

MHI Vestas Offshore Wind A/S

Dusager 4, DK-8200 Aarhus N

CVR no. 27 91 80 42

Annual report 2019/20

Approved at the Company's annual general meeting

Chairman:



Mads Bay Jensen

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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 2019 - 31 March 2020.



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 2020 and of the results of the Group's and the Company's operations and consolidated cash flows for the financial year 1 April 2019 - 31 March 2020.

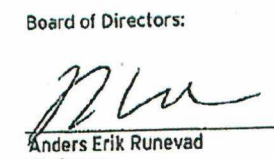


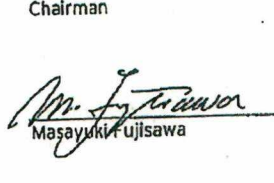


Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

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

Aarhus, 8 June 2020
Executive Board:

 Philippe Kavafyar CEO	 Johnny Thomsen	 本田 辰一郎 Tatsuihiro Honda
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Board of Directors:

 Anders Erik Runevad Chairman	 Kentaro Hosomi Deputy Chairman	 伊藤 栄作 Eisaku Ito
 Masayuki Fujisawa	 Anders Jakob Vedel	 Juan Araujo 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 2019 - 31 March 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a 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 2020 and of the results of the Group's and the Parent Company's operations as well as consolidated cash flows for the financial year 1 April 2019 - 31 March 2020 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" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the 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 financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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 scepticism throughout the audit. We also:

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

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Independent auditor's report

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

Aarhus, 8 June 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Steen Skorstengaard
State Authorised
Public Accountant
mne19709



Michael Dahl Christiansen
State Authorised
Public Accountant
mne34515

Management's review

Company details

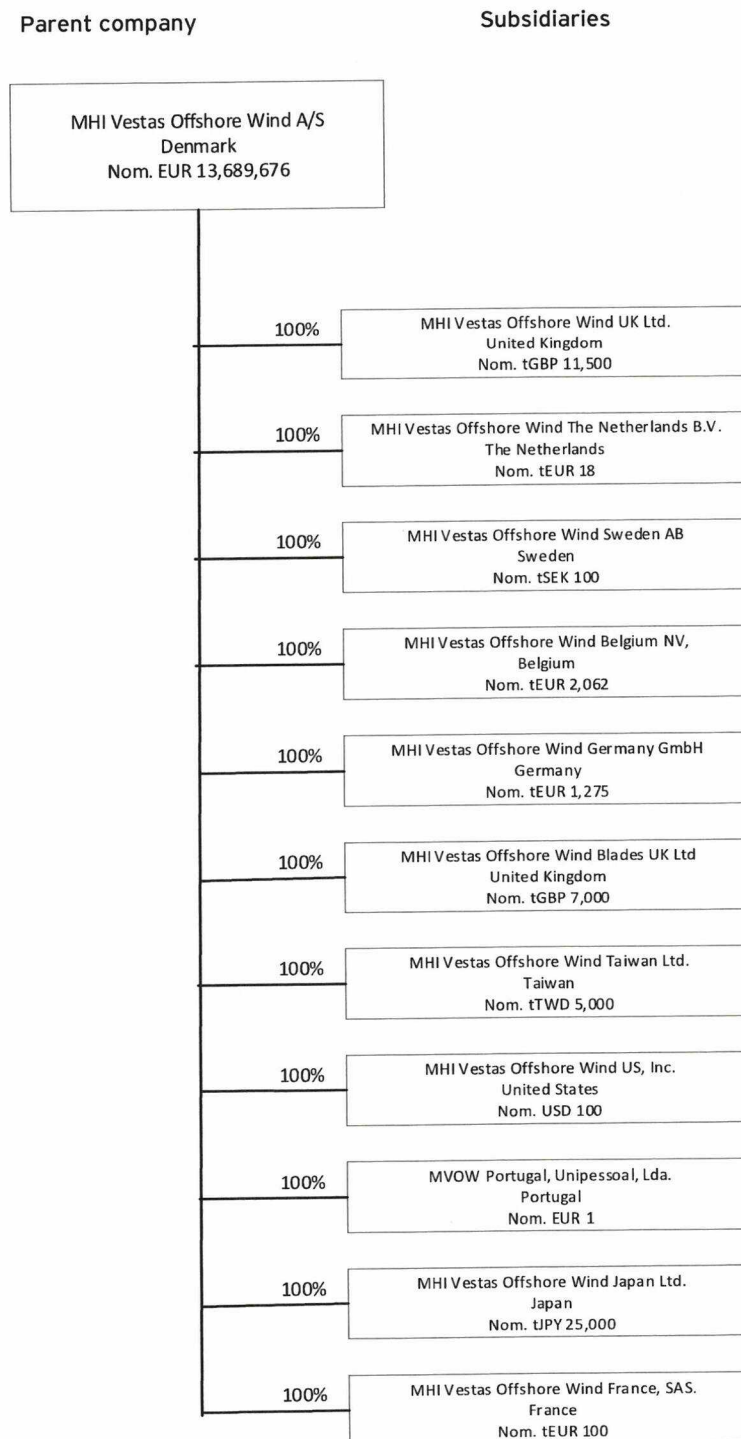
Name	MHI Vestas Offshore Wind A/S
Address	Dusager 4, DK-8200 Aarhus N
CVR no.	27 91 80 42
Financial year	1 April - 31 March
Website	www.mhivestasoffshore.com
E-mail	contact@mhivestasoffshore.com
Telephone	+45 88 44 89 00
Board of Directors	Anders Erik Runevad, Chairman Kentaro Hosomi, Deputy Chairman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

Group relationship

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

Management's review

Group chart



Management's review

Financial highlights for the Group

EUR'000	2019/20	2018/19	2017/18	2016/17	2015/16
Key figures					
Revenue	1,242,817	1,299,545	942,155	531,243	535,906
Gross profit	166,669	133,009	20,001	-11,892	30,848
Profit before financial items and depreciation/amortisation (EBITDA)	169,143	112,633	-7,775	-38,558	-981
Operating profit (EBIT)	37,693	20,882	-98,566	-119,453	-46,312
Profit/loss from financial income and expense	-20,375	-1,314	1,587	5	2,351
Profit for the year	2,523	52,989	-98,287	-120,525	-44,216
Total assets	2,038,434	1,628,376	1,376,666	1,369,898	840,652
Investments in property, plant and equipment	48,509	34,676	60,615	54,259	48,198
Equity	203,999	168,922	195,749	313,171	436,990
Cash flows from operating activities	116,070	179,635	113,682	113,055	62,187
Cash flows from investing activities	-143,253	-78,663	-91,260	-103,554	-141,091
Cash flows from financing activities	-23,786	-20,000	-20,000	40,000	50,000
Total cash flows	-50,969	80,972	2,422	49,501	-28,904
Financial ratios					
Gross margin	13.4%	10.2%	2.1%	-2.2%	5.8%
EBITDA margin	13.6%	8.7%	-0.8%	-7.3%	-0.2%
EBIT margin	3.0%	1.6%	-10.5%	-22.5%	-8.6%
Return on invested capital	41.0%	55.5%	-57.5%	-38.7%	-13.3%
Solvency ratio	10.0%	10.4%	14.2%	22.9%	52.0%
Return on equity	1.3%	29.1%	-38.6%	-32.1%	-10.4%
Average number of full-time employees					
	3,253	2,704	2,193	1,435	882

For terms and definitions, please see the accounting policies.

IFRS 15 and IFRS 16 has been implemented in 2019/20 using the retrospective method, therefore comparison figures for 2015/16 to 2018/19 are unchanged.

Management's review

Operating review

The operating review is structured into the following sections:

Executive summary

- Market Development
- Operational & Service Excellence
- Global Expansion
- Legacy of Innovation Continues
- Order Activity
- The year ahead

Financial performance

- Income statement
- Balance sheet
- Cash flow
- Subsequent events

Risk management

- COVID-19
- Brexit
- New markets

Statutory corporate social responsibility and diversity statement

- Chapter two of the (2018-2022) strategy

Management's review

Operating review

Executive summary

Confirming MHI Vestas Offshore Wind as a resilient leader in the offshore wind sector, 2019-2020 was characterized by the company's notable focus on operational excellence, continued dedication to manufacturing efficiency, and a company-wide effort toward global expansion.

In short, MHI Vestas delivered on its commitments and is well positioned for long-term success in the growing offshore market.

Throughout the year, MHI Vestas pushed boundaries within its operations, highlighted by the installation of the world's most powerful commercially-operating turbine, the V164-9.5 MW, at Northwester 2 in Belgium.

The year was also marked by a contract for joint development of the industry's first floating installation method to be used at the 257 MW Arcadis Ost 1 project in Germany and the installation of the prototype for the V174-9.5 MW turbine in Oesterild, Denmark.

To support a strong order backlog of the V164 platform in core markets as well as orders for the V174 platform, notably in Asia Pacific, MHI Vestas continued to improve its manufacturing efficiency to meet demand and deliver on local production requirements.

The offshore wind sector made great strides in emerging markets as governments around the world increasingly recognize the reliability, competitiveness and scalability of offshore wind technology.

As a signal of the confirmed interest for offshore wind in Asia Pacific, MHI Vestas signed two firm orders in Taiwan totaling 589 MW and one firm order in Japan for 139 MW. The company was also named as preferred supplier for two additional projects in the region. The sector's move into emerging markets continued to bring considerable localisation efforts, particularly in Taiwan.

Throughout the year, MHI Vestas and local partners developed the most comprehensive local supply chain setup in Taiwan, where the re-elected government formalised its plans to build 15.5 GW of offshore wind by 2035. To bolster the company's growing activity in Asia Pacific, MHI Vestas continued to invest in regional expertise, adding key positions and confirming Tokyo as its Asia Pacific regional headquarters.

The US market, led by several East Coast states, pushed its offshore wind ambitions substantially further in 2019, with combined 2035 procurement targets rising dramatically from 9.1 GW in 2018 to 25.4 GW by the end of 2019.

In the midst of positive developments in the US, the year also saw early projects delayed due to a new federal environmental review, and additional forthcoming permitting delays caused by the Covid-19 pandemic. Despite these early setbacks, the long-term outlook in the US remains robust and MHI Vestas is committed to be meeting the growing volume demand with its latest technology.

Although Q4 saw the Covid-19 global pandemic impact the personal and working lives of MHI Vestas employees, the company's manufacturing, installation, and service activities did not suffer any interruption, thanks to a company-wide effort focused on staying healthy and working safely.

Looking ahead, the company's immediate focus is on the timely delivery of projects and keeping manufacturing facilities open, even as necessary safety and protective measures are implemented. This proven resilience, together with the company's dedication to innovation and operational excellence, puts MHI Vestas in a strong position to move profitably through the short-term.

Short-term operational commitments remain on track, including the installation of two large projects in the UK in 2021 and 2022. Moving beyond, the Covid-19 pandemic may affect the mid-term outlook of the entire sector, as permitting and installation delays mount, creating adjustments in project planning for the market up to 2025.

Long-term, the global outlook for the industry appears even stronger, as offshore technology earns its place as an indispensable part of the global energy mix. Building on a solid foundation of technology and experience, MHI Vestas is well placed to maintain a leadership position and capitalize on the growing appetite for offshore wind around the world.

Management's review

Operating review

As nations develop their responses to the unprecedented Covid-19 pandemic, the offshore wind industry is in a unique position to play an essential role in the economical recovery plans. In the short-term, it is imperative that goods and technicians are allowed to move freely across borders, and that business continuity, safely executed, remains a priority. Longer-term, it will be vitally important for auctions to be sequenced and for project permitting to stay on schedule, in order to ensure continuous growth.

As recovery plans take shape, such as the European Green New Deal under preparation, there is an extraordinary opportunity in the coming year for MHI Vestas, along with a unified offshore wind industry, to play a central role in establishing a cleaner, more resilient global energy infrastructure, creating local jobs and a sustainable future for our societies.

Market Development

2019 was the best year ever for the offshore wind sector. Led by China, the UK, and Germany, new installations totalled 6.1 GW globally, according to the Global Wind Energy Council (GWEC).

Of the 60.4 GW of total wind installations in 2019 (onshore & offshore), offshore wind accounted for approximately 10%, it's highest contribution ever in a single year. Now with a global installed base of 29.1 GW, offshore wind accounts for approximately 4.5% of all wind installations.

The continued rise of the offshore wind industry comes as a result of effective policy frameworks, proven technology and operational experience, and accelerating innovation in the sector.

While the emergence of the Covid-19 global pandemic in late 2019 and early 2020 looks to cause some short-term strain on supply chains and mid-term delays on permitting and installations, the industry's long-term outlook remains exceptionally healthy.

APAC

Asia Pacific set the pace in the global advancement of the offshore wind sector throughout 2019. With new installations of 2.3 GW, China widened its lead in the region, continuing its competition with the UK for the claim of the world's largest single offshore market.

Taiwan built on its early-mover advantage, connecting its first utility-scale offshore wind farm to the grid. With 5.6 GW of offshore wind projects slated for installation by 2025, Taiwan also announced an additional 10 GW to be built by 2035, providing a crucial, visible pipeline to accompany a progressive local supply chain framework.

Japan's ambitions for offshore wind made great strides in 2019 with the government preparing to award contracts to the first wave of developer-led projects and preparation for full-scale bidding rounds based on designated offshore wind areas to follow. After many years of anticipation, Japan has now emerged as a leading market in the region.

With significant potential for fixed-bottom and floating offshore wind installations, Vietnam is now in position to capitalise on offshore wind technology. Throughout 2019, the pioneering 3.4 GW Thang Long project accelerated the country's move into offshore wind. The project is slated to be installed in 600 MW allotments with the first of these projects targeted for 2023.

AMERICAS

Perhaps no region pushed its offshore wind ambitions further in 2019 than the Americas, led by East Coast states in the US. The combined 2035 procurement targets in the US rose dramatically from 9.1 GW in 2018 to 25.4 GW by the end of 2019. Ambitious states such as New York, Massachusetts, and New Jersey are leading the way, with California accelerating its study on floating offshore wind potential.

In the midst of such positive developments in the US in 2019, the year also saw early projects delayed due to a new federal environmental review and permitting delays from Covid-19, creating short-term uncertainty in the market. Despite this initial delay, however, the long-term outlook in the US remains robust.

Management's review

Operating review

EUROPE

Offshore wind's core markets in Europe added 3.6 GW of net offshore wind capacity in 2019, led by the UK (1.7 GW) and Germany (1.1 GW) - a record-setting year for European offshore installations.

According to WindEurope, the UK (1.7 GW), Denmark (374 MW), and Belgium (370 MW) set national installation records in 2019, underscoring the sector's continued growth in its core region.

In addition to record-setting installations, a total of 1.4 GW of new capacity reached Financial Investment Decision in 2019 in France, the Netherlands, Norway, and the UK.

The UK's CfD Round 3 was the largest offshore wind auction in the world with an awarded capacity of 5.5 GW, coming in at an average price of £40.63/MWh (€46.16/MWh), including grid connection. The Netherlands and France also executed landmark offshore wind auctions in 2019, with Hollandse Kust Zuid 3&4 (zero subsidy) and Dunkirk (€44/MWh) laying the groundwork for continued, competitive deployment in those countries.

With an installed base of 22.1 GW, a visible pipeline of procurement targets, and a progressive schedule of competitive auctions, Europe is poised to see continued cost reduction and accelerated growth in the coming decade. Notably, Poland looks to contribute to the European offshore wind success story up to 2030 with first installations scheduled for the mid-2020s.

Core market stalwarts such as the UK, Germany, Denmark, the Netherlands, and Belgium continue to raise their national targets as offshore wind is confirmed as a competitive, reliable solution that is destined to play a central role in all Europe's decarbonisation scenarios.

The sector's trend toward larger, more powerful turbines continued in 2019 with an average rated capacity of 7.8 MW per unit across all installations, a 1 MW increase compared to the average in 2018. The V164-8.4 MW from MHI Vestas was the largest turbine grid-connected in 2019, now operating in both Germany (Deutsche Bucht) and Belgium (Norther). It is also the most powerful turbine operating on a floating platform after installation of the first of three turbines in Portugal (WindFloat Atlantic).

The latter part of 2019 saw the industry take another step forward as installation began at Northwester 2 in Belgium - the first offshore project to feature the V164-9.5 MW turbine from MHI Vestas. The 9.5 MW turbine is also slated for installation at Borssele 3&4 in the Netherlands in mid-2020.

The activities across the sector in 2019 demonstrate that offshore wind is squarely on the agenda of governments in Europe, and now around the world. Continued cost reduction, combined with rapid innovation and operational efficiencies, is securing the sector's position as a reliable, industrial-scale, clean energy solution.

Operational & Service Excellence

MHI Vestas' operational activity excelled in 2019, reflecting the company's dedication to operational proficiency and continuous improvement.

A record-setting installation pace was achieved in Q1 which was only half the installation time compared to three years earlier. Successful customer handovers at Borkum Riffgrund 2 in Germany and Horns Reef 3 in Denmark followed, as did the safe and on-time installation of Deutsche Bucht in Germany.

The latter part of the year saw continued operational success with the landmark installation of the first turbine at WindFloat Atlantic, the largest turbine ever installed on a floating platform. After quayside construction of the V164-8.4 MW atop Principle Power's semi-submersible WindFloat foundation in Ferrol, Spain, the fully assembled turbine was towed 250 km to its final position 20 km off the coast of Northern Portugal.

Punctuating the company's Q4 activity was the successful installation of the flagship V174-9.5 MW prototype turbine at Oesterild National Test Centre in Denmark. The prototype will be put through its paces ahead of a strong pipeline of commercial projects, including projects in Germany, Taiwan, and Japan.

Management's review

Operating review

Underscoring the company's focus on safety and efficiency, MHI Vestas launched the industry's first digital training application to streamline refresher courses for offshore wind turbine technicians. The mobile application, called Safety'N'Mind, has proven to be a noteworthy illustration of the on-going digitalisation of the sector.

Over the course of the year, the company achieved an extremely low Lost Production Factor across the entire fleet of wind turbines serviced by MHI Vestas, including projects involving the V164 platform. To date, MHI Vestas has installed 1,222 wind turbines across 32 projects with over 4.3 GW currently under service, maintaining an exceptional safety track record at service sites.

Global Expansion

Marked by a concerted effort in Taiwan, MHI Vestas continued its expansion into emerging markets throughout 2019-2020.

Buoyed by a pipeline of early projects in Taiwan, the company galvanized its efforts to develop the most comprehensive supply chain with local, industrial partners. This ambition paid off most recently with the signing of the landmark contract to manufacture blades in Taiwan, the offshore wind industry's first local blade production. As part of the agreement with our local blade partner, a production facility will be constructed in Taichung Harbour.

In addition to local blade production, other industrial partnerships have been signed in Taiwan as MHI Vestas lays the groundwork for a pipeline of projects, the first of which will begin installing in 2022 (Changfang Phase 1).

In addition to the significant activity in Taiwan, the company has also increased its presence in Japan and the US. With additional, key staff positions being added throughout the year in the company's Tokyo and Boston regional offices, MHI Vestas is committed to commercial success and well positioned to play a lead role in the growth of the industry.

Highlighting the company's commitment to commercial success in core and emerging markets, the mid-year appointment of Johnny Thomson as Co-CEO was a harbinger of the company's ambitious, next phase. Under the CEO team of Philippe Kavafyan and Johnny Thomson, MHI Vestas has coalesced its efforts to bring best-in-class turbine technology to each market and to leverage its operational experience for continued success in the coming years.

Legacy of Innovation Continues

MHI Vestas continued to push technical and operational boundaries in 2019-2020.

The largest and most powerful wind turbine to be used in a floating wind project - the V164-8.4 MW - was installed in Q3 onto the WindFloat triangular platform at the quayside in Ferrol, Spain before successfully making the 250 km journey to its final destination off the coast of Northern Portugal. The pioneering, three-turbine project will deliver key learnings in installation and commissioning techniques, and enhance performance metrics of the turbine and foundation.

Across Europe to the Baltic Sea, the challenging soil conditions at the Arcadis Ost 1 site spurred MHI Vestas, Parkwind, and Heerema Marine Contractors to jointly develop a floating installation method - the result of a year-long collaborative process between the three partners. The innovative installation methodology promises to contribute to further cost reduction in the industry and unlock the potential of many offshore areas around the world with unfavourable soil conditions.

Underlining the company's focus on health and safety, MHI Vestas made a noteworthy contribution to the digitalisation of the sector with the launch of the global wind industry's first digital training app. The certified Safety'N'Mind application is a digital, gamified substitute for theoretical training, saving time and making training more efficient - a development that looks to reap big gains for the company and across the wider industry.

Management's review

Operating review

When the first turbine was installed at Northwester 2 in Dec 2019, the project became the first to feature the record-setting V164-9.5 MW turbine, now the most powerful commercial turbine in operation. The offshore wind farm will consist of 23 V164.9-5 MW turbines spinning 50 km off the coast of Ostend in Belgium.

Following its market launch in February 2019, the V174-9.5 MW prototype was successfully installed in Q4 at Oesterild National Test Centre in Denmark. The robust test program in Oesterild will enable MHI Vestas to thoroughly monitor the reliability and performance output of the company's flagship offshore wind turbine.

Order Activity

Combined commercial activity for 2019-2020 totalled 2,610 MW in five different markets.

MHI Vestas signed three firm and unconditional orders totaling 728 MW of installed capacity:

- Changfang Phase 1 (TW) - 95 MW
- Changfang Phase 2 & Xidao (TW) - 494 MW
- Akita Noshiro (JP) - 139 MW

The company secured one conditional contract totaling 257 MW of installed capacity:

- Arcadis Ost 1 (DE) - 257 MW

Further securing its order backlog, MHI Vestas was also named as preferred turbine supplier for five projects totaling 1,625 MW:

- Seagreen (UK) - 1,075 MW
- Zhong Neng (TW) - 300 MW
- Hibiki Nada (JP) - 220 MW
- EFGL (Floating) (FR) - 30 MW
- Groix & Belle Ile (Floating) (FR) - 28.5 MW

The year ahead

The year will be undoubtedly impacted by the Covid-19 global pandemic as the world continues to grapple with the spread of the virus amid unprecedented lockdowns. To date, the working life of all MHI Vestas employees has been adjusted to follow health and safety policies set forth by national governments.

MHI Vestas has monitored the situation closely, complied with prescribed guidelines in each country, and adapted quickly to evolving regulations. Through it all, employees have demonstrated tremendous flexibility, dedication, and creativity to stay healthy and continue their work. As a result, the company's manufacturing, installation, and service activities have stayed on track thus far, at the time of publication.

Detailed scenario plans and mitigation efforts are in place and will be modified as the situation evolves in order to ensure that the company maintains its positive trajectory throughout the coming year while keeping all employees safe and healthy. As far as this crisis is concerned, we move optimistically and carefully into 2020-2021, not knowing exactly where or how Covid-19 will impact our work or personal environment.

As we anticipate some disruption in the global and European supply chains due to restrictions on the movement of goods and people, the short- and medium-term outlook for the sector will depend largely on the effectiveness of national recovery plans. Economic relief and stimulus packages are being created around the world to mitigate the impact of the crisis.

Management's review

Operating review

Now more than ever, it is vital that policymakers remain committed to the clean energy transition and their decarbonisation agendas, and that those commitments are reinforced in forthcoming recovery plans. There exists now an extraordinary opportunity for MHI Vestas, together with a unified offshore wind industry, to play a leading role in establishing a cleaner, more robust energy infrastructure.

The expectations for the financial year 2020-2021 is to achieve an EBIT at the same level as in 2019-2020. EBIT is dependent on the number of wind turbines installed and accounting policies only allow recognition of revenue when control finally has passed to the customer, meaning when transfer-of-risk has occurred. Consequently, disruptions in production and challenges in relation to shipment of wind turbines and installation hereof, for example bad weather, lack of grid connections, and similar matters, may cause delays that could affect the financial result.

STRATEGIC FOCUS

The company's strategic focus areas for 2020-2021 will be:

1. **Leading through the Covid-19 crisis.** Nothing is more important than the health and safety of our employees. MHI Vestas is committed to keeping people safe, preserving jobs, and working with our partners around the world to provide clean energy. Powering societies is a vital service and the company will do all it can to live up to its commitments.
2. **Leveraging parent company strengths in new markets.** MHI Vestas is committed to creating value in the communities where it has a presence and therefore will continue developing local competencies and supply chains to support its entry into new markets, relying on both parent companies' guidance and in-country presence.
3. **Setting the industry standard for safety and quality.** As our global supply chain footprint expands, most notably in Taiwan, and with large installation projects just ahead, flawless execution has never been more important. From the quality of precision components and documentation, to the health and safety of our employees, the MHI Vestas management team is driven to set the industry standard for quality and safety.
4. **Technology solutions for a winning future.** With standard-setting innovations brought to the market in 2019-2020, MHI Vestas has demonstrated its commitment to remain a market leader and will continue to do so in the future. Powered by a passion for offshore wind, the company is resolute in its commitment to bring a best-in-class turbine portfolio to core and emerging markets in the coming years.

Management's review

Operating review

Financial performance

In the financial year the accounting policy has changed compared to prior years by adopting IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases in the accounting policy. Adoption of IFRS 15 and IFRS 16 have had no material impact on the financial result for the year, while IFRS 16 have increased the assets and liabilities in balance sheet as described in the section below.

Income statement

Revenue for the year was realised with EUR 1,243m, which was mainly driven by the wind turbine projects Horns Reef 3, Norther, Deutsche Bucht and Northwester as well as revenue from the service contract portfolio. The project revenue decreased compared to last year due to transfer-of-risk on fewer turbines. The service business continued the anticipated growth and revenue was realised at EUR 200m, increasing more than 40% compared to last year.

The project and service activity resulted in a gross profit of EUR 167m with a corresponding gross margin of 13.4% compared to 10.2% last year. This increase in profitability was both related to improved profitability in the delivery of supply projects and higher activity in the service business. The gross margin development once again confirmed that the Company now operates at another maturity level and with a much more solid foundation.

The expensed research and development costs, distribution costs as well as administration costs all increased compared to last year, reflecting higher investments in research and development and the general increase in activity levels all around the organisation helping to secure and maintain the expected future growth in the offshore business.

The developments above resulted in an Operating profit (EBIT) for the year of EUR 38m, which was an improvement compared to last year. Finance cost of EUR 21m includes one-off cost related to hedging of a potential project, that didn't materialise as expected. Income tax of EUR 15m include EUR 12m adjustment due to changed expectation of the value of their utilisation. These further cost resulted in a profit for the year of EUR 3m.

Balance sheet

The total value of the V164 development project after further capitalisation and amortisation in the year amounted to EUR 340m at 31 March 2020, which was an increase of EUR 28m compared to last year. The increase is due to further development of intangible assets during 2019/20.

Property, plant and equipment, excluding Right-of-use assets, amounted to EUR 127m compared to EUR 125m last year. Right-of-use assets was recognised as part of IFRS 16 implementation and the year-end value amounted to EUR 132m with a corresponding leasing debt recognised under financial debt of EUR 133m.

Inventories increased to EUR 1,125m compared to EUR 813m last year primarily due to the foreseen built-up of future project deliveries. The prepayments from customers related to the on-going and future wind turbine projects also increased significantly to EUR 1,185m from EUR 956m last year. These were the main drivers for the net working capital that amounted to EUR -401m at 31 March 2020.

The equity ended at EUR 204m compared to EUR 169m last year, corresponding to a solvency ratio of 10%.

Management's review

Operating review

Cash flow

Operating cash flow amounted to EUR 116m, which was a decrease of EUR 64m compared to last year. The decrease was mainly driven by the development in net working capital, which are often very volatile in this business with a rather few number of large projects.

Cash flow from investment activities had a large increase and amounted to EUR 143m compared to EUR 79m last year. The increase is mainly due to the cash flow related to higher investments on the development project portfolio. The investment split on intangible assets and property, plant and equipment EUR 95 and EUR 48m respectively.

Cash flow from financing activities amount to EUR 24m derived from leasing payments, where after the total net cash flows for the year ended at EUR -51m and the cash and cash equivalents were EUR 144m at 31 March 2020.

Subsequent events

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

For impact by the spread of the COVID-19 refer to The year ahead section in the Executive summary and the COVID-19 section in Risk management.

Management's review

Operating review

Risk management

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

COVID-19

Description

The spread of COVID-19 and the related preventive measures are severely impacting normal life of both people and companies on a global level. Multiple countries have limited cross-border travelling to a minimum and many companies have taken severe COVID-19 precautions in their conduct of business. No vaccine or cure for COVID-19 is yet available and even though certain countries are starting to ease the COVID-19 precautions, the future spread or reoccurrence and impact of COVID-19 is unclear.

Potential impact

The COVID-19 situation and related preventive measures may potentially cause interruptions and delays in the supply chain of MHI Vestas Offshore Wind as well as to MHI Vestas Offshore Wind's own activities, hereunder in relation to manufacturing, transportation, installation and servicing of wind turbines. In case MHI Vestas Offshore Wind suffers delay in relation to installation or service of wind turbines, then MHI Vestas Offshore Wind could be liable towards the relevant customers for delay liquidated damages and/or availability liquidated damages.

Mitigation

MHI Vestas Offshore Wind will continue to focus on the operational performance of all customer-related obligations despite the COVID-19 impact. COVID-19 preventive measures are implemented across the group and can be scaled up or down depending on the need for hard or soft COVID-19 precautions. Until now, such COVID-19 preventive measures have, in general, allowed the employees to continue working and has meant that MHI Vestas Offshore Wind has continue to manufacture, transport, install and service wind turbines. From a contractual standpoint MHI Vestas Offshore Wind is, mainly through force majeure and change-in-law protections, in general, able to obtain extensions of time for installation of projects and time relief in relation to availability warranties where impacted by the COVID-19 pandemic.

Brexit

Description

The United Kingdom ("UK") ceased to be a member of the European Union ("EU") on 31st January 2020 and the UK is currently in a transition period during which future trade conditions can be negotiated with the EU. The outcome of such negotiations is unclear and the transition period will expire on 31st December 2020, unless extended before 1st July 2020, which would need to be agreed between the EU and the UK Parliament. MHI Vestas Offshore Wind has large future projects for installation in the UK for which components will be imported to the UK and further, MHI Vestas Offshore Wind exports blades and components out of the UK for projects to be installed in the EU. Such import and export could potentially be affected if the UK and EU change the future trade conditions.

Potential impact

Future trade conditions between the UK and EU which materially deviate from the existing trade conditions may lead to the application of tariffs and time delay for import from, and export to, the UK and pose a risk to MVOW for projects both in the UK as well as in the EU. The application of tariffs can increase the costs of projects to be installed in both the UK and in the EU and potentially lead to cost overrun. The time delay due to customs clearance can mean that projects are installed later than scheduled and MHI Vestas Offshore Wind can be exposed to payment of delay liquidated damages.

Management's review

Operating review

Mitigation

MHI Vestas Offshore Wind has focused on applying contractual risk mitigation due to the risks of negative trade consequences arising from the UK leaving the EU. This includes that, to the extent possible, the supply and installation agreements of MHI Vestas Offshore Wind include contractual clauses whereby the exposure to delay liquidated damages have been materially reduced. In addition, MHI Vestas Offshore Wind is on an on-going basis analyzing the future supply chain needs in relation to manufacturing and service and is ready to order key components and tools in sufficient advance of their need to create a stock of such components and tools which can be used in case of time delays due to import from and/or export to the UK.

New markets

Description

The launch of the V164 wind turbine has been successful and MHI Vestas Offshore Wind is expanding into new markets where offshore wind farms are being installed for the first time. A successful first-time installation of a wind farm in a new country requires that all parties (including MHI Vestas Offshore Wind, the customer, balance-of-plant contractors, the utility grid provider, transportation companies, federal and local authorities and others) perform as planned. An offshore wind farm is a complex power plant and a delay by one or more parties may lead to delays on the full project with potential significant consequences.

Potential impact

In case a material delay is caused by MHI Vestas Offshore Wind (or its sub-contractors or sub-suppliers) on an offshore wind farm in a new country, the main financial impact to MHI Vestas Offshore Wind is the liability for delay liquidated damages. In case the delay is caused by other parties, then MHI Vestas Offshore Wind may be exposed to negative press by being involved in a project that is not succeeding as planned.

Mitigation

In order to mitigate the risk of material delay on the part of MHI Vestas Offshore Wind due diligence is carried out in relation to the new market in advance of entry into binding commitments. In addition to due diligence, MHI Vestas Offshore Wind ensures that employees with experience in offshore wind farms are involved with projects in new markets as well as hiring suitably-qualified persons from the local market to provide local knowledge and expertise. Furthermore, the mitigation plan for the Asia Pacific region and in particular Taiwan includes leveraging on Parent company Mitsubishi Heavy Industries experience in the region. To mitigate risks arising from delays caused by other parties, MHI Vestas Offshore Wind will engage and maintain close collaboration with its prospective customers from an early stage in the offshore wind farm development process to coordinate the works and to obtain information as soon as possible on the progress of the various elements to the project.

Management's review

Operating review

Statutory corporate social responsibility and diversity statement

The MHI Vestas Sustainability Report for FY2019/20 is a presentation of MHI Vestas Offshore Wind's activities in the field of Corporate Social Responsibility (CSR), legal compliance and regulatory requirements.

The report constitutes the statutory report cf. Danish Financial Statements Act, section 99a and 99b, regarding social responsibility and diversity. The report is published together with the MHI Vestas Offshore Wind Annual Report, and covers the 2019 financial year, from 1 April, 2019 to 31 March, 2020.

Topics covered are based on MHI Vestas Offshore Wind's assessment of risks to business and society, as well as the most salient issues of our materiality assessment.

Chapter two of the (2018-2022) strategy

The first phase of our sustainability strategy covers the period 2018-2022 and we have now successfully completed chapter one of the strategy, which focused on building a strong foundation for our growth and global expansion. Looking ahead, we are now focused on the operational performance of existing activities while executing some of the new projects and activities that we've identified as high priorities for the company.

MHI Vestas Sustainability Report FY2019/20 can be found at
<https://www.mhivestasoffshore.com/magazine/sustainability-report-2019-20/>

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

Income statement

Note	EUR'000	Consolidated		Parent company	
		2019/20	2018/19	2019/20	2018/19
2	Revenue	1,242,817	1,299,545	1,255,697	1,350,798
4	Production costs	-1,076,148	-1,166,536	-1,059,987	-1,260,512
	Gross profit	166,669	133,009	195,710	90,286
3,4	Research and development costs	-70,009	-58,553	-69,632	-58,108
4	Distribution costs	-17,707	-12,944	-12,999	-10,751
4	Administration costs	-41,260	-40,331	-32,692	-34,482
	Other operating income	0	0	26,477	21,893
	Other operating costs	0	-299	-4,723	0
	Operating profit (EBIT)	37,693	20,882	102,141	8,838
	Share of profit in group companies after tax	0	0	-71,046	7,748
5	Financial income	650	693	5,021	5,400
6	Financial costs	-21,025	-2,007	-22,349	-4,733
	Profit before tax	17,318	19,568	13,767	17,253
7	Income tax	-14,795	33,421	-11,244	35,736
	Profit for the year	2,523	52,989	2,523	52,989
19	Proposed distribution of profit				
	Transfer to reserve under the equity method	0	0	-33,603	7,748
	Transfer to reserve under development costs	0	0	25,930	25,913
	Retained earnings	2,523	52,989	10,196	19,328
		2,523	52,989	2,523	52,989

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

Balance sheet

Note	EUR'000	Consolidated		Parent company	
		31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ASSETS				
	Software	21,471	20,576	21,471	20,462
	Development projects in progress	81,737	29,707	81,737	29,707
	Completed development projects	258,711	282,492	258,711	282,492
8	Total intangible assets	361,919	332,775	361,919	332,661
	Plant and machinery	27,965	33,648	17,319	21,843
	Other fixtures and fittings, tools and equipment	74,153	77,706	58,866	67,161
	Property, plant and equipment under construction	24,724	13,718	23,089	10,638
10	Right-of-use assets	131,962	0	53,344	0
9	Total property, plant and equipment	258,804	125,072	152,618	99,642
	Other receivables	1,787	1,373	1,605	1,337
14	Deferred tax	35,593	57,352	35,593	57,352
11	Investments in group companies	0	0	71,325	71,587
	Total other non-current assets	37,380	58,725	108,523	130,276
	Total non-current assets	658,103	516,572	623,060	562,579
12	Inventories	1,125,391	813,262	584,900	546,137
13	Trade receivables	71,349	80,062	3,965	5,120
	Receivables from group companies	0	0	68,761	54,898
	Receivables from shareholders	3,009	353	0	250
	Other receivables	23,529	16,182	22,309	11,922
15	Tax receivables	774	1,081	737	737
	Prepayments	12,228	5,041	10,485	3,755
	Total receivables	110,889	102,719	106,257	76,682
	Cash and cash equivalents	144,051	195,823	71,664	143,684
	Total current assets	1,380,331	1,111,804	762,821	766,503
	TOTAL ASSETS	2,038,434	1,628,376	1,385,881	1,329,082

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

Balance sheet

Note	EUR'000	Consolidated		Parent company	
		31 March 2020	31 March 2019	31 March 2020	31 March 2019
		EQUITY AND LIABILITIES			
16	Share capital	13,690	13,690	13,690	13,690
	Reserve under the equity method	0	0	0	35,551
	Reserve for development costs	0	0	106,055	80,125
	Retained earnings	190,309	155,232	84,254	39,556
	Total equity	203,999	168,922	203,999	168,922
11	Provisions relating to investments in group enterprises	0	0	72,522	0
17	Provisions	29,446	38,775	29,446	38,775
18	Financial debts	110,171	3,746	39,862	3,746
	Total non-current liabilities	139,617	42,521	141,830	42,521
17	Provisions	32,051	12,925	32,051	12,925
18	Financial debts	22,811	1,003	13,957	1,003
	Prepayments from customers	1,185,418	956,445	529,536	614,966
	Trade payables	282,062	260,500	204,434	213,789
	Payables to group companies	0	0	109,698	109,466
	Payables to shareholders	61,029	41,358	55,091	31,760
15	Tax payables	2,953	1,645	0	0
	Other liabilities	108,494	143,057	95,285	133,730
	Total current liabilities	1,694,818	1,416,933	1,040,052	1,117,639
	Total liabilities	1,834,435	1,459,454	1,181,882	1,160,160
	TOTAL EQUITY AND LIABILITIES	2,038,434	1,628,376	1,385,881	1,329,082

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

Statement of changes in equity

Note	EUR'000	Consolidated		
		Share capital	Retained earnings	Total
	Equity as at 1 April 2018	13,690	182,059	195,749
	Exchange rate adjustments, EUR conversion	0	-347	-347
	Exchange rate adjustments, foreign entities	0	1,052	1,052
	Fair value adjustments of derivative financial instruments	0	-102,911	-102,911
	Tax on equity transactions	0	22,390	22,390
19	Profit/(loss) for the year	0	52,989	52,989
	Equity as at 1 April 2019	13,690	155,232	168,922
	Exchange rate adjustments, EUR conversion	0	-131	-131
	Exchange rate adjustments, foreign entities	0	-1,952	-1,952
	Fair value adjustments of derivative financial instruments	0	44,400	44,400
	Tax on equity transactions	0	-9,763	-9,763
19	Profit/(loss) for the year	0	2,523	2,523
	Equity as at 31 March 2020	13,690	190,309	203,999

EUR'000	Parent company				
	Share capital	Reserve under the equity method	Reserve for development costs	Retained earnings	Total
Equity as at 1 April 2018	13,690	26,722	54,212	101,125	195,749
Exchange rate adjustments, EUR conversion	0	29	0	-376	-347
Exchange rate adjustments, foreign entities	0	1,052	0	0	1,052
Fair value adjustments of derivative financial instruments	0	0	0	-102,911	-102,911
Tax on equity transactions	0	0	0	22,390	22,390
19 Profit/(loss) for the year	0	7,748	25,913	19,328	52,989
Equity as at 1 April 2019	13,690	35,551	80,125	39,556	168,922
Exchange rate adjustments, EUR conversion	0	4	0	-135	-131
Exchange rate adjustments, foreign entities	0	-1,952	0	0	-1,952
Fair value adjustments of derivative financial instruments	0	0	0	44,400	44,400
Tax on equity transactions	0	0	0	-9,763	-9,763
19 Profit/(loss) for the year	0	-33,603	25,930	10,196	2,523
Equity as at 31 March 2020	13,690	0	106,055	84,254	203,999

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

Cash flow statement

Note	EUR'000	Consolidated	
		2019/20	2018/19
	Profit/(loss) for the year	2,523	52,989
	Depreciation and amortisation, reversed	131,450	91,751
	Financial items, reversed	20,375	1,314
	Income tax, reversed	14,795	-33,421
	Other adjustments	8,964	21,938
20	Change in net working capital	-40,492	48,117
	Cash flows from operating activities before financial items and tax	137,615	182,688
	Financial items paid	-20,375	-1,314
	Cash flows from operating activities before tax	117,240	181,374
	Income tax paid	-1,170	-1,739
	Cash flows from operating activities	116,070	179,635
	Purchase of intangible assets	-95,256	-46,007
	Purchase of property, plant and equipment	-48,509	-34,676
	Disposal of property, plant and equipment	926	2,466
	Purchase of other non-current assets	-414	-446
	Cash flows from investing activities	-143,253	-78,663
	Free cash flow	-27,183	100,972
	Prepayments of lease liabilities	-23,786	0
	Change in financial debt	0	-20,000
	Cash flows from financing activities	-23,786	-20,000
	Net cash flows from operating, investing and financing activities	-50,969	80,972
	Cash and cash equivalents as at 1 April	195,823	114,624
	Exchange rate adjustment on cash and cash equivalents	-803	227
	Cash and cash equivalents as at 31 March	144,051	195,823

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

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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 2019/20 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Compared to last year the following changes have been made to the accounting policies :

- Recognition and measurement of leases are made in accordance with IFRS 16 Leases
- Recognition and measurement of revenue are made in accordance with IFRS 15 Revenue from Contracts with Customers.

IFRS 16: Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Under the new accounting standard, the right of use of leased assets must be recognized as an asset in the balance sheet, while the corresponding lease liability must be recognized in interest-bearing debt. Lease payments are broken down in the income statement into a depreciation component and an interest component. As a result, operating profit before depreciation (EBITDA) will improve by the amount of the lease payment, while depreciation charges will increase by the amount of the estimated depreciation component and financial expenses will increase by the estimated interest component.

Going forward leases are recognized in the balance sheet, including operating leases, with a few exceptions. Consequently, a lease commitment measured at the present value of the future lease payments, must now be realized together with a corresponding leased asset adjusted for payments made to the lessor prior to the commencement of the lease. It has decided not to recognize costs directly related to the leased asset as well as service costs included in the lease payments.

IFRS 16 is adopted using the modified retrospective method, with the date of initial application of 1 April 2019 whereas the value of leasing liabilities also is measured as value of the leasing assets. Therefore, comparative figures are not restated and there is no cumulative effect of initially applying the standard is recognized in the equity at 1 April 2019. In accordance with the transitional provisions of IFRS 16, when implementing the standard, it has chosen:

- Not reassess whether existing contracts are, or contain, leases, as defined under IFRS 16 (IFRS 16.C3) at the date of initial application. This practical expedient is applied to all contracts ongoing at the date of initial application 1 April 2019.
- Instead, the standard is applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.
- Not to recognize leases with a term of less than 12 months or of low value.
- To determine a discount rate on a portfolio of leases with similar characteristics.
- At transition date 1 April 2019 no lossmaking lease commitments have been identified.

For the year ended 31 March 2020 adoption of IFRS 16 had the following impact on the consolidated financial statements:

- Initially recognition of right-of-use assets of EUR 90,641 thousand and lease liabilities of EUR 90,641 thousand as of 1 April 2019. The cumulative effect on retained earnings are therefore EUR 0 as of 1 April 2019.
- Depreciation expense for 2019/20 increased due to recognized ROA which resulted in an increase of EUR 23,660 thousand.
- Rent expense related to previous operating leases for 2019/20 decreased by EUR 25,169 thousand.

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

Notes to the financial statements

1 Accounting policies (continued)

- Finance costs increased by EUR 2,440 thousand relating to the interest expense on the lease liabilities.
- Profit before tax and profit for year decreased by EUR 931 thousands.
- Cash outflow from operating activities increased by EUR 22,729 thousand and cash outflows from financing activities decreased by the same amount.
- Recognition of right-of-use assets of EUR 128,289 thousand and lease liabilities of EUR 129,281 thousand as of 31 March 2020. The cumulative effect on retained earnings are therefore EUR 992 thousand as of 31 March 2020.

For the year ended 31 March 2020 adoption of IFRS 16 had the following impact on the financial statements for the parent company:

- Initially recognition of right-of-use assets of EUR 49,686 thousand and lease liabilities of EUR 49,686 thousand as of 1 April 2019. The cumulative effect on retained earnings are therefore EUR 0 as of 1 April 2019.
- Depreciation expense for 2019/20 increased due to recognized ROA which resulted in an increase of EUR 12,519 thousand.
- Rent expense related to previous operating leases for 2019/20 decreased by EUR 13,147 thousand.
- Finance costs increased by EUR 1,111 thousand relating to the interest expense on the lease liabilities.
- Profit before tax and profit for year decreased by EUR 931 thousands including the cumulative effect from subsidiaries.
- Recognition of right-of-use assets of EUR 49,671 thousand and lease liabilities of EUR 50,108 thousand as of 31 March 2020. The cumulative effect on retained earnings are EUR 992 thousand as of 31 March 2020 including the cumulative effect from subsidiaries.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers established a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is adopted using the modified retrospective method of adoption with the date of initial application of 1 April 2020 under which the cumulative effect of initially applying IFRS 15 is recognized at the date of initial application as an adjustment to opening balance of retained earnings and the comparative figures are not restated.

For the year beginning 1 April 2019 and ended 31 March 2020 adoption of IFRS 15 have had no impacts.

A part from the above the accounting policies are consistent with those of last year.

The annual report is presented in EUR 1,000.

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

Notes to the financial statements

1 Accounting policies (continued)

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

- Revenue note 2
- Research and development costs note 3
- Depreciation/amortisation note 4
- Financial income note 5
- Financial costs note 6
- Income tax note 7
- Intangible assets note 8
- Property, plant and equipment note 9
- Leases note 10
- Investment in group companies note 11
- Inventories note 12
- Trade receivables note 13
- Deferred tax note 14
- Tax payables and receivables note 15
- Provisions note 17

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.

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 currency translation

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

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

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

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.

Income statement

Production costs

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

Research and development costs

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

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

Notes to the financial statements

1 Accounting policies (continued)

Distribution costs

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

Administration costs

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

Other operating income

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

Other operating costs

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

Balance sheet

Other receivables

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

Prepayments

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

Equity and dividends

Reserve for net revaluation according to the equity method

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

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

The reserve cannot be recognized at a negative amount.

Reserve for development costs

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

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Notes to the financial statements

1 Accounting policies (continued)

Dividend

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

Prepayments from customers

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

Other liabilities

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

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

Notes to the financial statements

1 Accounting policies (continued)

Cash flow statement

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

Cash flows from operating activities

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

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from business acquisitions and disposals and from acquisitions and disposals of intangible assets, property, plant and equipment as well as other non-current assets.

Cash flows from financing activities

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

Cash and cash equivalents

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

Financial ratios

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

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

Notes to the financial statements

2 Revenue

Accounting policies

For revenue recognition IFRS 15 has been adopted as basis of interpretation for the Danish Financial Statement act.

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

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

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

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

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

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Sale of turbines	1,043,299	1,158,563	1,240,762	1,348,865
Sale of service	199,518	140,982	14,935	1,933
	<u>1,242,817</u>	<u>1,299,545</u>	<u>1,255,697</u>	<u>1,350,798</u>

All revenue is generated in Europe as specified below:

Benelux	486,271	219,601	0	0
Germany	376,799	623,824	0	0
Denmark	279,735	265,333	279,735	265,333
UK	66,182	187,416	0	0
Other countries	33,830	3,371	0	0
Internal sales	0	0	975,962	1,085,465
	<u>1,242,817</u>	<u>1,299,545</u>	<u>1,255,697</u>	<u>1,350,798</u>

3 Research and development costs

R&D costs	97,886	53,490	97,509	53,045
Capitalised development projects	-86,704	-41,103	-86,704	-41,103
Amortisation and impairment of development projects	58,827	46,166	58,827	46,166
	<u>70,009</u>	<u>58,553</u>	<u>69,632</u>	<u>58,108</u>

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

Notes to the financial statements

4 Depreciation/amortisation

Accounting policies

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

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

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

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

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Software	7,650	6,753	7,650	6,753
Completed development projects	58,827	46,166	58,827	46,166
Plant and machinery	9,023	9,137	6,492	6,008
Other fixtures and fittings, tools and equipment	31,233	29,695	26,804	27,627
Right-of-use assets	24,717	0	13,576	0
	<u>131,450</u>	<u>91,751</u>	<u>113,349</u>	<u>86,554</u>
Expensed as follows:				
Production costs	62,317	37,197	44,216	32,000
Research and development costs	58,827	46,166	58,827	46,166
Distribution costs	203	134	203	134
Administration costs	10,103	8,254	10,103	8,254
	<u>131,450</u>	<u>91,751</u>	<u>113,349</u>	<u>86,554</u>

5 Financial income

Accounting policies

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

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Interest income from subsidiaries	0	0	4,574	5,375
Foreign exchange gains	633	666	430	0
Other financial income	17	27	17	25
	<u>650</u>	<u>693</u>	<u>5,021</u>	<u>5,400</u>

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.

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Interest cost to subsidiaries	0	0	3,276	3,515
Interest cost	508	500	129	168
Leasing interest	2,507	0	1,178	0
Foreign exchange losses	0	793	0	530
Financial instruments	16,715	0	16,715	0
Other financial costs	1,295	714	1,051	520
	<u>21,025</u>	<u>2,007</u>	<u>22,349</u>	<u>4,733</u>

7 Income tax

Accounting policies

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

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Income tax	2,708	1,124	-736	-738
Adjustment to income tax, previous years	107	453	0	0
Adjustment to deferred tax	11,980	-34,998	11,980	-34,998
	<u>14,795</u>	<u>-33,421</u>	<u>11,244</u>	<u>-35,736</u>

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. To optimise the product portfolio a write-down of the discontinued development projects has been performed.

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.

EUR'000	Consolidated			Total
	Software	Development projects in progress	Completed development projects	
Cost as at 1 April 2019	41,085	29,707	472,189	542,981
Exchange rate adjustments	-15	-16	-138	-169
Additions for the year	8,552	86,704	0	95,256
Transfers for the year	0	-34,658	34,658	0
Disposals for the year	0	0	0	0
Cost as at 31 March 2020	49,622	81,737	506,709	638,068
Amortisation as at 1 April 2019	20,509	0	189,697	210,206
Exchange rate adjustments	-8	0	-526	-534
Amortisation for the year	7,650	0	50,632	58,282
Write-down for the year	0	0	8,195	8,195
Amortisation as at 31 March 2020	28,151	0	247,998	276,149
Carrying amount as at 31 March 2020	21,471	81,737	258,711	361,919
Amortised over	3-5 years		3-10 years	

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

Notes to the financial statements

8 Intangible assets (continued)

EUR'000	Parent Company			Total
	Software	Development projects in progress	Completed development projects	
Cost as at 1 April 2019	40,971	29,707	472,189	542,867
Exchange rate adjustments	-14	-16	-138	-168
Additions for the year	8,665	86,704	0	95,369
Transfers for the year	0	-34,658	34,658	0
Disposals for the year	0	0	0	0
Cost as at 31 March 2020	49,622	81,737	506,709	638,068
Amortisation as at 1 April 2019	20,509	0	189,697	210,206
Exchange rate adjustments	-8	0	-526	-534
Amortisation for the year	7,650	0	50,632	58,282
Write-down for the year	0	0	8,195	8,195
Amortisation as at 31 March 2020	28,151	0	247,998	276,149
Carrying amount as at 31 March 2020	21,471	81,737	258,711	361,919
Amortised over	3-5 years		3-10 years	

9 Property, plant and equipment

Accounting policies

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

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

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

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

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

Notes to the financial statements

9 Property, plant and equipment (continued)

EUR'000	Consolidated				Total
	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Right-of-use assets	
Cost as at 1 April 2019	60,355	143,362	13,718	0	217,435
Initial application of IFRS 16	0	-4,749	0	95,390	90,641
Adjusted cost as at 1 April	60,355	138,613	13,718	95,390	308,076
Exchange rate adjustments	-740	-644	-59	-416	-1,859
Additions for the year	2,228	24,840	21,441	63,412	111,921
Transfer	1,660	8,716	-10,376	0	0
Disposals for the year	-214	-948	0	-2,327	-3,489
Cost as at 31 March 2020	63,289	170,577	24,724	156,059	414,649
Depreciation as at 1 April 2019	26,707	65,656	0	0	92,363
Exchange rate adjustments	-374	-229	0	0	-603
Depreciation for the year	9,023	31,233	0	24,717	64,973
Transfer	0	0	0	0	0
Reversal of depreciation on disposal for the year	-32	-236	0	-620	-888
Depreciation as at 31 March 2020	35,324	96,424	0	24,097	155,845
Carrying amount as at 31 March 2020	27,965	74,153	24,724	131,962	258,804
Depreciated over	3-7 years	3-7 years		1-12 years	

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Notes to the financial statements

9 Property, plant and equipment (continued)

EUR'000	Parent company				
	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Right-of-use assets	Total
Cost as at 1 April 2019	37,871	127,577	10,638	0	176,086
Initial application of IFRS 16	0	-4,749	0	54,435	49,686
Adjusted cost as at 1 April	37,871	122,828	10,638	54,435	225,772
Exchange rate adjustments	260	-39	-6	-10	205
Additions for the year	579	17,602	20,662	13,233	52,076
Transfer	1,395	6,810	-8,205	0	0
Disposals for the year	0	-1,159	0	-1,106	-2,265
Cost as at 31 March 2020	40,105	146,042	23,089	66,552	275,788
Depreciation as at 1 April 2019	16,028	60,416	0	0	76,444
Exchange rate adjustments	266	-13	0	0	253
Depreciation for the year	6,492	26,804	0	13,576	46,872
Transfer	0	0	0	0	0
Reversal of depreciation on disposal for the year	0	-31	0	-368	-399
Depreciation as at 31 March 2020	22,786	87,176	0	13,208	123,170
Carrying amount as at 31 March 2020	17,319	58,866	23,089	53,344	152,618
Depreciated over	3-7 years	3-7 years		1-12 years	

10 Leases

For lease recognition IFRS 16 has been adopted as basis of interpretation for the Danish Financial Statement act.

At inception of a contract it is assessed whether a contract is or contains a lease. Right-of-use assets and corresponding lease liabilities are recognised at the lease commencement date, except for short-term leases and leases of low value. These lease payments are normally recognised as an operating expense on a straight-line basis over the term of the lease.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are from the commencement date depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted in accordance with lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate in the specific country.

Lease payments included in the measurement of the lease liabilities comprises fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, the exercise price of a purchase option if it is reasonably certain the option will be exercised and amounts expected to be payable under residual value guarantees.

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Notes to the financial statements

10 Leases (continued)

The lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if there are changes to the assessment on whether an option to purchase, extend or terminate will be exercised.

When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

EUR'000	Consolidated				
	Buildings	Equipment	Vehicles	Vessels	Total
Right-of-use assets as at 1 April 2019	65,002	7,561	1,867	20,960	95,390
Exchange rate adjustments	-374	-8	0	-34	-416
Depreciation charge for the year including transfers	-13,564	-2,862	-1,334	-6,957	-24,717
Addition of right-of-use assets for the year including transfers	16,688	723	2,223	43,778	63,412
Disposal of right-of-use assets for the year	-1,005	-32	-54	-1,236	-2,327
Reversal of depreciation on disposals in the year	356	11	6	247	620
Right-of-use assets as at 31 March 2020	67,103	5,393	2,708	56,758	131,962

EUR'000	Parent company				
	Buildings	Equipment	Vehicles	Vessels	Total
Right-of-use assets as at 1 April 2019	45,874	7,302	1,228	31	54,435
Exchange rate adjustments	-10	0	0	0	-10
Depreciation charge for the year including transfers	-9,506	-2,797	-1,005	-268	-13,576
Addition of right-of-use assets for the year including transfers	1,680	709	1,819	9,025	13,233
Disposal of right-of-use assets for the year	-1,083	-19	-4	0	-1,106
Reversal of depreciation on disposals in the year	356	10	2	0	368
Right-of-use assets as at 31 March 2020	37,311	5,205	2,040	8,788	53,344

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Notes to the financial statements

11 Investment in group companies

Accounting policies

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

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

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

EUR'000	Investments in group companies
Cost as at 1 April 2019	36,036
Additions for the year	210
Cost as at 31 March 2020	36,246
Value adjustment as at 1 April 2019	35,551
Exchange rate adjustments foreign entities	-1,952
Exchange rate adjustments EUR conversion	4
Share of profit in group companies after tax	11,743
Elimination of internal profit	-82,789
Value adjustments as at 31 March 2020	-37,443
Net amount as at 31 March 2020	-1,197
Equity investments with negative net asset value transferred to provisions	72,522
Carrying amount as at 31 March 2020	71,325

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 Sweden AB	Sweden	SEK'000	100
MHI Vestas Offshore Wind Belgium NV	Belgium	EUR'000	2,062
MHI Vestas Offshore Wind Germany GmbH	Germany	EUR'000	1,275
MHI Vestas Offshore Wind Blades UK Ltd.	United Kingdom	GBP'000	7,000
MHI Vestas Offshore Wind Taiwan Ltd.	Taiwan	TWD'000	5,000
MHI Vestas Offshore Wind US, Inc.	United States	USD	100
MVOW Portugal, Unipessoal, Lda.	Portugal	EUR	1
MHI Vestas Offshore Wind Japan Ltd.	Japan	JPY'000	25,000
MHI Vestas Offshore Wind France, SAS	France	EUR'000	100

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Notes to the financial statements

12 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.

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Raw materials and consumables	77,145	131,044	50,792	111,084
Work in progress	102,213	32,301	87,421	614
Finished goods	944,556	649,728	445,210	434,379
Prepayment for goods	1,477	189	1,477	60
	<u>1,125,391</u>	<u>813,262</u>	<u>584,900</u>	<u>546,137</u>

13 Trade receivables

Accounting policies

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

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Trade receivables	71,349	80,062	3,965	5,120
Provisions for bad debts	0	0	0	0
	<u>71,349</u>	<u>80,062</u>	<u>3,965</u>	<u>5,120</u>

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

14 Deferred tax

Accounting policies

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

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

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

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

Deferred tax assets are recognised where management assesses that the tax assets may be utilised within three years based on business plans for the future years.

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Notes to the financial statements

14 Deferred tax (continued)

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Deferred tax as at 1 April	57,352	0	57,352	0
Exchange rate adjustments	-16	-36	-16	-36
Deferred tax on equity transactions	-9,763	22,390	-9,763	22,390
Adjustment of deferred tax for the year	-11,980	34,998	-11,980	34,998
Deferred tax as at 31 March	35,593	57,352	35,593	57,352

The parent/group has an additional deferred tax asset of EUR 30 million, which has not been recognised due to timing uncertainties.

15 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 2020	31/3 2019	31/3 2020	31/3 2019
Tax receivables (assets)	774	1,081	737	737
Tax payables (liabilities)	-2,953	-1,645	0	0
Net tax receivable/payable as at 31 March	-2,179	-564	737	737

16 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 100,006 shares of EUR 1 in 2015/16.

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Notes to the financial statements

17 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).

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Warranty provisions	61,497	51,700	61,497	51,700
Other provisions	0	0	0	0
Provisions as at 31 March	61,497	51,700	61,497	51,700
Warranty provisions as at 1 April	51,700	30,448	51,700	30,448
Exchange rate adjustments	-15	-50	-15	-50
Utilised provisions for the year	-24,777	-6,424	-24,777	-6,424
Provisions for the year	34,589	27,726	34,589	27,726
Warranty provisions as at 31 March	61,497	51,700	61,497	51,700

Provisions are expected to be payable as follows:

	31/3 2020	31/3 2019	31/3 2020	31/3 2019
0-1 years	32,051	12,925	32,051	12,925
1-5 years	29,446	38,775	29,446	38,775
	61,497	51,700	61,497	51,700

18 Financial debts

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Lease liabilities	132,982	4,749	53,819	4,749
Financial debts break down as follows:				
< 1 year	22,811	1,003	13,957	1,002
1-5 years	59,320	3,746	28,632	3,746
> 5 years	50,851	0	11,230	0
	132,982	4,749	53,819	4,748

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Notes to the financial statements

19 Proposed distribution of profit

EUR'000	Consolidated		Parent company	
	2019/20	2018/18	2019/20	2018/19
Transfer to reserve under the equity method	0	0	-33,603	7,748
Transfer to reserve under development costs	0	0	25,930	25,913
Retained earnings	2,523	52,989	10,196	19,328
	<u>2,523</u>	<u>52,989</u>	<u>2,523</u>	<u>52,989</u>

20 Change in net working capital

	Consolidated	
	2019/20	2018/19
Change in inventories	-312,129	-132,109
Change in receivables	-5,821	7,943
Change in prepayments from customers	228,973	169,314
Change in trade payables	21,562	-1,528
Change in other liabilities	9,907	-8,346
Change in receivables/payables with group companies and shareholders	17,016	12,843
	<u>-40,492</u>	<u>48,117</u>

21 Employee information

EUR'000	Consolidated		Parent company	
	2019/20	2018/19	2019/20	2018/19
Wages and salaries, etc.	238,655	190,291	164,370	145,467
Pension schemes	15,381	13,136	12,274	10,581
Other social security costs	10,540	8,875	6,352	4,956
	<u>264,576</u>	<u>212,302</u>	<u>182,996</u>	<u>161,004</u>
Average number of employees	<u>3,253</u>	<u>2,704</u>	<u>2,020</u>	<u>1,885</u>
Executive Management remuneration including incentive schemes	1,999	2,065	1,999	2,065
Board of Directors remuneration	0	0	0	0

22 Fees to auditors

Fees to auditors appointed at the annual meeting

	Consolidated	
	2019/20	2018/19
Statutory audit	411	377
Assurance engagements	209	183
Corporate tax assistance	247	103
Individual tax assistance	608	529
Other assistance	94	93
	<u>1,569</u>	<u>1,285</u>

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Notes to the financial statements

23 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.

24 Contractual obligations

EUR'000	Consolidated		Parent company	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Other contractual obligations falling due within 1 year	34,960	34,325	6,977	12,406
Other contractual obligations falling due within 1-5 years	139,934	85,877	31,168	24,749
Other contractual obligations falling due after 5 years	172,632	101,290	0	14,396
	<u>347,526</u>	<u>221,492</u>	<u>38,145</u>	<u>51,551</u>

Other contractual obligations are contracts where the leasing period has not yet started and service cost for primarily vessels.

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

25 Derivative financial instruments

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

EUR'000	Contractual value		Gains/losses in equity	
	31/3 2020	31/3 2019	31/3 2020	31/3 2019
Foreign currency derivatives EUR/GBP	1,577,133	1,855,624	-57,481	-84,301
Foreign currency derivatives EUR/USD	6,938	806,666	87	-17,470
	<u>1,584,071</u>	<u>2,662,290</u>	<u>-57,394</u>	<u>-101,771</u>

Risks which were managed by derivative financial instruments in 2019/20 comprise foreign currency risk.

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

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Notes to the financial statements

25 Derivative financial instruments (continued)

Foreign currency risk

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

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

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