year end, and provided that the income can be reliably measured and is expected to be received.

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

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Sale of turbines	1,158,563	829,264	1,348,865	743,940
Sale of service	140,982	112,891	1,933	1,398
	1,299,545	942,155	1,350,798	745,338

All revenue is generated in Europe as specified below:

Germany	623,824	1,211	0	0
Denmark	265,333	0	265,333	1,256
Benelux	219,601	124,784	0	0
UK	187,416	813,654	0	0
Other countries	3,371	2,506	0	0
Internal sales	0	0	1,085,465	744,082
	1,299,545	942,155	1,350,798	745,338

3 Research and development costs

R&D costs	53,490	35,979	53,045	35,903
Capitalised development projects	-41,103	-27,168	-41,103	-27,168
Amortisation and impairment of development projects	46,166	57,173	46,166	57,173
	58,553	65,984	58,108	65,908

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

4 Depreciation/amortisation

Accounting policies

Depreciation/amortisation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Software	3-5 years
Completed development projects	3-10 years
Plant and machinery	3-7 years
Other fixtures and fittings, tools and equipment	3-7 years

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the depreciation period or the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Software	6,753	6,001	6,753	6,001
Completed development projects	46,166	57,173	46,166	57,173
Plant and machinery	9,137	8,733	6,008	5,433
Other fixtures and fittings, tools and equipment	29,695	18,884	27,627	17,806
	91,751	90,791	86,554	86,413
Expensed as follows:				
Production costs	37,197	26,087	32,000	21,709
Research and development costs	46,166	57,173	46,166	57,173
Distribution costs	134	185	134	185
Administration costs	8,254	7,346	8,254	7,346
	91,751	90,791	86,554	86,413

5 Financial income

Accounting policies

Financial income comprises interest income, exchange gains on securities, payables and transactions denominated in foreign currencies.

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Interest income from subsidiaries	0	0	5,375	790
Foreign exhange gains	666	2,725	0	0
Other financial income	27	6	25	6
	693	2,731	5,400	796

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

6 Financial costs

Accounting policies

Financial costs comprise interest expenses, exchange losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities etc.

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Interest cost to subsidiaries	0	0	3,515	0
Interest cost	500	181	168	181
Foreign exhange losses	793	0	530	2,185
Other financial costs	714	963	520	855
	2,007	1,144	4,733	3,221

7 Income tax

Accounting policies

Income tax for the year comprises tax payable for the year and changes in deferred tax for the year. The tax expense relating to the profit for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Income tax	1,124	1,460	-738	-739
Adjustment to income tax, previous years	453	-152	0	0
Adjustment to deferred tax	-34,998	0	-34,998	0
	-33,421	1,308	-35,736	-739

8 Intangible assets

Accounting policies

Acquired software licences and internally developed software is measured at cost less accumulated amortisation and impairment losses. Cost includes both direct internal and external expenses. Software is amortised on a straight-line basis. The basis of amortisation is calculated net of any impairment losses.

Projects for the development and testing of new wind turbines that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or application in the enterprise are evidenced, and where the Company intends to manufacture, market or use the project, are recognised as intangible assets provided that the cost can be reliably measured and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, distribution and administrative expenses as well as research and development costs. This is underpinned by a gate process, where these judgments are made at specific gates. Other development costs are recognised in the income statement as incurred.

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

8 Intangible assets (continued)

Accounting policies (continued)

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

Following completion of the development work, development projects are amortised on a straight-line basis over their estimated useful life. The basis of amortisation is calculated net of impairment losses, if any.

The carrying amount of intangible assets is subject to an annual test for indications of impairment. If so, write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Critical accounting estimates

The carrying amount of development projects relates to the development of the 8 MW turbine platform. An impairment test based on discounted future cash flows has been performed without given rise to any impairment losses.

The fair value of the estimated future earnings is determined based on assumptions in relation to elements such as future sales of projects, interest rates etc.

	Consolidated			
EUR'000	Software	Development projects in progress	Completed development projects	Total
Cost as at 1 April 2018	36,274	6,859	454,939	498,072
Exchange rate adjustments	-93	-49	-956	-1,098
Additions for the year	4,904	41,103	0	46,007
Transfers for the year	0	-18,206	18,206	0
Disposals for the year	0	0	0	0
Cost as at 31 March 2019	41,085	29,707	472,189	542,981
Amortisation as at 1 April 2018	13,814	0	144,070	157,884
Exchange rate adjustments	-58	0	-539	-597
Amortisation for the year	6,753	0	46,166	52,919
Reversal of amortisation on disposals for the year	0	0	0	0
Amortisation as at 31 March 2019	20,509	0	189,697	210,206
Carrying amount as at 31 March 2019	20,576	29,707	282,492	332,775
Amortised over	3-5 years		3-10 years	

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

8 **Intangible assets (continued)**

	Parent Company			
EUR'000	Software	Development projects in progress	Completed development projects	Total
Cost as at 1 April 2018	36,274	6,859	454,939	498,072
Exchange rate adjustments	-95	-49	-956	-1,100
Additions for the year	4,792	41,103	0	45,895
Transfers for the year	0	-18,206	18,206	0
Disposals for the year	0	0	0	0
Cost as at 31 March 2019	40,971	29,707	472,189	542,867
Amortisation as at 1 April 2018	13,814	0	144,070	157,884
Exchange rate adjustments	-58	0	-539	-597
Amortisation for the year	6,753	0	46,166	52,919
Reversal of amortisation on disposals for the year	0	0	0	0
Amortisation as at 31 March 2019	20,509	0	189,697	210,206
Carrying amount as at 31 March 2019	20,462	29,707	282,492	332,661
Amortised over	3-5 years		3-10 years	

9 **Property, plant and equipment**

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less expected selling costs and the carrying amount at the date of disposal. Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

The carrying amount of property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation. If so, write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

9 Property, plant and equipment (continued)

	Consolidated			
EUR'000	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost as at 1 April 2018	51,196	109,418	19,704	180,318
Exchange rate adjustments	404	662	27	1,093
Additions for the year	5,231	22,911	11,283	39,425
Transfer	3,908	13,388	-17,296	0
Disposals for the year	-384	-3,017	0	-3,401
Cost as at 31 March 2019	60,355	143,362	13,718	217,435
Depreciation as at 1 April 2018	17,755	35,973	0	53,728
Exchange rate adjustments	184	554	0	738
Depreciation for the year	9,137	29,695	0	38,832
Transfer	0	0	0	0
Reversal of depreciation on disposal for the year	-369	-566	0	-935
Depreciation as at 31 March 2019	26,707	65,656	0	92,363
Carrying amount as at 31 March 2019	33,648	77,706	13,718	125,072
Of which finance leased assets	0	4,749	0	4,749
Depreciated over	3-7 years	3-7 years		

	Parent company			
EUR'000	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost as at 1 April 2018	35,656	100,006	16,327	151,989
Exchange rate adjustments	-102	-248	-22	-372
Additions for the year	0	18,429	8,234	26,663
Transfer	2,332	11,569	-13,901	0
Disposals for the year	-15	-2,179	0	-2,194
Cost as at 31 March 2019	37,871	127,577	10,638	176,086
Depreciation as at 1 April 2018	10,061	33,526	0	43,587
Exchange rate adjustments	-41	-171	0	-212
Depreciation for the year	6,008	27,627	0	33,635
Transfer	0	0	0	0
Reversal of depreciation on disposal for the year	0	-566	0	-566
Depreciation as at 31 March 2019	16,028	60,416	0	76,444
Carrying amount as at 31 March 2019	21,843	67,161	10,638	99,642
Of which finance leased assets	0	4,749	0	4,749
Depreciated over	3-7 years	3-7 years		

Consolidated financial statements and parent company financial statements for the period 1 April - 31 March

Notes to the financial statements

10 Investment in group companies

Accounting policies

Investments in group companies are recognised and measured under the equity method. The item "Share of profit in group companies after tax" in the income statement includes the proportionate share of the profit after tax.

Group companies with negative net asset values are measured at EUR 0, and any amounts owed by such enterprises are written down by the Company's share of the negative net asset value. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Total net revaluation of investments in group companies is transferred upon the distribution of profit to "Reserve under the equity method" under equity.

EUR'000	Investments in group companies
Cost as at 1 April 2018	35,729
Additions for the year	307
Cost as at 31 March 2019	36,036
Value adjustment as at 1 April 2018	26,722
Exchange rate adjustments foreign entities	1,052
Exchange rate adjustments EUR conversion	29
Share of profit in group companies after tax	7,748
Value adjustments as at 31 March 2019	35,551
Carrying amount as at 31 March 2019	71,587

Investments comprise the following entities:

Name	Registered office	Share capital	
MHI Vestas Offshore Wind UK Ltd.	United Kingdom	GBP'000	11,500
MHI Vestas Offshore Wind The Netherlands B.V.	The Netherlands	EUR'000	18
MHI Vestas Offshore Wind Bligh Bank NV	Belgium	EUR'000	62
MHI Vestas Offshore Wind Northwind (Belgium) NV	Belgium	EUR'000	1,000
MHI Vestas Offshore Wind Sweden AB	Sweden	SEK'000	100
MHI Vestas Offshore Wind Germany GmbH	Germany	EUR'000	1,275
MHI Vestas Offshore Wind Belgium NV	Belgium	EUR'000	1,000
MHI Vestas Offshore Wind Blades UK Ltd.	United Kingdom	GBP'000	7,000
MVOW Portugal, Unipessoal, Lda.	Portugal	EUR	1
MHI Vestas Offshore Wind US, Inc.	United States	USD	100
MHI Vestas Offshore Wind Japan Ltd.	Japan	JPY'000	25,000
MHI Vestas Offshore Wind Taiwan Ltd.	Taiwan	TWD'000	500

Consolidated financial statements and parent company financial statements for the period 1 April – 31 March

Notes to the financial statements

11 Inventories

Accounting policies

Inventories are measured at the lower of cost, using the weighted average method, and net realisable value (NRV). 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. The cost of goods for resale and consumables comprises direct costs and transportation expenses.

	Consolidated		Parent company	
EUR'000	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Raw materials and consumables	131,044	123,881	111,084	116,602
Work in progress	32,301	12,876	614	11,825
Finished goods	649,728	539,870	434,379	504,561
Prepayment for goods	189	4,526	60	2,115
	813,262	681,153	546,137	635,103

12 Trade receivables

Accounting policies

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

	Consolidated		Parent company	
EUR'000	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Trade receivables	80,062	86,270	5,120	1,731
Provisions for bad debts	0	0	0	0
	80,062	86,270	5,120	1,731

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

13 Deferred tax

Accounting policies

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax.

In case of use of alternative taxation rules for determination of tax base, deferred tax is measured on the basis of planned realisation of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

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13 Deferred tax (continued)

EUR'000	Consolidated		Parent company	
	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Deferred tax as at 1 April	0	0	0	0
Exchange rate adjustments	-36	0	-36	0
Deferred tax on equity transactions	22,390	0	22,390	0
Adjustment of deferred tax for the year	34,998	0	34,998	0
Deferred tax as at 31 March	57,352	0	57,352	0

The parent/group has an additional deferred tax asset of EUR 20 million, which has not been recognised due to timing uncertainties.

14 Tax payables and receivables

Accounting policies

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.

EUR'000	Consolidated		Parent company	
	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Tax receivables (assets)	1,081	761	737	738
Tax payables (liabilities)	-1,645	-1,461	0	0
Net tax receivable/payable as at 31 March	-564	-700	737	738

15 Share capital

Share capital

The share capital is made up of 13,689,676 shares of EUR 1 each. All shares rank equally.

The following changes have been made to the share capital the past 5 years:

The share capital has been increased by 588,170 shares of EUR 1 in 2014/15.
The share capital has been increased by 100,006 shares of EUR 1 in 2015/16.

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16 Provisions

Accounting policies

Provisions are recognised when - in consequence of an event that has occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that there will be an outflow of the Company's financial resources to settle the obligation. Provisions are measured at Management's best estimate of the expenses required to settle the obligation.

Warranty provisions comprise warranty obligations made in respect of delivered wind turbines and wind power systems based on experience. At the start of the warranty period, calculated provisions are made for each type of wind turbine and are released to the income statement over the warranty period as warranty costs are incurred. Subsequently, periodic reviews are performed based on an overall assessment of the need for provisions.

A provision for loss-making service or turbine contracts is made where the expected benefits to the company from the contract are lower than the unavoidable costs of meeting obligations under the contract (loss-making contracts).

	Consolidated		Parent company	
EUR'000	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Warranty provisions	51,700	30,448	51,700	30,448
Other provisions	0	0	0	0
Provisions as at 31 March	51,700	30,448	51,700	30,448
Warranty provisions as at 1 April	30,448	12,792	30,448	12,792
Exchange rate adjustments	-50	-26	-50	-26
Utilised provisions for the year	-6,424	0	-6,424	0
Provisions for the year	27,726	17,682	27,726	17,682
Warranty provisions as at 31 March	51,700	30,448	51,700	30,448
Provisions are expected to be payable as follows:				
0-1 years	12,925	7,612	12,925	7,612
1-5 years	38,775	22,836	38,775	22,836
	51,700	30,448	51,700	30,448

17 Financial debts

Financial debts consists of finance lease liabilities falling due within 5 years.

18 Proposed distribution of profit

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Transfer to reserve under the equity method	0	0	7,748	8,219
Transfer to reserve under development costs	0	0	25,913	17,588
Retained earnings	52,989	-98,287	19,328	-124,094
	52,989	-98,287	52,989	-98,287

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19 Change in net working capital

	Consolidated	
	2018/19	2017/18
Change in inventories	-132,109	-52,254
Change in receivables	7,943	30,518
Change in prepayments from customers	169,314	84,154
Change in trade payables	-1,528	101,581
Change in other liabilities	-8,346	-7,217
Change in receivables/payables with group companies and shareholders	12,843	-53,071
	48,117	103,711

20 Employee information

	Consolidated		Parent company	
EUR'000	2018/19	2017/18	2018/19	2017/18
Wages and salaries, etc.	190,291	154,289	145,467	119,172
Pension schemes	13,136	10,353	10,581	8,501
Other social security costs	8,875	5,124	4,956	2,134
	212,302	169,766	161,004	129,807
Average number of employees	2,704	2,193	1,885	1,535
Executive Management remuneration including incentive schemes	2,065	2,046	2,065	2,046
Board of Directors remuneration	0	0	0	0

21 Fees to auditors

Fees to auditors appointed at the annual meeting

	Consolidated	
	2018/19	2017/18
Statutory audit	377	349
Assurance engagements	183	107
Corporate tax assistance	103	89
Individual tax assistance	529	139
Other assistance	93	47
	1,285	731

22 Related parties and ownership

The Group is jointly owned with a 50/50 share by:

- MHI Holding Denmark ApS, Denmark and
- Vestas Wind Systems A/S, Denmark.

Related party transactions are on arm's length.

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Notes to the financial statements

23 Contractual obligations

	Consolidated		Parent company	
EUR'000	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Operating lease commitments falling due within 1 year	34,325	16,735	12,406	6,460
Operating lease commitments falling due within 1-5 years	85,877	31,783	24,749	3,357
Operating lease commitments falling due after 5 years	101,290	23,151	14,396	0
	221,492	71,669	51,551	9,817

Operating lease commitments include buildings, equipment, vehicles and boats mainly in Denmark, UK and Benelux and run for up to 12 years after the balance sheet date.

The parent company provides performance bonds in connection with project supplies in subsidiaries and their warranty obligations to customers.

24 Derivative financial instruments

The Group uses hedging instruments such as forward exchange contracts to hedge expected currency risks relating to sale and purchase of goods.

	Contractual value		Gains/losses in equity	
EUR'000	31/3 2019	31/3 2018	31/3 2019	31/3 2018
Foreign currency derivatives EUR/GBP	1,855,624	59,022	-84,301	1,009
Foreign currency derivatives EUR/USD	806,666	4,379	-17,470	131
	2,662,290	63,401	-101,771	1,140

Risks which were managed by derivative financial instruments in 2018/19 comprise foreign currency risk.

Hedging of risks with derivative financial instruments are made with a ratio of 1:1. Any ineffectiveness arising from hedging of foreign currency risks are recognised in financial items. Recognised sources of ineffectiveness are mainly derived from differences in the timing of the cash flows of the hedged items and hedging instruments and changes to the forecasted amount of cash flows of hedged items.

Foreign currency risk

Derivative financial instruments considered as cash flow hedges are designated hedges of forecasted sales and purchases. Cash flow hedges are measured at fair value. Any ineffective portions of the cash flow hedges are recognised in the income statement as financial items. Gains or losses on cash flow hedges are upon realisation of the hedged item transferred from the equity hedging reserve into the initial carrying amount of the hedged item.

Firm commitments in foreign currency are designated as fair value hedges and measured with changes in fair value in the income statement as financial items.

In some sales agreements, a foreign currency element is incorporated. In cases where the sales currency is not closely related to the functional currency nor a commonly used currency in the country in which the sales takes place, the foreign currency element is treated as an embedded financial derivative. The embedded financial derivative is designated as a cash flow hedge and included as forward contracts.