# MHI Vestas Offshore Wind A/S

Dusager 4, DK-8200 Aarhus N

CVR no. 27 91 80 42

## Annual report 2016/17

Approved at the Company's annual general meeting on 6 June 2017

Chairman:

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## Contents

MHI VESTAS OFFSHORE WIND

## 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 2016 - 31 March 2017.

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 2017 and of the results of the Group's and the Company's operations and consolidated cash flows for the financial year 1 April 2016 - 31 March 2017.

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, 30 May 2017
Executive Board:

| | | |
|---|---|---|
| Jens Tommerup<br>CEO | Tetsushi Mizuno | Tatsuichiro Honda |

Board of Directors:

| | | |
|---|---|---|
| Michisuke Nayama<br>Chairman | Anders Erik Runevad | Anders Jakob Vedel |
| Yoshiyuki Hanasawa | Hiroki Kato | Juan Araluce Martinez de Azagra |

# Independent auditor's report

### To the shareholders of MHI Vestas Offshore Wind A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of MHI Vestas Offshore Wind A/S for the financial year 1 April 2016 - 31 March 2017, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, as well as consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 March 2017 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 April 2016 - 31 March 2017 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 consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company 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 these consolidated financial statements and parent company financial statements.

## Independent auditor's report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company 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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the note disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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.

## Independent auditor's report

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

Aarhus, 30 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jens Weiersøe Jakobsen
State Authorised
Public Accountant

Michael Dahl Christiansen
State Authorised
Public Accountant

# Management's review

## Company details

| | |
|---|---|
| Name | MHI Vestas Offshore Wind A/S |
| Address | Dusager 4, DK-8200 Aarhus N |
| CVR no. | 27 91 80 42 |
| Financial year | 1 April - 31 March |
| Website | www.mhivestasoffshore.com |
| E-mail | contact@mhivestasoffshore.com |
| Telephone | +45 88 44 89 00 |
| Board of Directors | Michisuke Nayama, Chairman<br>Anders Erik Runevad, Deputy Chairman<br>Anders Jakob Vedel<br>Yoshiyuki Hanasawa<br>Hiroki Kato<br>Juan Araluce Martinez de Azagra |
| Executive Board | Jens Tommerup<br>Tetsushi Mizuno<br>Tatsuichiro Honda |
| Auditors | Ernst & Young Godkendt Revisionspartnerselskab<br>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

# Management's review

## Financial highlights for the Group

| EUR'000 | 2016/17 (12 months) | 2015/16 (12 months) | 2014/15 (15 months) | *2013 (12 months) |
|---|---|---|---|---|
| **Key figures** | | | | |
| Revenue | 531,243 | 535,906 | 402,664 | 282,449 |
| Gross profit | -11,892 | 30,848 | 49,595 | 42,955 |
| Profit before financial items and depreciation/amortisation (EBITDA) | -38,558 | -981 | 17,709 | 36,251 |
| Operating profit (EBIT) | -119,453 | -46,312 | 14,217 | 35,508 |
| Profit/loss from financial income and expense | 5 | 2,351 | -7,165 | -2,186 |
| Profit for the year | -120,525 | -44,216 | 8,320 | 25,555 |
| | | | | |
| Total assets | 1,369,898 | 840,652 | 791,539 | 642,291 |
| Investments in property, plant and equipment | 54,259 | 48,198 | 17,938 | 2,644 |
| Equity | 313,171 | 436,990 | 415,561 | 91,995 |
| | | | | |
| Cash flows from operating activities | 113,055 | 62,187 | 136,945 | 17,195 |
| Cash flows from investing activities | -103,554 | -141,091 | -350,226 | -2,426 |
| Cash flows from financing activities | 40,000 | 50,000 | 293,637 | 0 |
| Total cash flows | 49,501 | -28,904 | 80,356 | 14,769 |
| | | | | |
| **Financial ratios** | | | | |
| Gross margin | -2.2% | 5.8% | 12.3% | 15.2% |
| EBITDA margin | -7.3% | -0.2% | 4.4% | 12.8% |
| EBIT margin | -22.5% | -8.6% | 3.5% | 12.6% |
| Return on invested capital | -38.7% | -13.3% | 7.2% | - |
| Solvency ratio | 22.9% | 52.0% | 52.5% | 14.3% |
| Return on equity | -32.1% | -10.4% | 3.3% | 29.0% |
| | | | | |
| Average number of full-time employees | 1,435 | 882 | 444 | 310 |

* The result for 2013 is positively impacted by a transfer pricing adjustment regarding previous years of EUR 33m received from Vestas Wind Systems A/S. The adjustment is included in production costs.

The financial ratios have been prepared in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". 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
- Good order activity in 2016/17
- The changing nature of service in offshore wind
- Constructed projects
- Maintaining a technological advantage
- Manufacturing ramping up to meet increased demand
- 2017/18 focus areas

### Financial performance

- Income statement
- Balance sheet and cash flow
- Subsequent events

### Risk management

- Competitive auction processes
- Ensuring V164 manufacturing capability

### Statutory corporate social responsibility and diversity statement

- Certification standards
- Safety
- Environment and energy
- Human rights
- Code of conduct
- Employees
- Engagement survey
- Diversity
- Global bonus programme

# Management's review

## Operating review

### Executive summary

The year was characterized by solid progress for MHI Vestas Offshore Wind as the company, and the offshore wind industry at large, reached new levels of maturity.

With a solid order backlog and an overall increase in demand for its wind turbines, MHI Vestas Offshore Wind has built upon the solid start from its first two years of operations. The company saw the first of its V164-8.0 MW project being installed at Burbo Bank Extension, announced five firm and unconditional new orders, signed a conditional contract for the Borssele III & IV project, increased the rating of the 8MW platform to 9MW and commenced the ramp up of its production facilities to meet the increasing demand for its wind turbines.

While MHI Vestas continues to be successful and activity levels continue to increase with factories ramping up for new installations of V164-8.0 MW projects, this will adversely impact on earnings in the short-term. Additionally, the large amortisations of the 8 MW platform will continue to impact financial performance. The result for 2017/18 is expected to be on the same level as for 2016/17.

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

#### *Industry development*

During the year MHI Vestas Offshore Wind and 10 other offshore wind industry leaders committed to an aggressive cost reduction target of achieving below €80/MWh for project reaching final investment decision in 2025 with the right build out and regulatory framework.

At the end of this financial year, projects in both the Netherlands and Denmark had delivered results well ahead of that target. Offshore wind power continues to mature as a fast-growing renewable energy technology. MHI Vestas has contributed to this cost reduction through its technology, track record and the overall bankability.

As the industry has achieved consistent cost reduction across several key markets, the next challenge will be to secure stable and consistent market volume to continue the cost out trajectory. According to WindEurope, Europe's wind industry governing body, the offshore wind market requires 4GW of projects in Europe annually up to 2030 to maintain the current pace of cost reductions.

Looking ahead, northern European markets will continue to grow. The recent German auction results are a continuation of the downward cost trajectory and, while historic, it's important to note that these zero subsidy bids are project-specific. MHI Vestas Offshore Wind are pleased to see prices continuing to come down as this is a strong indicator that offshore wind is becoming competitive with conventional power generation. Auction result for the next round of UK tender are expected to be known by the end of Q3 2017. Greater volume commitments from other North Sea nations are expected to become firm over the next few years, as European member states release their 2030 renewable energy targets. Offshore wind is in a strong position to capitalize on Europe's push for a carbon-reduced energy mix, with an abundance of resource close to many member states load centres.

The UK and Germany are expected to remain as the largest offshore markets in the short term. Installations are, however, also expected in countries such as the Netherlands, Belgium, France, and Denmark in coming years.

While the market looks to emerging offshore markets such as the USA, Taiwan and Japan, there is also growth within Europe with emerging opportunities in the Baltic sea. The year already saw fledgling offshore potential being spoken about by Baltic nations. Poland, Estonia and even Sweden have the chance to add volume to the core European markets over the next few years.

# Management's review

## Operating review

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

Forecasters are also expecting growth in the Asia Pacific region for offshore wind power, especially in markets like China, Taiwan and Japan.

MHI Vestas Offshore Wind will continue to explore USA, Taiwan, Japan and other new markets that match its skillset and overall company strategy.

### *Good order activity in 2016/17*

MHI Vestas Offshore Wind continued to secure orders and increase its market share in the European offshore wind markets. As several of the core markets have moved to competitive tender auctions, the landscape in offshore wind has changed dramatically over the past 12 months. To be successful in the new market reality, original equipment manufacturers must look for new and unique ways to add value to projects and work with stakeholders to garner savings throughout the entire value chain.

The year saw MHI Vestas Offshore Wind continue to add to its solid order book, with the announcement of five firm and unconditional orders totalling 1,360 MW for the following projects:

- Blyth project in the UK (42 MW),
- Horns Rev III project in Denmark (406 MW),
- Borkum Riffgrund project in Germany (450 MW),
- Norther project in Belgium (370 MW) and
- Aberdeen Bay project in Scotland (92 MW).

Furthermore, MHI Vestas was appointed preferred supplier for the Deutsche Bucht project in Germany (252 MW) and the small IceBreaker at lake Eire in the USA (21 MW).

At the end of March, the company confirmed that it had signed a conditional order for the Borssele III & IV (2 x 340 MW) project in the Netherlands. Borssele III & IV is another milestone project for the offshore industry in terms of cost competitiveness with a reported price of €54.50/MWh (excluding transmission costs).

Based on these levels of order activity, the company finds itself well positioned as one of the strongest players in the offshore market.

### *The changing nature of service in offshore wind*

MHI Vestas Offshore Wind has a strong track record in constructing and servicing offshore wind parks. With over 750 grid connected turbines, across 18 projects and over 1.2 GW under service the company's experience and knowhow provides genuine added value for its customers.

Over the past year there has been two very distinct approaches to servicing of offshore wind parks emerge. Many of the traditional utilities are looking for short- to mid-term service contracts, while other developers are seeking to rely on the original equipment manufacturers skillset and are opting for long to full lifetime service contracts.

While MHI Vestas Offshore Wind expects to have a balance between the two, the company has demonstrated that wind parks being service by its experienced service technicians often outperform those parks being serviced by other parties.

MHI Vestas Offshore Wind has access to over 20 years of operational data from its existing fleet and has extensive insight and processing capabilities, which it applies to create transparency on the performance of its wind turbines.

# Management's review

## Operating review

The year had an exceptionally low level of Lost Production Factor (1.96) across the entire fleet of wind turbines serviced by MHI Vestas Offshore Wind. In fact, most wind parks currently under service are running with availability of 99 or above.

### *Constructed projects*

During the year, MHI Vestas Offshore Wind completed installation of the first large-scale commercial project based on the V164-8.0 MW wind turbine at DONG Energy's 258 MW Burbo Bank Extension project off the coast of Liverpool, UK.

The project started installation in September, where the first of 32 V164-8.0 MW wind turbines was installed, with the last wind turbine installed in December. The Burbo Bank Extension project sets a new benchmark as the first large-scale offshore project to utilise the world's most powerful wind turbine.

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

Just before the close of the year, MHI Vestas Offshore Wind also completed installation of the 165 MW Nobelwind project located in Belgium, comprising 50 V112-3.3 MW turbines. The project is a sister project to the 2010 Belwind 1 project, which is also 165 MW. Owing to an increase in turbine efficiency and power output, Nobelwind could achieve the same 165 MW rating with five fewer turbines.

### *Maintaining a technological advantage*

MHI Vestas Offshore Wind continues to optimize the output of its turbine technology. In January 2017, the company unveiled its uprated 8 MW wind turbine, enabling its 8 MW platform to reach 9 MW at specific site conditions.

The increased energy production per wind turbine will add greater value for many projects and save on Capital Expenditure (CAPEX) costs as fewer machines will be needed to meet the park capacity.

The company's prototype at Østerild broke the energy generation record for a commercially available offshore wind turbine on Thursday 1st December, producing 216,000 kWh over a 24-hour period.

### *Manufacturing ramping up to meet increased demand*

MHI Vestas Offshore Wind continued the ramp-up across all its production sites during the year. After successfully manufacturing the 32 V164-8.0 MW turbine for Burbo Bank Extension, the company began to manufacture components for the 330 MW Walney Extension project and the 42 MW Blyth project, all located in the UK.

The 116 units of V112-3.45 wind turbines for the Rampion project, the company's largest offshore wind project to date, are being sourced from Vestas.

During the year, MHI Vestas Offshore Wind has recruited and trained over 500 employees at its production facilities due to the increased demand. Immediately prior to year-end, the company announced that it would be further hiring employees at its Isle of Wight, Nakskov and Lindø factories. The production ramp-up is progressing according the original joint venture plan.

MHI Vestas Offshore Wind continues to work with its suppliers to drive continuous quality improvement and look for efficiencies to reduce the overall cost of energy. The company believes that its current "asset light" and "asset flexible" manufacturing set-up provides the most flexible and robust production footprint that can ensure the timely delivery of the new technology.

# Management's review

## Operating review

### *2017/18 focus areas*

To further build on its success, MHI Vestas Offshore Wind will focus on four key areas in the coming year.

1) Flawless project execution: The perfect execution is imperative for MHI Vestas Offshore Wind. As the company continues to ramp up, it must do so by safely executing its projects. This includes the reliability of the technology, installation and service methods.

2) Maintain a technological advantage: MHI Vestas Offshore Wind has the most powerful commercially available wind turbine on the market. The company is continuously exploring to optimize the output of its turbine. The company will not be drawn on speculation as to the next generation of turbine, speaking of advancement only when the technology is tested and proven in the test environment.

3) Campaign for clearer volume targets: In order to continue to drive down costs, clear volume targets are needed in core markets, particularly from 2023, to avoid the peaks and troughs of sporadic deployment. MHI Vestas Offshore Wind will continue to work with industry and governments to advise on the most suitable way to grow the industry.

4) Continue creating value through collaboration: MHI Vestas Offshore Wind has collaboration in its DNA and has worked in close collaboration with its stakeholders to create value throughout the entire value chain. New and innovative approaches to collaboration has enabled the company to enter into a wide variety of partnerships over the first two years of operation. In order to continue to optimize value, MHI Vestas Offshore Wind is committed to collaboration with its key stakeholders.

### Financial performance

#### *Income statement*

Revenue for the year was realised with EUR 531m resulting in a gross profit of EUR -12m. This was driven by the turbine projects Burbo Bank Extension V164 8MW and Nobelwind V112 3MW as well as service contracts from the V112 3MW platform, however offset by indirect production costs related to the V164 production factories.

Furthermore, significant costs were incurred from the amortisation of the V164 development project and the profit for the year thus amounted to negative EUR 121m. The result was in line with expectations.

#### *Balance sheet and cash flow*

Despite the negative earnings the free cash flow was improved and ended at EUR 10m for the year. Positive impacts from net working capital and decreasing investments in the development projects were driving this along with the fact that the V164 amortisation has no cash impact.

The value of the completed V164 development project after further capitalisation and amortisation in the year amounted to EUR 341m at 31 March 2017.

No further capital increases were made during the year and the equity ended at EUR 313m, corresponding to a solvency ratio of 23%.

Other material balance sheet items at 31 March 2017 was inventories of EUR 629m and prepayments from customers of EUR 703m. In all material aspects both of these balance sheet items relate to on-going turbine projects.

# Management's review

## Operating review

### *Subsequent events*

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

### 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:

### *Competitive auction processes*

*Description*

In our core markets in Europe, there is a trend to grant regulatory financial support for offshore wind energy projects based on applying competitive auction processes with various factors applying in different markets, but in general the bid price is the key competitive factor. The bidding prices in the competitive auction processes have continued to decline substantially and most recently subsidy free bids have been awarded projects in Germany,

*Potential impact*

The substantial decline in bidding prices in the competitive auction processes means that the customers of MHI Vestas Offshore Wind will have a continued high focus on lowering the cost of energy in order for them to succeed with their bid. This focus on the bid price will put pressure on prices and efficiency in the complete value chain of the offshore wind industry, hereunder on the wind turbine manufacturers.

*Mitigation*

With our competitive wind turbine technology, MHI Vestas Offshore Wind is currently well positioned in the market to offer wind turbines that will help our customers offering competitive bidding prices. To mitigate potential future impact of the competitive auction processes, MHI Vestas Offshore Wind is continuously focusing on driving down the cost of energy in our scope of the value chain of the offshore wind industry. MHI Vestas Offshore Wind is in particular focused on developing the wind turbine technology, increasing our system integration and interface management abilities and our logistic- and installation efficiency. MHI Vestas Offshore Wind is at the same time maintaining a constant focus on lowering costs in order to drive down the accumulated costs of energy in the future offshore wind energy projects.

### *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.

## Management's review

### Operating review

*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.

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

***Certification standards***

During the year, the certification activity has been initiated in relation to the ISO 9001:2008 (quality), ISO 14001:2004 (environment) and OSHAS 18001:2008 (occupational health and safety) certifications, this resulting in 9 external and 16 internal audits being carried out. In this context, several locations have been visited by DNV GL embracing all areas of the value chain, which opened for improvements, but at the same time demonstrated that the MHI Vestas Offshore Wind management system was successfully implemented on the PIT (Process Integration Tool) also including satisfactory introduction of process roles throughout the entire organisation.

The next steps will be the implementation of the new versions of the ISO standards and attain certification accordingly; ISO 9001:2015 and ISO 14001:2015 will be implemented in the coming year.

***Safety***

The continued company growth in the year, combined with a high activity level documented in almost 3.7 million man hours being registered, is making increased demands on safety at all levels of the organisation.

The successful implementation of the Safety Organisation set-up has proven very dynamic and valuable to the business;

- Global Safety Committee
- Consolidated Safety Committees for Operations, Manufacturing and Offices
- Local Safety Committees / Safety Groups

Safety issues and KPI performance at all levels are continuously assessed, improvements initiated and the cross-functional safety efforts are coordinated and knowledge shared amongst the Safety Representatives. The Safety Organisation plays an essential role in making people "Think Safety" by making safety an integral part of the MVOW mind-set and behaviour, improving the working environment and emphasizing the importance of risk assessments forming the basis for design, work instructions and processes in the entire MVOW value chain, this also in relation to external contractors and stakeholders.

## Management's review

### Operating review

MHI Vestas Offshore Wind has acknowledged that the human factor is the most critical factor in any safety effort; Consequently, the Safety Awareness programme has been rolled out in the year, resulting in impressive 1,282 persons being trained of which 906 were internal employees and 376 external contractors. The Safety Awareness training has its main focus around the MHI Vestas Offshore Wind 5 Safety Principles and behavioural safety. In addition, Management has performed Safety Dialogues with equal attention to positive and negative behaviours to enhance the one-to-one safety communication out in the business, leading to 130 Hazardous Observations and 120 Positive Findings.

To maintain a proactive safety focus, the leading KPI "Hazardous Observation rate" was introduced in the year (the total number of Hazardous Observations per 100,000 working hours), this to measure the potential harm where proactive and positive safety work can be carried out to minimize the potential risk. The target was set by a rate >100 and the performance was realized with 94; However, if extracting the working hours and Hazardous Observations in the Offices in MHI Vestas Offshore Wind, the Hazardous Observation rate would be realized with 135.

The installation and commissioning of the first V164 Construction Project was completed during the year without a single LTI. MHI Vestas Offshore Wind managed to realize the LTI (Lost Time Injuries) rate with 1.1 against a target of 2.0 (per 1,000,000 million working hours). The TRI (Total Recordable Injury) rate was realized with 16.2 against a target of 12.0 (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 injury rates in the coming year, MHI Vestas Offshore Wind will continue to dedicate high attention to the human factor; In addition to the Safety Awareness programme and Safety Dialogue continuity, the HSE department will launch 3 major HSE campaigns throughout the entire organisation to anchor the safety message and awareness in all areas of the business. Increased focus is also on competences being in place prior to carrying out the job as well as training requirements being fulfilled.

***Environment and energy***

The MHI Vestas Offshore Wind Environmental target is a recycle or energy recovery rate of the business >80% and an Energy Consumption, which is more produced energy than consumed energy. The recycle or energy recovery rate for the year was achieved with a result of 89%. The waste stream showed that 83% of all waste was obtained from Manufacturing (of which 62% was from Blades), and 15% was obtained from Operations. Initiatives for continuous improvements in waste handling are ongoing, and a major step in the right direction to an even further increased environmental waste performance is the fact that the UK is now a non-landfill region and the increased focus on the RDF (Refuse Derived Fuel), which is shipped to Europe Regions for combustion (energy recovery).

The total electricity consumed was nearly a third of what was produced at the Test Turbine in Østerild, DK. 82% of all electricity was consumed by Manufacturing, and 16% was consumed by Operations. 12% of all consumed electricity was coming from renewable energy sources. 76% of the electricity consumed in Operations was coming from renewable energy sources.

All energy is converted into CO2 equivalents and compared to all renewable energy converted to CO2 equivalents. In the year, MHI Vestas Offshore Wind was performing better than CO2 neutral. The KPI target for Energy Consumption is achieved as MHI Vestas Offshore Wind has consumed less energy than energy produced at the Test Turbine in Østerild, DK.

The KPI "Environmental Frequency Rate (EFR)" was officially introduced to the organisation in the year with a target of 4.5. 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 2.2 due to 8 medium environmental incidents.

## Management's review

### Operating review

To deal with the energy challenges in the EU and to contribute to an energy reduction of 20% in 2020, all large companies in the EU shall perform a so-called energy review - "Energisyn" in Denmark / "ESOS" (Energy Savings Opportunity Scheme) in UK. "ESOS" has been concluded for energy usage in the UK, at the Isle of Wight Blades, and "Energisyn" has been concluded for the Factories in Denmark, Lindø Nacelle and Nakskov Blades.

#### *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. The suppliers are evaluated in a Supplier Assessment Tool, screening them on sustainability issues, including human rights and labour standards, ensuring that the company will not do business with anyone acting in dispute with the International Bill of Human Rights.

Concurrently with MHI Vestas Offshore Wind expanding the business, the company recognizes CSR as an essential element and key driver for achieving sustainable results. Therefore, a working group has been appointed, to develop the CSR policy over the coming year.

#### *Code of Conduct*

MHI Vestas Offshore Wind recognizes that being an international company operating in various countries and cultures implies that we have the responsibility to equip our employees and stakeholders with the right foundation to handle any ethical challenges they might face in the course of their work for MHI Vestas Offshore Wind. Therefore, all employees are introduced to the Code of Conduct when they are on-boarded, while consultants, business partners and agents are introduced to the Code of Conduct upon commencement of the collaboration with MHI Vestas Offshore Wind.

The Code of Conduct serves as a moral compass guiding how we conduct business and covers areas of health and safety, human rights, bribery and corruption, environment, and protect company assets, information and reputation. With this we set out the principles for how our employees, consultants, business partners, and agents are expected to behave in the pursuit of achieving MHI Vestas Offshore Wind's strategic objectives.

During the year training sessions has been conducted to employee groups especially exposed to ethical challenges, to guide and set clear the standards of the Code of Conduct.

The Code of Conduct is becoming more and more embedded in the company culture and employees who experience or suspect any violation of the Code of Conduct, are expected to report this. There has been no severe violations of the Code of Conduct throughout the year and any potential violations has led to investigation cases.

To maintain ethical behavior in all MHI Vestas Offshore Wind does, the company will be introducing employee sign-off on the Code of Conduct and continue awareness and training sessions.

# Management's review

## Operating review

### *Employees*

Throughout the year, 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 1,134 employees per March 2016 to 1,836 employees per March 2017, which means that over 700 employees have been recruited and trained.

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. MHI Vestas Offshore Wind Employees on 31 March 2017:

| | |
|---|---|
| Manufacturing | 907 |
| Sales | 38 |
| Technology & Sourcing | 130 |
| Operations | 531 |
| Other | 230 |
| Total | 1,836 |

### *Engagement survey*

The coming year an employee engagement survey will be introduced to measure how the employees perceive their daily workplace, and subsequently finds areas where MHI Vestas Offshore Wind can become an even better place to work.

### *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 2017 represented by 31 different nationalities.

In MHI Vestas Offshore Wind we strive for a more equal distribution of gender among employees in leadership positions, and have over the year almost doubled the number of members of the underrepresented gender. Amongst our people managers in MHI Vestas Offshore Wind we now have 10 different nationalities and an average age of 43.

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

# Management's review

## Operating review

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 criterias and overall competences of the candidate. Current overview of the diversity of the board:

| | |
|---|---|
| Nationalities | 4 |
| Men | 6 |
| Women | 0 |
| Average age | 60 |

In accordance with Danish legislation, MHI Vestas Offshore Wind has defined a target outlining that members of the underrepresented gender should constitute one board member no later than 2018.

### *Global Bonus Programme*

MHI Vestas Offshore Wind acknowledges that all employees are essential for the company to be able to achieve its business objectives and therefore rewards all employees through the Global Bonus Programme when annual goals are achieved. The Bonus Programme is based on measurable focus areas, also known as Bonus Targets/KPIs, which help to realise our strategic priorities and internal targets. As all employees contribute to the same value chain and support the same customers, whether working in a support function or developing, producing, marketing, selling, installing or servicing wind turbines all employees are rewarded on the basis of the same KPI's. The extent to which each organisational area will be rewarded depends on the extent to which this area has delivered on the Bonus KPI's.

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

## Income statement

| Note | EUR'000 | Consolidated 2016/17 | Consolidated 2015/16 | Parent company 2016/17 | Parent company 2015/16 |
|---|---|---|---|---|---|
| 2 | Revenue | 531,243 | 535,906 | 454,567 | 201,557 |
| 4 | Production costs | -543,135 | -505,058 | -517,304 | -217,072 |
| | Gross profit | -11.892 | 30,848 | -62,737 | -15,515 |
| 3,4 | Research and development costs | -64,031 | -43,732 | -64,031 | -43,732 |
| 4 | Distribution costs | -9,263 | -7,664 | -7,959 | -6,316 |
| 4 | Administration costs | -34,267 | -25,764 | -31,734 | -22,180 |
| | Other operating income | 0 | 0 | 20,599 | 52,653 |
| | Operating profit (EBIT) | -119,453 | -46,312 | -145,862 | -35,090 |
| | Share of profit in group companies after tax | 0 | 0 | 25,084 | -10,595 |
| 5 | Financial income | 1,352 | 3,784 | 774 | 1,788 |
| 6 | Financial costs | -1,347 | -1,433 | -1,324 | -1,313 |
| | Profit before tax | -119,448 | -43,961 | -121,328 | -45,210 |
| 7 | Tax | -1,077 | -255 | 803 | 994 |
| | Profit for the year | -120,525 | -44,216 | -120,525 | -44,216 |
| | | | | | |
| | Proposed distribution of profit | | | | |
| | Transfer to reserve under the equity method | 0 | 0 | 25,084 | -10,595 |
| | Transfer to reserve under development costs | 0 | 0 | 36,624 | 0 |
| | Retained earnings | -120,525 | -44,216 | -182,233 | -33,621 |
| | | -120,525 | -44,216 | -120,525 | -44,216 |

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

## Balance sheet

| Note | EUR'000 | Consolidated 31 March 2017 | Consolidated 31 March 2016 | Parent company 31 March 2017 | Parent company 31 March 2016 |
|---|---|---|---|---|---|
| | **ASSETS** | | | | |
| | **Non-current assets** | | | | |
| 8 | **Intangible assets** | | | | |
| | Software | 19,248 | 15,157 | 19,248 | 15,157 |
| | Development projects in progress | 13,026 | 10,736 | 13,026 | 10,736 |
| | Completed development projects | 341,222 | 362,176 | 341,222 | 362,176 |
| | | 373,496 | 388,069 | 373,496 | 388,069 |
| 9 | **Property, plant and equipment** | | | | |
| | Plant and machinery | 33,318 | 31,279 | 24,433 | 21,278 |
| | Other fixtures and fittings, tools and equipment | 49,177 | 24,002 | 43,622 | 21,531 |
| | Property, plant and equipment under construction | 11,768 | 2,192 | 11,272 | 0 |
| | | 94,263 | 57,473 | 79,327 | 42,809 |
| | **Other non-current assets** | | | | |
| | Other receivables | 723 | 626 | 712 | 617 |
| 10 | Investments in group companies | 0 | 0 | 54,960 | 43,538 |
| | | 723 | 626 | 55,672 | 44,155 |
| | **Total non-current assets** | 468,482 | 446,168 | 508,495 | 475,033 |
| | **Current assets** | | | | |
| 11 | **Inventories** | 628,899 | 270,203 | 551,621 | 271,992 |
| | **Receivables** | | | | |
| 12 | Trade receivables | 111,666 | 17,045 | 209 | 1,117 |
| | Receivables from group companies | 0 | 0 | 55,700 | 130 |
| | Receivables from shareholders | 1,081 | 2,974 | 582 | 2,329 |
| | Other receivables | 39,555 | 33,745 | 38,100 | 32,100 |
| 13 | Deferred tax asset | 0 | 0 | 0 | 0 |
| 14 | Tax receivables | 739 | 1,666 | 739 | 1,355 |
| | Prepayments | 7,766 | 5,205 | 4,708 | 1,564 |
| | | 160,807 | 60,635 | 100,038 | 38,595 |
| | **Cash at bank and in hand** | 111,710 | 63,646 | 102,410 | 49,659 |
| | **Total current assets** | 901,416 | 394,484 | 754,069 | 360,246 |
| | **TOTAL ASSETS** | 1,369,898 | 840,652 | 1,262,564 | 835,279 |

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

## Balance sheet

| Note | EUR'000 | Consolidated 31 March 2017 | Consolidated 31 March 2016 | Parent company 31 March 2017 | Parent company 31 March 2016 |
|---|---|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | | | |
| | **Equity** | | | | |
| 15 | Share capital | 13,690 | 13,690 | 13,690 | 13,690 |
| | Reserve under the equity method | 0 | 0 | 19,231 | 7,809 |
| | Reserve for development costs | 0 | 0 | 36,624 | 0 |
| | Retained earnings | 299,481 | 423,300 | 243,626 | 415,491 |
| | **Total equity** | 313,171 | 436,990 | 313,171 | 436,990 |
| | **Provisions** | | | | |
| 16 | Other provisions | 12,792 | 0 | 12,792 | 0 |
| | **Total provisions** | 12,792 | 0 | 12,792 | 0 |
| | **Liabilities** | | | | |
| | **Current liabilities** | | | | |
| 17 | Financial debts | 40,000 | 2,002 | 40,000 | 2,002 |
| | Prepayments from customers | 702,977 | 252,528 | 636,305 | 230,019 |
| | Trade payables | 160,447 | 97,250 | 121,570 | 63,882 |
| | Payables to group companies | 0 | 0 | 37,638 | 60,311 |
| | Payables to shareholders | 82,314 | 31,308 | 79,913 | 28,679 |
| 14 | Tax payables | 1,348 | 892 | 0 | 0 |
| | Other liabilities | 56,849 | 19,682 | 21,175 | 13,396 |
| | | 1,043,935 | 403,662 | 936,601 | 398,289 |
| | **Total liabilities** | 1,043,935 | 403,662 | 936,601 | 398,289 |
| | **TOTAL EQUITY AND LIABILITIES** | 1,369,898 | 840,652 | 1,262,564 | 835,279 |

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

### Statement of changes in equity

| | | Consolidated | | |
|---|---|---|---|---|
| Note | EUR'000 | Share capital | Retained earnings | Total |
| | **Equity at 1 April 2015** | 13,590 | 401,971 | 415,561 |
| | Exchange rate adjustments, EUR conversion | 0 | 1,031 | 1,031 |
| | Exchange rate adjustments on foreign entities | 0 | -4,890 | -4,890 |
| | Fair value adjustments of derivative financial instruments | 0 | 19,504 | 19,504 |
| | Capital increases | 100 | 49,900 | 50,000 |
| 18 | Profit for the year | 0 | -44,216 | -44,216 |
| | **Equity at 1 April 2016** | 13,690 | 423,300 | 436,990 |
| | Exchange rate adjustments, EUR conversion | 0 | 757 | 757 |
| | Exchange rate adjustments, foreign entities | 0 | -3,788 | -3,788 |
| | Fair value adjustments of derivative financial instruments | 0 | -263 | -263 |
| 18 | Profit for the year | 0 | -120,525 | -120,525 |
| | **Equity at 31 March 2017** | 13,690 | 299,481 | 313,171 |

| | | Parent company | | | | |
|---|---|---|---|---|---|---|
| | EUR'000 | Share capital | Reserve under the equity method | Reserve for development costs | Retained earnings | Total |
| | **Equity at 1 April 2015** | 13,590 | 23,170 | 0 | 378,801 | 415,561 |
| | Exchange rate adjustments, EUR conversion | 0 | 124 | 0 | 907 | 1,031 |
| | Exchange rate adjustments on foreign entities | 0 | -4,890 | 0 | 0 | -4,890 |
| | Fair value adjustments of derivative financial instruments | 0 | 0 | 0 | 19,504 | 19,504 |
| | Capital increases | 100 | 0 | 0 | 49,900 | 50,000 |
| 18 | Profit for the year | 0 | -10,595 | 0 | -33,621 | -44,216 |
| | **Equity at 1 April 2016** | 13,690 | 7,809 | 0 | 415,491 | 436,990 |
| | Exchange rate adjustments, EUR conversion | 0 | 133 | 0 | 624 | 757 |
| | Exchange rate adjustments, foreign entities | 0 | -3,788 | 0 | 0 | -3,788 |
| | Fair value adjustments of derivative financial instruments | 0 | 0 | 0 | -263 | -263 |
| | Dividend | 0 | -10,007 | 0 | 10,007 | 0 |
| 18 | Profit for the year | 0 | 25,084 | 36,624 | -182,233 | -120,525 |
| | **Equity at 31 March 2017** | 13,690 | 19,231 | 36,624 | 243,626 | 313,171 |

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

## Cash flow statement

| Note | EUR'000 | Consolidated 2016/17 | Consolidated 2015/16 |
|---|---|---|---|
| | Profit for the year | -120,525 | -44.216 |
| | Depreciation and amortisation, reversed | 80,895 | 45.331 |
| | Financial items, reversed | -5 | -2.351 |
| | Tax, reversed | 1,077 | 255 |
| | Other adjustments | 9,536 | 2.215 |
| 19 | Changes in working capital | 141,761 | 60.361 |
| | **Cash flows from operating activities before financial items and tax** | 112,739 | 61.595 |
| | Financial items paid | 5 | 2,351 |
| | **Cash flows from operating activities before tax** | 112,744 | 63,946 |
| | Corporation tax paid/received | 311 | -1,759 |
| | **Cash flows from operating activities** | 113,055 | 62,187 |
| | Purchase of intangible assets | -49,198 | -92.878 |
| | Purchase of property, plant and equipment | -54,259 | -48.198 |
| | Disposal of property, plant and equipment | 0 | 8 |
| | Purchase of other non-current assets | -97 | -23 |
| | **Cash flows from investing activities** | -103,554 | -141,091 |
| | **Free cash flow** | 9,501 | -78,904 |
| | Capital increase | 0 | 50,000 |
| | Change in financial debt | 40,000 | 0 |
| | **Cash flows from financing activities** | 40,000 | 50,000 |
| | **Net cash flows from operating, investing and financing activities** | 49,501 | -28,904 |
| | Cash at bank and in hand at the beginning of the year | 63,646 | 98,550 |
| | Exchange rate adjustment of cash | -1,437 | -6,000 |
| | **Cash at bank and in hand at the end of the year** | 111,710 | 63,646 |

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

## Contents

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

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 2016/17 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Effective 1 April 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values of property, plant and equipment
2. Reserve for development costs

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

Re 2: An amount corresponding to development costs recognised will, in future, be tied up in the Parent Company in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

None of the above changes impacts on the income statement or the balance sheet for 2016/17 or the comparative figures.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, 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
- Tax — note 7
- Intangible assets — note 8
- Property, plant and equipment — note 9
- Other non-current assets, parent company — note 10
- Inventories — note 11
- Trade receivables — note 12

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

## Notes to the financial statements

1 **Accounting policies (continued)**

- Deferred tax asset — note 13
- Tax payables and receivables — note 14
- Other provisions — note 15

### 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 expenses.

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 expenses.

## 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

The Group has not entered into any finance leases. Operational lease expenses are recognised in the income statement over the term of the lease.

#### 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.

*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.

MHI VESTAS OFFSHORE WIND

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

### Notes to the financial statements

1 **Accounting policies (continued)**

*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.

**Balance sheet**

*Other receivables*

Other receivables include VAT receivable, deposits etc. and are measured at amortised cost.

*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.

*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 include VAT payable, salary and holiday pay obligations, personal taxes, etc.

## 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 changes in 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 at bank and in hand***

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

**Financial ratios**

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

## 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 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Sale of turbines | 440,728 | 420,688 | 450,824 | 198,628 |
| Sale of service | 90,515 | 115,218 | 3,743 | 2,929 |
| | 531,243 | 535,906 | 454,567 | 201,557 |

All revenue is generated in Europe as specified below:

| | | | | |
|---|---|---|---|---|
| Benelux | 171,386 | 214,874 | 0 | 0 |
| United Kingdom | 354,166 | 295,625 | 0 | 0 |
| Other | 5,691 | 25,407 | 1,632 | 20,910 |
| Internal sales | 0 | 0 | 452,935 | 180,647 |
| | 531,243 | 535,906 | 454,567 | 201,557 |

3 **Research and development costs**

| | | | | |
|---|---|---|---|---|
| R&D costs | 44,726 | 90,752 | 44,726 | 90,752 |
| Capitalised development projects | -39,747 | -83,488 | -39,747 | -83,488 |
| Amortisation and impairment of development projects | 59,052 | 36,468 | 59,052 | 36,468 |
| | 64,031 | 43,732 | 64,031 | 43,732 |

# 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 | 3-8 years |
| Plant and machinery | 3-7 years |
| Other fixtures and fittings, tools and equipment | 3-5 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 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Software | 5,392 | 1,570 | 5,392 | 1,570 |
| Completed development projects | 59,052 | 36,468 | 59,052 | 36,468 |
| Plant and machinery | 6,552 | 3,785 | 4,129 | 1,341 |
| Other fixtures and fittings, tools and equipment | 9,899 | 3,508 | 8,828 | 3,068 |
| | 80,895 | 45,331 | 77,401 | 42,447 |
| Expensed as follows: | | | | |
| Production costs | 15,164 | 6,481 | 11,670 | 3,597 |
| Research and development costs | 59,052 | 36,468 | 59,052 | 36,468 |
| Distribution costs | 200 | 177 | 200 | 177 |
| Administration costs | 6,479 | 2,205 | 6,479 | 2,205 |
| | 80,895 | 45,331 | 77,401 | 42,447 |

### 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 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Interest from group companies | 0 | 0 | 84 | 88 |
| Exchange rate adjustments | 1,287 | 3,713 | 684 | 1,634 |
| Other financial income | 65 | 71 | 6 | 66 |
| | 1,352 | 3,784 | 774 | 1,788 |

# 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 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Interest to group companies | 0 | 0 | 15 | 44 |
| Exchange rate adjustments | 0 | 0 | 0 | 0 |
| Other financial costs | 1,347 | 1,433 | 1,309 | 1,269 |
| | 1,347 | 1,433 | 1,324 | 1,313 |

### 7 Corporation tax

*Accounting policies*

Corporation 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 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Corporation tax | 1,175 | 1,026 | -739 | -738 |
| Adjustment to corporation tax, previous years | -98 | -1,001 | -64 | -486 |
| Change in deferred tax | 0 | 0 | 0 | 0 |
| Adjustment to deferred tax, previous years | 0 | 230 | 0 | 230 |
| | 1,077 | 255 | -803 | -994 |

### 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 at 1 April 2016 | 17,565 | 10,736 | 398,690 | 426,991 |
| Exchange rate adjustments | 42 | 22 | 737 | 801 |
| Additions for the year | 9,451 | 18,422 | 21,325 | 49,198 |
| Transfers for the year | 0 | -16,154 | 16,154 | 0 |
| Disposals for the year | 0 | 0 | -5,867 | -5,867 |
| **Cost at 31 March 2017** | 27,058 | 13,026 | 431,039 | 471,123 |
| Amortisation at 1 April 2016 | 2,408 | 0 | 36,514 | 38,922 |
| Exchange rate adjustments | 10 | 0 | 118 | 128 |
| Amortisation for the year | 5,392 | 0 | 53,185 | 58,477 |
| Impairment for the year | 0 | 0 | 5,867 | 5,867 |
| Disposals for the year | 0 | 0 | -5,867 | -5,867 |
| **Amortisation 31 March 2017** | 7,810 | 0 | 89,817 | 97,627 |
| **Carrying amount at 31 March 2017** | 19,248 | 13,026 | 341,222 | 373,496 |
| **Amortised over** | 3-5 years | | 3-8 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 at 1 April 2016 | 17,565 | 10,736 | 398,690 | 426,991 |
| Exchange rate adjustments | 42 | 22 | 737 | 801 |
| Additions for the year | 9,451 | 18,422 | 21,325 | 49,198 |
| Transfers for the year | 0 | -16,154 | 16,154 | 0 |
| Disposals for the year | 0 | 0 | -5,867 | -5,867 |
| Cost at 31 March 2017 | 27,058 | 13,026 | 431,039 | 471,123 |
| Amortisation at 1 April 2016 | 2,408 | 0 | 36,514 | 38,922 |
| Exchange rate adjustments | 10 | 0 | 118 | 128 |
| Amortisation for the year | 5,392 | 0 | 53,185 | 58,577 |
| Impairment for the year | 0 | 0 | 5,867 | 5,867 |
| Disposals for the year | 0 | 0 | -5,867 | -5,867 |
| Amortisation 31 March 2017 | 7,810 | 0 | 89,817 | 97,627 |
| Carrying amount at 31 March 2017 | 19,248 | 13,026 | 341,222 | 373,496 |
| Amortised over | 3-5 years | | 3-8 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)

| EUR'000 | Consolidated: Plant and machinery | Other fixtures and fittings, tools and equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|
| Cost at 1 April 2016 | 36,006 | 30,013 | 2,192 | 68,211 |
| Exchange rate adjustments | -948 | -282 | -91 | -1,321 |
| Additions for the year | 9,283 | 33,715 | 11,261 | 54,259 |
| Transferred | 0 | 1,594 | -1,594 | 0 |
| Cost at 31 March 2017 | 44,341 | 65,040 | 11,768 | 121,149 |
| Depreciation at 1 April 2016 | 4,727 | 6,011 | 0 | 10,738 |
| Exchange rate adjustments | -256 | -47 | 0 | -303 |
| Depreciation for the year | 6,552 | 9,899 | 0 | 16,451 |
| Depreciation at 31 March 2017 | 11,023 | 15,863 | 0 | 26,886 |
| Carrying amount at 31 March 2017 | 33,318 | 49,177 | 11,768 | 94,263 |
| Depreciated over | 3-7 years | 3-5 years | | |

| DKK'000 | Parent company: Plant and machinery | Other fixtures and fittings, tools and equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|
| Cost at 1 April 2016 | 23,700 | 27,082 | 0 | 50,782 |
| Exchange rate adjustments | 51 | 78 | 11 | 140 |
| Additions for the year | 7,244 | 30,859 | 11,261 | 49,364 |
| Cost at 31 March 2017 | 30,995 | 58,019 | 11,272 | 100,286 |
| Depreciation at 1 April 2016 | 2,422 | 5,551 | 0 | 7,973 |
| Exchange rate adjustments | 11 | 18 | 0 | 29 |
| Depreciation for the year | 4,129 | 8,828 | 0 | 12,957 |
| Depreciation at 31 March 2017 | 6,562 | 14,397 | 0 | 20,959 |
| Carrying amount at 31 March 2017 | 24,433 | 43,622 | 11,272 | 79,327 |
| Depreciated over | 3-7 years | 3-5 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 at 1 April 2016 | 35,729 |
| Additions for the year | 0 |
| **Cost at 31 March 2017** | 35,729 |
| Value adjustment at 1 April 2016 | 7,809 |
| Exchange rate adjustments foreign entities | -3,788 |
| Exchange rate adjustments EUR conversion | 133 |
| Share of profit in group companies after tax | 6,351 |
| Elimination of internal profit | 18,733 |
| Dividends | -10,007 |
| **Value adjustments at 31 March 2017** | 19,231 |
| **Carrying amount at 31 March 2017** | 54,960 |

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 |

# 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 2017 | 31/3 2016 | 31/3 2017 | 31/3 2016 |
| Raw materials and consumables | 150,297 | 47,931 | 139,449 | 44,762 |
| Work in progress | 37,969 | 48,486 | 35,614 | 47,263 |
| Finished goods | 399,128 | 81,379 | 335,053 | 87,571 |
| Prepayment for goods | 41,505 | 92,407 | 41,505 | 92,396 |
| | 628,899 | 270,203 | 551,621 | 271,992 |

### 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 2017 | 31/3 2016 | 31/3 2017 | 31/3 2016 |
| Trade receivables | 111,666 | 17,045 | 209 | 1,117 |
| Provisions for bad debts | 0 | 0 | 0 | 0 |
| | 111,666 | 17,045 | 209 | 1,117 |

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

### 13 Deferred tax asset

*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.

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

### Notes to the financial statements

### 13 Deferred tax asset (continued)

| EUR'000 | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 31/3 2017 | 31/3 2016 | 31/3 2017 | 31/3 2016 |
| Deferred tax asset at 1 April | 0 | 230 | 0 | 230 |
| Adjustment of deferred tax asset, previous years | 0 | -230 | 0 | -230 |
| **Deferred tax asset at 31 March** | 0 | 0 | 0 | 0 |

The parent/group has a deferred tax asset of EUR 40 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 2017 | 31/3 2016 | 31/3 2017 | 31/3 2016 |
| Tax receivables (assets) | 739 | 1,666 | 739 | 1,355 |
| Tax payables (liabilities) | -1,348 | -892 | 0 | 0 |
| **Net tax receivable/payable at 31 March** | -609 | 774 | 739 | 1,355 |

### 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 39 shares of EUR 1 in 2013.
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.

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

## Notes to the financial statements

### 16 Other 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 2017 | 31/3 2016 | 31/3 2017 | 31/3 2016 |
| Other provisions at 1 April | 0 | 0 | 0 | 0 |
| Provisions for the year | 12,792 | 0 | 12,792 | 0 |
| **Other provisions at 31 March** | 12,792 | 0 | 12,792 | 0 |

Other provisions are expected to be payable as follows:

| | | | | |
|---|---|---|---|---|
| 0-1 years | 4,264 | 0 | 4,264 | 0 |
| 1-5 years | 8,528 | 0 | 8,528 | 0 |
| | 12,792 | 0 | 12,792 | 0 |

### 17 Financial debts

Financial debts consist of external bankloans falling due within 1 year.

### 18 Proposed distribution of profit

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| EUR'000 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Transfer to reserve under the equity method | 0 | 0 | 25,084 | -10,595 |
| Transfer to reserve under development costs | 0 | 0 | 36,624 | 0 |
| Retained earnings | -120,525 | -44,216 | -182,233 | -33,621 |
| | -120,525 | -44,216 | -120,525 | -44,216 |

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

## Notes to the financial statements

### 19 Change in working capital

| | Consolidated | |
|---|---|---|
| | 2016/17 | 2015/16 |
| Change in inventories | -358,696 | 941 |
| Change in receivables | -103,255 | -8,855 |
| Change in prepayments from customers | 450,449 | 11,336 |
| Change in trade payables | 63,197 | 57,877 |
| Change in other liabilities | 37,167 | -1,107 |
| Change in receivables/payables with group companies and shareholders | 52,899 | 169 |
| | 141,761 | 60,361 |

### 20 Employee information

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| EUR'000 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Wages and salaries, etc. | 107,984 | 69,500 | 79,022 | 45,145 |
| Pension schemes | 6,757 | 3,825 | 5,308 | 2,818 |
| Other social security costs | 4,568 | 3,062 | 2,532 | 1,261 |
| | 119,309 | 76,387 | 86,862 | 49,224 |
| Average number of employees | 1,435 | 882 | 901 | 466 |
| Executive Management remuneration including incentive schemes | 1,972 | 2,035 | 1,972 | 2,035 |
| Board of Directors remuneration | 0 | 0 | 0 | 0 |

### 21 Fees to auditors

*Fees to auditors appointed at the annual meeting*

| | Consolidated | |
|---|---|---|
| | 2016/17 | 2015/16 |
| Statutory audit | 283 | 266 |
| Assurance engagements | 87 | 89 |
| Tax assistance | 198 | 112 |
| Other assistance | 37 | 48 |
| | 605 | 515 |

### 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.

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

## Notes to the financial statements

### 23 Contractual obligations

| EUR'000 | Consolidated 31/3 2017 | Consolidated 31/3 2016 | Parent company 31/3 2017 | Parent company 31/3 2016 |
|---|---|---|---|---|
| Operating lease commitments falling due within 1 year | 20,783 | 15,839 | 8,618 | 6,475 |
| Operating lease commitments falling due within 1-5 years | 44,037 | 47,884 | 9,317 | 13,866 |
| Operating lease commitments falling due after 5 years | 29,777 | 37,693 | 0 | 5 |
| | 94,597 | 101,416 | 17,935 | 20,346 |

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 Derivate financial instruments

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

| EUR'000 | Contractual value 31/3 2017 | Contractual value 31/3 2016 | Gains and losses recognised in equity 31/3 2017 | Gains and losses recognised in equity 31/3 2016 |
|---|---|---|---|---|
| Forward exchange contracts EUR/GBP | 329,434 | 387,107 | 19,241 | 19,504 |