Vestas Offshore Wind A/S

Hedeager 42, DK-8200 Aarhus N

CVR no. 27 91 80 42

Annual report 2020

Approved at the Company's annual general meeting

Chairman:

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of MHI Vestas Offshore Wind A/S for the financial year 1 April 2020 - 31 December 2020.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of its operations for the financial year 1 April 2020 - 31 December 2020.

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

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

Aarhus, 30 June 2021
Executive Board:

DocuSigned by:
Johnny Thomsen
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Johnny Thomsen
CEO

DocuSigned by:
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Flemming Ougaard

Board of Directors:

DocuSigned by:
EFB2C7C6E96044B...
Henrik Andersen
Chairman

DocuSigned by:
Kerstin Knapp
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Kerstin Mariella Knapp

DocuSigned by:
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Steen Møller

DocuSigned by:
Javier Rodriguez Diez
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Javier Rodriguez Diez

Independent auditor's report

To the Shareholders of Vestas Offshore Wind A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2020, and of the results of the Company's operations for the financial period from 1 April to 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Vestas Offshore Wind A/S for the financial period from 1 April to 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

Based on the work we have performed, in our view, 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 in Management's Review.

Management's Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Aarhus, 30 June 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

DocuSigned by: Claus Lindholm Jacobsen	DocuSigned by:
Claus Lindholm Jacobsen	Christian Bertelsen
State Authorised Public Accountant	State Authorised Public Accountant
mne23328	mne36171

Management's review

Company details

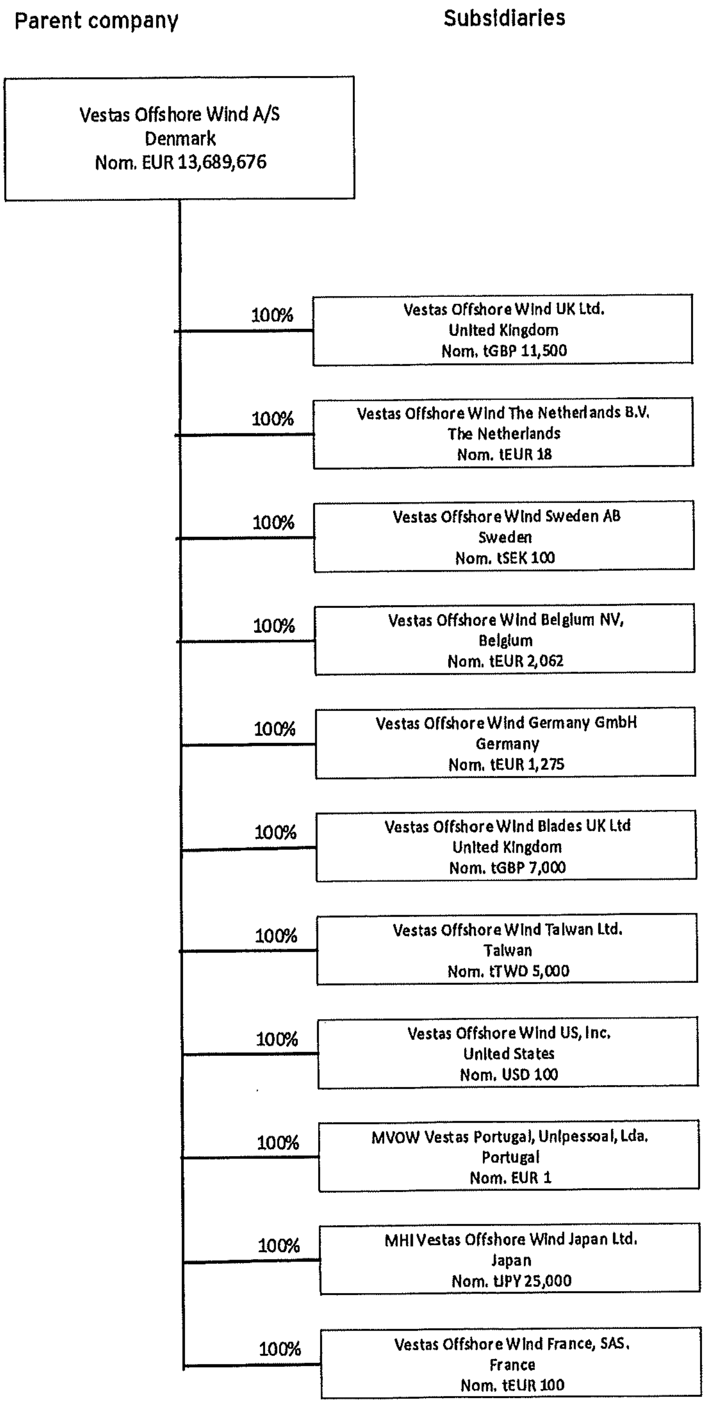
Name	Vestas Offshore Wind A/S
Address	Hedeager 42, DK-8200 Aarhus N
CVR no.	27 91 80 42
Financial year	1 April - 31 December
Website	www.mhivestasoffshore.com
E-mail	contact@mhivestasoffshore.com
Telephone	+45 88 44 89 00
Board of Directors	Henrik Andersen, Chairman Kerstin Mariella Knapp Steen Møller Javier Rodriguez Diez
Executive Board	Johnny Thomsen Flemming Ougaard
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup

Group relationship

The Company is owned 100% by Vestas Wind Systems A/S.

Management's review

Group chart



Management's review

Financial highlights

EUR'000	2020 (9 months)	2019/20	2018/19	2017/18	2016/17
Key figures					
Revenue	664,476	1,255,697	1,350,798	745,338	454,567
Gross profit	-83,766	195,710	90,286	-4,469	-62,737
Profit before financial items and depreciation/amortisation (EBITDA)	-39,692	215,490	95,392	-18,407	-68,461
Operating profit (EBIT)	-130,755	102,141	8,838	-104,820	-145,862
Profit/loss from financial income and expense	12,023	-88,374	8,415	5,794	24,534
Profit for the year	-56,814	2,523	52,989	-98,287	-120,525
Total assets	2,041,676	1,385,881	1,329,082	1,304,680	1,262,564
Investments in property, plant and equipment	32,464	38,843	26,663	54,047	49,364
Equity	147,877	203,999	168,922	195,749	313,171
Financial ratios					
Gross margin	-12.6%	15.6%	6.7%	-0.6%	-13.8%
EBITDA margin	-6.0%	17.2%	7.1%	-2.5%	-15.1%
EBIT margin	-19.7%	8.1%	0.7%	-14.1%	-32.1%
Return on invested capital	-67.3%	118.4%	12.5%	-57.3%	-45.6%
Solvency ratio	7.2%	14.7%	12.7%	15.0%	24.8%
Return on equity	-32.3%	1.4%	29.1%	-38.6%	-32.1%
Average number of full-time employees	1,993	2,020	1,885	1,535	901

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 2016/17 to 2018/19 are unchanged.

Management's review

Business activities

The company's principal activity consist of production, sale and service of wind turbines in the offshore industry.

Recognition and measurement uncertainties

Estimated warranty provisions are based on a high degree of uncertainty. The warranty provisions are estimated based on historical experience with actual costs to repair, upgrade or replace main functionalities per sold wind turbine.

The warranty provisions have increased from EUR 61m at 31 March 2020 to EUR 256m at 31 December 2020. This development was primarily driven by a change in the assessment regarding the need for warranty provisions together with general provision related to installation of around 800 MW in 2020.

Other than this, the recognition and measurement of items in the financial statements is not subject to any significant uncertainty.

Unusual matters

The company's financial position at 31 December 2020 and the results of its operations for the financial year ended 31 December 2020 are affected by the above described increased warranty provision. Except from this, the Company is not affected by any unusual matters.

Business review

The company's income statement for the nine months period April-December 2020 shows a negative result of EUR 57m, and the balance sheet at 31 December 2020 shows an equity of EUR 148m.

The result for the year is impacted negatively due to additional warranty provisions and change in the interpretation of uncertain tax positions in subsidiaries. Based on these one-off costs, the result for the year is considered unsatisfactory compared to expected.

Financial expectations and subsequent events

The Company was in December 2020 part of the transaction where Vestas Wind Systems A/S obtained 100% ownership of the Company. An integration process with the Vestas Group activities will take place during 2021 and the Management therefore do not find it reliably to comment on the expected development for the future.

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

Knowledge resources

As part of the Vestas Group, knowledge resources are significant for the company. Processors have been appointed for the company's core processes, which continuously work with mapping and streamlining workflows to ensure continuity and person-dependence in all processes.

Special risks apart from generally occurring risks in industry

Refer to the Group annual report where the special risks and financial risks within the Vestas Group are stated.

Research and development activities in and for reporting entity

The company has development activities as described in note 8.

Statutory report on corporate social responsibility

With reference to ÅRL § 99a, subsection 6 gives information on social responsibility, including respect for human rights, social conditions, environmental and climatic conditions and the fight against corruption in the annual report of the parent company Vestas Wind Systems A/S.

Management's review

Statutory report on the underrepresented gender

Vestas Offshore Wind A/S is subject to the parent company's Vestas Wind Systems A/S gender equality policy, which applies to all management levels in the company. The policy is part of the staff policy and contains targets for all management levels with people management responsibility. In addition, the policy describes a number of initiatives that take place across the Vestas Wind Systems A/S Group. In addition, the consolidated financial statements of the parent company Vestas Wind Systems A/S are referred to in accordance with section 99b of the Danish Financial Statements Act including targets for females in other management levels. According to the Danish Business Authority guidance on goals and policies for the gender composition of the management, an equal gender distribution has been achieved in the Board in line with the gender diversity goal of 20% defined last year. The overall gender diversity goal of 14% females was realised with 15% and females in leadership positions represented 18%.

Financial statements 1 April - 31 December

Income statement

Note	EUR'000	2020	2019/20
2	Revenue	664,476	1,255,697
4	Production costs	-748,242	-1,059,987
	Gross profit	-83,766	195,710
3,4	Research and development costs	-48,484	-69,632
4	Distribution costs	-6,412	-12,999
4	Administration costs	-25,107	-32,692
	Other operating income	42,149	26,477
	Other operating costs	-9,135	-4,723
	Operating profit (EBIT)	-130,755	102,141
	Share of profit in group companies after tax	11,627	-71,046
5	Financial income	8,755	5,021
6	Financial costs	-8,359	-22,349
	Profit before tax	-118,732	13,767
7	Income tax	61,918	-11,244
	Profit for the year	-56,814	2,523

Proposed distribution of profit		
Transfer to reserve under the equity method	962	-33,603
Transfer to reserve under development costs	36,595	25,930
Retained earnings	-94,371	10,196
	-56,814	2,523

Financial statements 1 April – 31 December

Balance sheet

Note	EUR'000	31 December 2020	31 March 2020
	ASSETS		
	Software	15,685	21,471
	Development projects in progress	143,817	81,737
	Completed development projects	224,748	258,711
8	**Total intangible assets**	384,250	361,919
9	Plant and machinery	14,869	17,319
9	Other fixtures and fittings, tools and equipment	60,945	58,866
9	Property, plant and equipment under construction	25,697	23,089
10	Right-of-use assets	78,699	53,344
	Total property, plant and equipment	180,210	152,618
	Other receivables	1,406	1,605
14	Deferred tax	97,358	35,593
11	Investments in group companies	29,270	71,325
	Total other non-current assets	128,034	108,523
	Total non-current assets	692,494	623,060
12	**Inventories**	732,952	584,900
13	Trade receivables	526	3,965
	Receivables from group companies	404,461	68,761
	Other receivables	15,062	22,309
15	Tax receivables	739	737
	Prepayments	19,663	10,485
	Total receivables	440,451	106,257
	Cash and cash equivalents	175,779	71,664
	Total current assets	1,349,182	762,821
	TOTAL ASSETS	2,041,676	1,385,881

Financial statements 1 April – 31 December

Balance sheet

Note	EUR'000	31 December 2020	31 March 2020
	EQUITY AND LIABILITIES		
16	Share capital	13,690	13,690
	Reserve under the equity method	0	0
	Reserve for development costs	142,650	106,055
	Hedging reserve	-43,934	-44,758
	Retained earnings	35,471	129,012
	Total equity	147,877	203,999
11	Provisions relating to investments in group enterprises	0	72,522
17	Provisions	147,669	29,446
18	Financial debts	54,231	39,862
	Total non-current liabilities	201,900	141,830
17	Provisions	107,986	32,051
18	Financial debts	270,227	13,957
	Prepayments from customers	809,209	529,536
	Trade payables	230,588	204,434
	Payables to group companies	158,850	164,789
	Other liabilities	115,039	95,285
	Total current liabilities	1,691,899	1,040,052
	Total liabilities	1,893,799	1,181,882
	TOTAL EQUITY AND LIABILITIES	2,041,676	1,385,881

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Statement of changes in equity

	EUR'000	Share capital	Reserve under the equity method	Reserve for development costs	Hedging reserve	Retained earnings	Total
	Equity as at 1 April 2019	13,690	35,551	80,125	-79,395	118,951	168,922
	Exchange rate adjustments, EUR conversion	0	4	0	0	-135	-131
	Exchange rate adjustments, foreign entities	0	-1,952	0	0	0	-1,952
	Fair value adjustments of derivative financial instruments	0	0	0	44,400	0	44,400
	Tax on equity transactions	0	0	0	-9,763	0	-9,763
19	Profit/(loss) for the year	0	-33,603	25,930	0	10,196	2,523
	Equity as at 1 April 2020	13,690	0	106,055	-44,758	129,012	203,999
	Exchange rate adjustments, EUR conversion	0	-82	0	0	830	748
	Exchange rate adjustments, foreign entities	0	-880	0	0	0	-880
	Fair value adjustments of derivative financial instruments	0	0	0	1,057	0	1,057
	Tax on equity transactions	0	0	0	-233	0	-233
19	Profit/(loss) for the year	0	962	36,595	0	-94,371	-56,814
	Equity as at 31 December 2020	13,690	0	142,650	-43,934	35,471	147,877

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

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Notes to the financial statements

1 Accounting policies

The annual report of MHI Vestas Offshore Wind A/S for 2020 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Pursuant to section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The financial statements of Vestas Offshore Wind A/S and its subsidiaries are included in the consolidated financial statements of Vestas Wind Systems A/S.

Pursuant to section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement.

The financial year 2020 comprises the 9 month period from 1 April 2020 to 31 December 2020, while comparison figures for the financial year 2019/20 comprises the 12 month period for 1 April 2019 to 31 March 2020.

Effective from the financial year 2020, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed new and amended presentation and disclosure requirements.

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

The annual report is presented in EUR 1,000.

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

- Revenue note 2
- Research and development costs note 3
- Depreciation/amortisation note 4
- Financial income note 5
- Financial costs note 6
- Income tax note 7
- Intangible assets note 8
- Property, plant and equipment note 9
- 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

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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.

Financial statements 1 April - 31 December

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.

Financial statements 1 April – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Hedging reserve

The hedging reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised. The reserve is dissolved when the hedged transaction is realised, if the hedged cash flows are no longer expected to be realised or if the hedging relationship is no longer effective. The hedging reserve does not represent a limitation under company law and may therefore be negative.

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.

Financial ratios

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

Financial statements 1 April - 31 December

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 recognises 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 recognises 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	2020	2019/20
Sale of turbines	647,813	1,240,762
Sale of service	16,663	14,935
	664,476	1,255,697

All revenue is generated in Europe as specified below:

Denmark	31,135	279,735
Internal sales	633,341	975,962
	664,476	1,255,697

3 Research and development costs

R&D costs	75,385	97,509
Capitalised development projects	-68,515	-86,704
Amortisation and impairment of development projects	41,614	58,827
	48,484	69,632

Financial statements 1 April - 31 December

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	2020	2019/20
Software	6,449	7,650
Completed development projects	41,614	58,827
Plant and machinery	6,219	6,492
Other fixtures and fittings, tools and equipment	24,389	26,804
Right-of-use assets	12,392	13,576
	91,063	113,349
Expensed as follows:		
Production costs	42,309	44,216
Research and development costs	41,614	58,827
Distribution costs	138	203
Administration costs	7,002	10,103
	91,063	113,349

5 **Financial income**

Accounting policies

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

EUR'000	2020	2019/20
Interest income from subsidiaries	3,348	4,574
Foreign exhange gains	5,407	430
Other financial income	0	17
	8,755	5,021

Financial statements 1 April – 31 December

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	2020	2019/20
Interest cost to subsidiaries	2,041	3,276
Interest cost	1,132	129
Leasing interest	940	1,178
Financial instruments	2,426	16,715
Other financial costs	1,820	1,051
	8,359	22,349

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	2020	2019/20
Income tax	0	-736
Adjustment to deferred tax, previous years	-33,007	0
Adjustment to deferred tax	-28,911	11,980
	-61,918	11,244

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.

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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 turbine platforms. 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	Software	Development projects in progress	Completed development projects	Total
Cost as at 1 April 2020	49,622	81,737	506,709	638,068
Exchange rate adjustments	177	277	1,817	2,271
Additions for the year	597	68,515	0	69,112
Transfers for the year	0	-6,712	6,712	0
Disposals for the year	0	0	0	0
Cost as at 31 December 2020	50,396	143,817	515,238	709,451
Amortisation as at 1 April 2020	28,151	0	247,998	276,149
Exchange rate adjustments	111	0	878	989
Amortisation for the year	6,449	0	41,614	48,063
Write-down for the year	0	0	0	0
Amortisation as at 31 December 2020	34,711	0	290,490	325,201
Carrying amount as at 31 December 2020	15,685	143,817	224,748	384,250
Amortised over	3-5 years		3-10 years	

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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 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.

EUR'000	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 2020	40,105	146,042	23,089	66,552	275,788
Exchange rate adjustments	149	567	88	519	1,323
Additions for the year	842	12,219	19,403	39,016	71,480
Transfer	2,870	14,013	-16,883	0	0
Disposals for the year	0	0	0	-1,881	-1,881
Cost as at 31 December 2020	43,966	172,841	25,697	104,206	346,710
Depreciation as at 1 April 2020	22,786	87,176	0	13,208	123,170
Exchange rate adjustments	92	331	0	190	613
Depreciation for the year	6,219	24,389	0	12,392	43,000
Transfer	0	0	0	0	0
Reversal of depreciation on disposal for the year	0	0	0	-283	-283
Depreciation as at 31 December 2020	29,097	111,896	0	25,507	166,500
Carrying amount as at 31 December 2020	14,869	60,945	25,697	78,699	180,210
Depreciated over	3-7 years	3-7 years		1-12 years	

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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 lifes 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.

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	Buildings	Equipment	Vehicles	Vessels	Total
Right-of-use assets as at 1 April 2020	37,311	5,205	2,040	8,788	53,344
Exchange rate adjustments	130	17	7	175	329
Depreciation charge for the year including transfers	-7,933	-1,442	-939	-1,602	-11,916
Addition of right-of-use assets for the year including transfers	27,380	658	716	10,262	39,016
Depreciation of right-of-use assets for the year	-205	-514	-39	-840	-1,598
Reversal of depreciation on disposals in the year	-281	0	-3	-192	-476
Right-of-use assets as at 31 December 2020	56,402	3,924	1,782	16,591	78,699

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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 2020	36,246
Additions for the year	0
Cost as at 31 December 2020	36,246
Value adjustment as at 1 April 2020	-37,443
Exchange rate adjustments foreign entities	-880
Exchange rate adjustments EUR conversion	-82
Share of profit in group companies after tax	-25,034
Elimination of internal profit	36,661
Value adjustments as at 31 December 2020	-26,778
Net amount as at 31 December 2020	9,468
Equity investments with negative net asset value offset in receivables from group companies	19,802
Carrying amount as at 31 December 2020	29,270

Investments comprise the following entities:

Name	Registered office	Share capital	
Vestas Offshore Wind UK Ltd.	United Kingdom	GBP'000	11,500
Vestas Offshore Wind The Netherlands B.V.	The Netherlands	EUR'000	18
Vestas Offshore Wind Sweden AB	Sweden	SEK'000	100
Vestas Offshore Wind Belgium NV	Belgium	EUR'000	2,062
Vestas Offshore Wind Germany GmbH	Germany	EUR'000	1,275
Vestas Offshore Wind Blades UK Ltd.	United Kingdom	GBP'000	7,000
Vestas Offshore Wind Taiwan Ltd.	Taiwan	TWD'000	5,000
Vestas Offshore Wind US, Inc.	United States	USD	100
MVOW Vestas Portugal, Unipessoal, Lda.	Portugal	EUR	1
MHI Vestas Offshore Wind Japan Ltd.	Japan	JPY'000	25,000
Vestas Offshore Wind France, SAS	France	EUR'000	100

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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	31/12 2020	31/3 2020
Raw materials and consumables	55,360	50,792
Work in progress	125,599	87,421
Finished goods	550,560	445,210
Prepayment for goods	1,433	1,477
	732,952	584,900

13 Trade receivables

Accounting policies

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

EUR'000	31/12 2020	31/3 2020
Trade receivables	526	3,965
Provisions for bad debts	0	0
	526	3,965

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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14 Deferred tax (continued)

EUR'000	31/12 2020	31/3 2020
Deferred tax as at 1 April	35,593	57,352
Exchange rate adjustments	80	-16
Deferred tax on equity transactions	-233	-9,763
Adjustment of deferred tax, previous years	33,007	0
Adjustment of deferred tax for the year	28,911	-11,980
Deferred tax assets as at 31 December/31 March	97,358	35,593

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	31/12 2020	31/3 2020
Tax receivables (assets)	739	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.

No changes have been made to the share capital the past 5 years.

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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	31/12 2020	31/3 2020
Warranty provisions	255,655	61,497
Other provisions	0	0
Provisions as at 31 December/31 March	255,655	61,497
Warranty provisions as at 1 April	61,497	51,700
Exchange rate adjustments	218	-15
Utilised provisions for the year	-34,275	-24,777
Provisions for the year	228,215	34,589
Warranty provisions as at 31 December/31 March	255,655	61,497

Provisions are expected to be payable as follows:		
0-1 years	107,986	32,051
1-5 years	147,669	29,446
	255,655	61,497

18 Financial debts

EUR'000	31/12 2020	31/3 2020
Bank debt	245,000	0
Lease liabilitites	79,458	53,819
	324,458	53,819
Financial debts break down as follows:		
< 1 year	270,227	13,957
1-5 years	45,084	28,632
> 5 years	9,147	11,230
	324,458	53,819

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19 Proposed distribution of profit

EUR'000	2020	2019/20
Transfer to reserve under the equity method	962	-33,603
Transfer to reserve under development costs	36,595	25,930
Retained earnings	-94,371	10,196
	-56,814	2,523

20 Employee information

EUR'000	2020	2019/20
Wages and salaries, etc.	122,778	164,370
Pension schemes	9,204	12,274
Other social security costs	2,704	6,352
	134,686	182,996
Average number of employees	1,993	2,020
Executive Management remuneration including incentive schemes	1,771	1,999
Board of Directors remuneration	0	0

21 Related parties and ownership

The Company is fully owned by Vestas Wind Systems A/S. The consolidated financial statements of Vestas Wind Systems A/S may be obtained from the website www.virk.dk.

Related party transactions are on arm's length.

22 Contractual obligations

EUR'000	31/12 2020	31/3 2020
Other contractual obligations falling due within 1 year	0	6,977
Other contractual obligations falling due within 1-5 years	0	31,168
Other contractual obligations falling due after 5 years	0	0
	0	38,145

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

The Company provides performance bonds in connection with project supplies in subsidiaries and their warranty obligations to customers. The bonds issued amounted to 701,683 kEUR at 31 December 2020.

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23 Derivative financial instruments

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

	Contractual value		Gains/Losses in equity	
EUR'000	31/12 2020	31/3 2020	31/12 2020	31/3 2020
Foreign currency derivatives EUR/GBP	2,246,605	1,577,133	-47,026	-57,481
Foreign currency derivatives EUR/USD	2,532	6,938	-212	87
Foreign currency derivatives EUR/TWD	535,620	0	-18,831	0
Foreign currency derivatives EUR/JPY	152,090	0	7,306	0
	2,936,847	1,584,071	-58,763	-57,394

Risks which were managed by derivative financial instruments in 2020 comprise foreign currency risk.

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

Foreign currency risk

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

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

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