Aquaporin A/S
CVR-nr. 28 31 56 94
Nymøllevej 78
2800 Kongens Lyngby

Generalforsamlingen blev afholdt den 19. april 2018

Niels Heering
Bestyrelsesformand

AQUAPORIN

WATER MADE BY NATURE

Annual report 2017

CVR-No.: 28 31 56 94

OUR MISSION

Our mission is to develop, produce and commercialize biomimetic membranes with disruptive market potential in water treatment via cutting-edge R&D using direct sales & distribution networks for mature markets and strategic commercial partnerships for emerging markets

OUR VISION

Our vision is to become the world leading company in developing membranes for water treatment

JOIN THE WATER REVOLUTION

Aquaporin A/S is a global water technology company headquartered in Kongens Lyngby, Denmark. Aquaporin is dedicated to revolutionizing water purification through the use of industrial biotechnological techniques and thinking.

THE AQUAPORIN GROUP

AQUAPORIN IN SPACE
Aquaporin Space Alliance is a Joint Venture with Danish Aerospace Company ApS tests and markets Aquaporin Inside® membranes for the Space Industry, working with both European and American space agencies.

R&D & BUSINESS DEVELOPMENT HUB IN SINGAPORE
Aquaporin Asia located in Singapore handles both membrane development and pilot production as well as business development and sales activities for Asia outside China.

LOCAL PRODUCTION AND PRESENCE IN CHINA
Aquapoten Joint Venture with Congreen Ecological Agricultural Co produces and commercializes Aquaporin Inside® membranes in China.

KEY COMPONENT PRODUCTION IN DENMARK
Aquaporin A/S produces the core aquaporin protein and the Aquaporin Inside® Formulation in Denmark, for use by the entire Aquaporin group.

AQUAPORIN INSIDE® — ONE CORE TECHNOLOGY

Water filtration membranes are used in many applications. Aquaporins solution offers an attractive cost-to-value ratio for customers. Aquaporin targets the below segments, where end users generally will benefit from better quality in their water production and lower operating costs leading to increased competitiveness and higher margins.

HOUSEHOLD WATER PURIFIERS

product improvements are higher water flow, resulting in shorter dispense time and increased water recovery rates

INDUSTRIAL & MUNICIPAL

enhancements will give higher quality in the produced water and higher water reuse rates, leading to quality improvements and direct cost savings in the industrial production process

FOOD & BEVERAGE

product improvements will result in higher quality and refinement of Food & Beverage products, and higher water reuse rates, leading to quality improvements and direct cost savings

DESALINATION

product improvements will result in significant energy reductions in the production of drinking water, leading to a direct cost advantage in the production process

AQUAPORIN PRODUCT PIPELINE

Product	Market	R&D	Proof of concept	Piloting	Production	Market
Tap Water Reverse Osmosis (TWRO)	Household Water Purifiers					
Forward Osmosis (FO)	Industrial & Municipal Food & Beverage					
Brackish Water Reverse Osmosis (BWRO)	Industrial & Municipal Food & Beverage					
Seawater Reverse Osmosis (SWRO)	Desalination					

40%

WATER SCARCITY

ACCORDING TO THE UN, WATER SCARCITY AFFECTS MORE THAN 40 PERCENT OF THE GLOBAL POPULATION AND THIS NUMBER IS PROJECTED TO RISE.

LETTER FROM THE CHAIRMANSHIP

"The answer is in nature" is the opening line of the United Nations World Water Day 2018. This year's theme – Nature for Water – explores how to use nature to overcome the water challenges of the 21st century. It is also the vision and mission of Aquaporin and the core of the Aquaporin Inside® technology.

Aquaporin is part of a new generation of companies that focus on meeting these challenges and helping the world to achieve the United Nations Sustainable Development Goals - and in parallel entering one of the largest global markets – the market for water.

Water is at the very core of sustainable development, critical to the survival of people, the planet – and an essential ingredient in all industries. As all people and all industries use water, the focus opens enormous opportunities in a global water market.

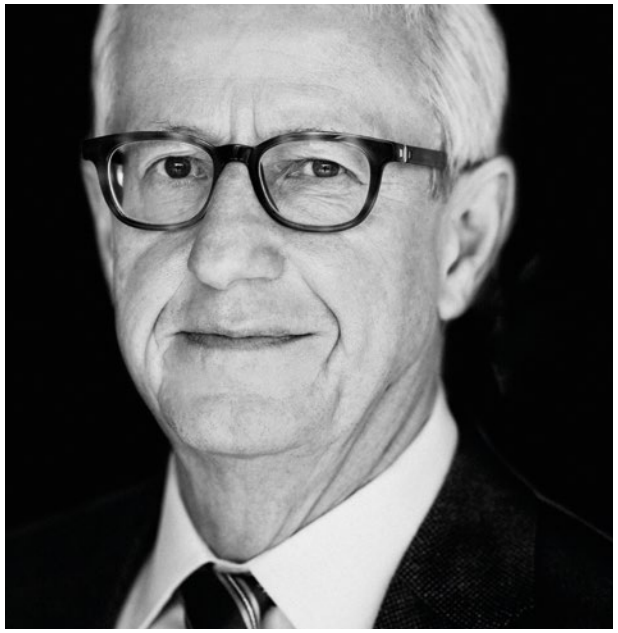
PURE AND SAFE DRINKING WATER

After a decade of development, Aquaporin Inside® products are now available. Aquaporin's entry market is in household water purifiers with a focus on pure and safe drinking water. We expect Aquaporin Inside® products for a range of industrial applications to follow soon.

Experts estimate the global market of household water purifiers alone to EUR 27 billion a year with compounded annual growth rates of approximately 16%.

In some regions - especially in Asia - market growth rates are even higher as water stress continues to rise. We believe that achieving the United Nations Sustainable Development Goals can also be good business. Let's meet the water challenges of the 21st century head on – the answer is in nature.

Niels Heering: **"We are keen to take Aquaporin into the next phase of its exciting history. As water scarcity is rising and the global demand for water is expected to increase 40% by 2030, the market opportunities within water purification are indeed unique"**

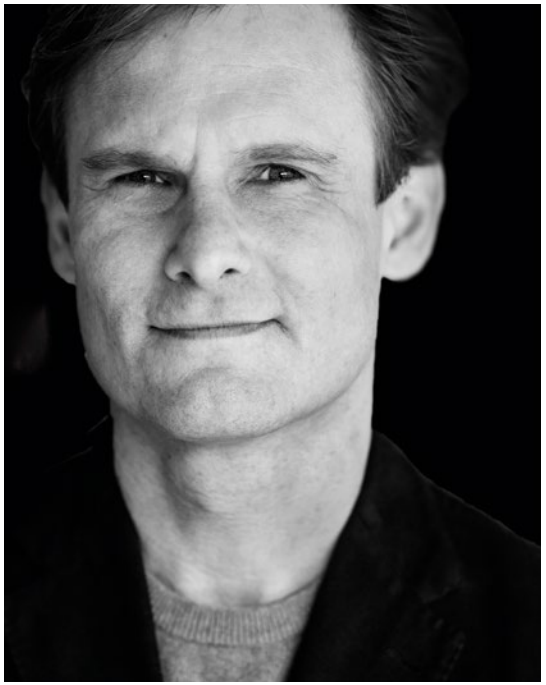


Niels Heering
Chairman of the Board

Søren Bjørn Hansen
Deputy Chairman of the Board

LETTER FROM THE CEO

And lift-off! Transcending from a decade of technology development into a commercial water technology company is an experience reserved for the few. Aquaporin Inside® products are the first ever to utilize the power of a natural membrane protein at the industrial scale.



Peter Holme Jensen
CEO

IN 2017, WE REACHED SIGNIFICANT MILESTONES:

- Finalized mass-scale production setup and tap water reverse osmosis product maturation
- Launched Aquaporin Inside® forward osmosis hollow-fiber elements
- Took control of our value chain including aquaporin protein production
- Established market entry points in the global water markets
- Primed of customers globally for immediate market launch and
- Developed the organization by attracting even more world class talent

We are very pleased that the Aquaporin Group has transformed into an integrated industrial membrane production company throughout 2017, while continuing development of a technological base in industrial biotechnology and membrane science.

COMMERCIAL GROWTH AND OPPORTUNITIES IN NEW APPLICATIONS

The entry market for Aquaporin Inside® products is the Tap Water Reverse Osmosis (TWRO) membrane products targeted at the huge and fast growing market for household water purifiers. These Aquaporin Inside® products are second to none, and the first industrial products ever to utilize the power of a natural membrane protein.

In parallel, new markets are maturing and opening as commercial opportunities for new Aquaporin Inside® products. Building on a strong history of Public Private Partnerships in development of the Aquaporin Inside® technology, new exiting collaborations in the water industry have emerged in 2017. Examples of new collaboration and market opportunities include:

- Aquaporin Inside® products in waste water treatment in the semiconductor industry with Darco Water Technologies
- Aquaporin Inside® technology in the dairy industry with Arla Foods in the Innovation Foundation project, IBISS
- Aquaporin Inside® technology utilized in vaccine production, purification and concentration with Merck and GlaxoSmithKline in the EU project, DiVine and
- New ventures in space with the European Space Agency (ESA) – development of a prototype model of a water recycling unit for space applications utilizing Aquaporin Inside® technology

The Aquaporin Group is entering a huge and growing water market filled with global opportunities.

80%

WASTE WATER

MORE THAN 80 PERCENT OF WASTEWATER RESULTING FROM HUMAN ACTIVITIES IS DISCHARGED INTO RIVERS OR THE SEA WITHOUT ANY POLLUTION REMOVAL.

FIRST AQUAPORIN INSIDE® PRODUCTION FACILITY

Aquaporin has in recent years invested in a new headquarter in Denmark that combines offices, laboratories, membrane testing, showroom, large-scale production and storage facilities. The investments enables Aquaporin to expand production capacity considerably bringing Aquaporin Inside® products to the market. The first product is Tap Water Reverse Osmosis (TWRO). The production facility in Denmark will be the base for further expanding a global production and sales organization.

AQUAPOTEN – JOINT VENTURE IN CHINA

China represents the single biggest geographical opportunity in the global water market. To access this market and meet demands for localized products and presence, Aquaporin A/S already in 2015 established the Chinese joint venture Aquapoten, together with the Chinese Poten Enviro group Co Ltd., now with Congreen Ecological Agricultural Co as partner.

Aquapoten is commercializing the Aquaporin Inside® products in China, with the large and fast-growing household water purifier market as the first target.

Aquapoten is currently investing in large scale production facilities in China, based on delivery of the core aquaporin component from Aquaporin Inside® formulation in Denmark.

"WE SEE THE AQUAPORIN INSIDE® TAP WATER REVERSE OSMOSIS AS EXACTLY THE RIGHT ENTRY PRODUCT FOR AQUAPORIN AND FOR AQUAPOTEN. IN CHINA ALONE, THE RESIDENTIAL REVERSE OSMOSIS MEMBRANE MARKET IS ESTIMATED AT MORE THAN USD 2.2 BN IN 2016, AND GROWING BY 28% ANNUALLY FROM 2011 TO 2021"

Lei Zhang, Chairman of Aquapoten Co Ltd.

Source: Tech Sci Research 2016

2017 KEY EVENTS

APRIL

NEW ERA FOR VACCINE PURIFICATION

Aquaporin and 5 partners receive more than DKK 43 million in EU funding. By implementing the Aquaporin Inside® for purification, current major challenges in the manufacturing processes can be solved.

AUGUST

REMOVING MICROPLASTICS

The Aquaporin Inside® technology can be the solution. Aquaporin is partner in a collaboration project of DKK 28 million.

NOVEMBER

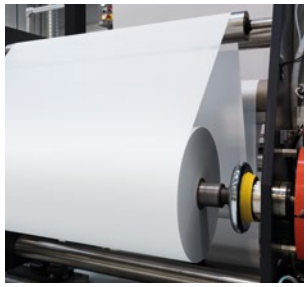
PRODUCING THE AQUAPORIN PROTEIN

Aquaporin Membrane Protein ApS (formerly Golgi ApS) production of the essential aquaporin protein for the Aquaporin Inside® is now running live.

FEBUARY

COMMISSIONING OF LARGE-SCALE PRODUCTION PLANT

The production plant commissioned in the headquarter represent a significant milestone ahead of worldwide market entry.



JULY

PRODUCT LAUNCH

Aquaporin launches the Aquaporin Inside® Forward Osmosis product. The product is groundbreaking technology with the range of applications.

OCTOBER

NEW PRODUCT IN DEVELOPMENT

The Aquaporin Inside® Membrane for Brackish Water Reverse Osmosis now in development and a potential disruption of the Reverse Osmosis membrane market.

DECEMBER

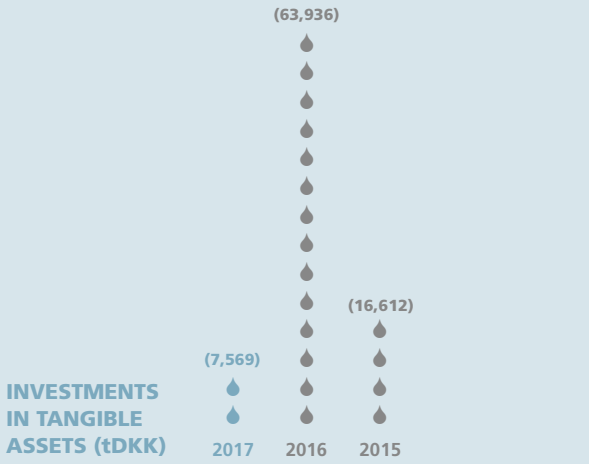
STRENGTHENING AQUAPORIN'S VALUE CHAIN

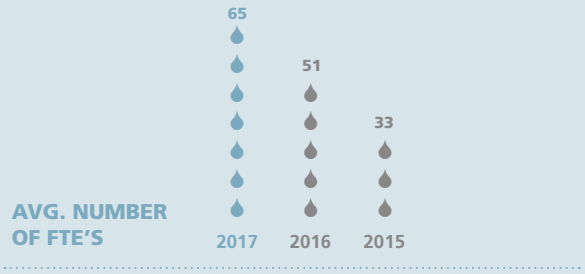
Aquaporin acquires the remaining shares in Aquaporin Membrane Protein ApS (formerly Golgi ApS) – the first company of its kind capable of large-scale aquaporin protein production.

FINANCIAL HIGHLIGHTS AND KEY RATIOS

Amounts in tDKK	**2017**	2016	2015
Income statement			
Net revenue	2,131	8,419	236
Sales and distribution costs	12,723	7,755	3,553
Research and development costs	40,942	24,782	13,075
Administrative costs	15,290	14,228	7,571
EBITDA	(59,840)	(32,249)	(21,522)
Operating profit (EBIT)	(64,360)	(35,457)	(22,167)
Share of net loss of associates	(5,393)	(4,059)	(1,212)
Net financial items	(1,947)	(454)	2,377
Result for the period	(62,235)	(34,645)	(16,016)
Balance sheet			
Total non-current assets	172,709	163,359	83,718
Total current assets	53,855	79,107	94,803
Total assets	226,564	242,466	178,521
Equity	181,484	205,692	174,689
Total liabilities	45,080	36,774	3,832
Cash flow			
Cash flow from operating activities	(42,829)	2,216	(24,040)
Cash flow from investment activities	(14,856)	(73,545)	(47,042)
Investments in intangible assets	(7,285)	(9,533)	(5,324)
Investments in tangible assets	(7,561)	(63,936)	(16,612)
Investments in associates and joint arrangements	0	0	(23,313)
Cash flow from financing activities	34,715	60,000	87,030
Key ratios			
Equity share	80%	85%	98%
Avarage number of FTE's	65	51	33

The key figures and key ratios have been prepared on a consolidated basis, and are in accordance with "Recommendations & Financial Ratios 2015" published by the Danish Finance Society.





STRATEGY

WATER MADE BY NATURE

The Aquaporin Inside® technology is based on the aquaporin protein – nature's own 100% selective and extremely effective water channel. The aquaporin protein is ubiquitous in living cells where it is responsible for water transport across cell membranes.

Aquaporin water channels are found in the cell membranes of all living cells. These water channels only let water pass. They are very effective in the transport of water. 1 gram of aquaporin protein can transport up to 700 liters of water per second.

The core of the Aquaporin Inside® technology is to replicate nature's way of filtering water by producing a stable and active formulation for the aquaporin pore. When incorporated into an industrial membrane, this protein formulation produces an effective and extremely selective water filtration membrane. Aquaporin has established a strong patent portfolio creating a unique platform for aquaporin-based membranes.

HOW AQUAPORIN CREATES VALUE

Aquaporin Inside® end users will generally benefit from better quality in their water production, increased refinement and lower operating costs leading to increased competitiveness and higher margins. The customers benefit from the unique selling points when selling water treatment systems with Aquaporin Inside® technology to their customers.

The Aquaporin Inside® Tap Water Reverse Osmosis products.

AQUAPORIN'S VALUE PROPOSITION TO ITS CUSTOMERS

- For Household Water Purifiers, the consumer experiences better water flow from the appliance and less waste of water from the machine
- In the Industrial & Municipal markets, our products lowers cost-of-ownership, improves water quality and allows the reuse of more water
- In Food & Beverages, Aquaporin Inside® products additionally improves the taste and smell of the end product
- In Desalination, the Aquaporin Inside® membranes directly lowers the energy needed to desalinate salty water for potable use

UNIQUE POSITION FOR GROWTH

A combination of groundbreaking technology, a full-range product pipeline and a strong vision gives Aquaporin a unique position in the growing market for water purification. Looking forward, it is time to commercialize more than 12 years of product development.

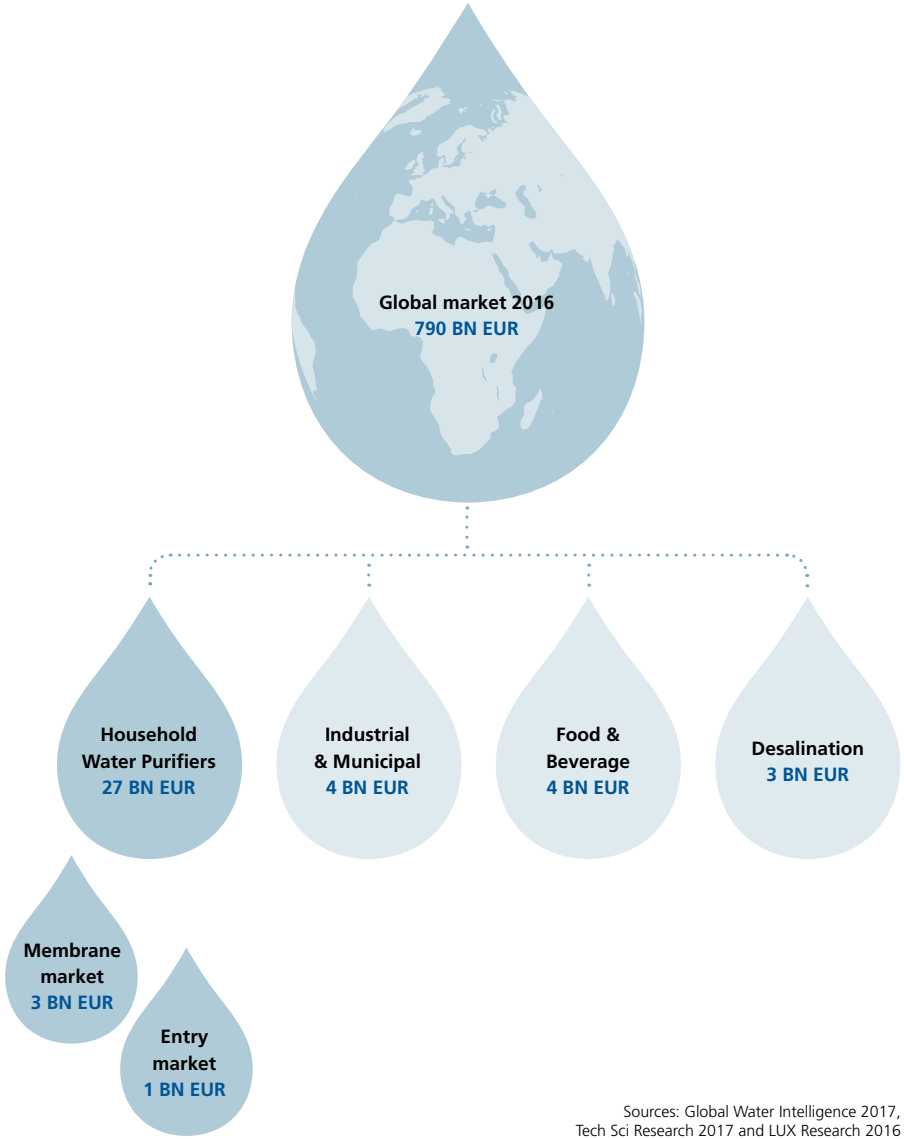
Aquaporin's strategy aims at developing biomimetic water membranes for various segments of the Water industry, and to produce and sell Aquaporin Inside® products to the Water industry on a global scale with a potential to become world-leading within membranes for water purification.

Aquaporin is committed to be the world leading developer of membranes for water filtration by using a unique and competitive sustainable technology with a wide range of applications. Therefore, Aquaporin allocates considerable resources to research and development to pave the way for product launches in the future.

GROWTH MARKET – THE WORLD IS LACKING CLEAN WATER

Fundamentally, the world is lacking clean water. According to the UN, water scarcity affects more than 40% of the global population and this is projected to rise. More than 80% of waste water resulting from human activities is discharged into rivers or sea without any pollution removal. This very basic dynamic of water scarcity is driven further by the mega trends of rising population and living standard, urbanization and global warming. These trends will support a continued long-term growth.

The Global Water Market is valued at 790 BN EUR in 2016, with a growth forecast of 3.8% p.a. until 2020.



Sources: Global Water Intelligence 2017, Tech Sci Research 2017 and LUX Research 2016

STRENGTHENING OUR VALUE CHAIN

In 2017, Aquaporin made it's first acquisition and expanded the ownership of the value chain by acquiring 100% of the share capital of Aquaporin Membrane Protein ApS (formerly Golgi ApS). Aquaporin Membrane Protein is the first company of its kind capable of large-scale production of aquaporin proteins. As a result of the acquisition, Aquaporin has full control of this critical part of the value chain.

The key component of the Aquaporin Inside® technology is the aquaporin protein. The aquaporin protein is formulated to be stable and active and this formulation is the technology piece most unique to Aquaporin. The formulated aquaporin protein is what we call the Aquaporin Inside® formulation. The formulated aquaporin protein is then incorporated into an industrial membrane and and the technology replicate nature's own way of filtering water, resulting in commercial products just as selective and effective as in nature.

The supply of the aquaporin protein is essential to the development and production of the Aquaporin Inside® membranes. To secure our supply of aquaporins, Aquaporin Membrane Protein was founded in 2016 with Aquaporin A/S and Danica Pension as anchor investors. The aim was to establish production of membrane protein in large-scale.

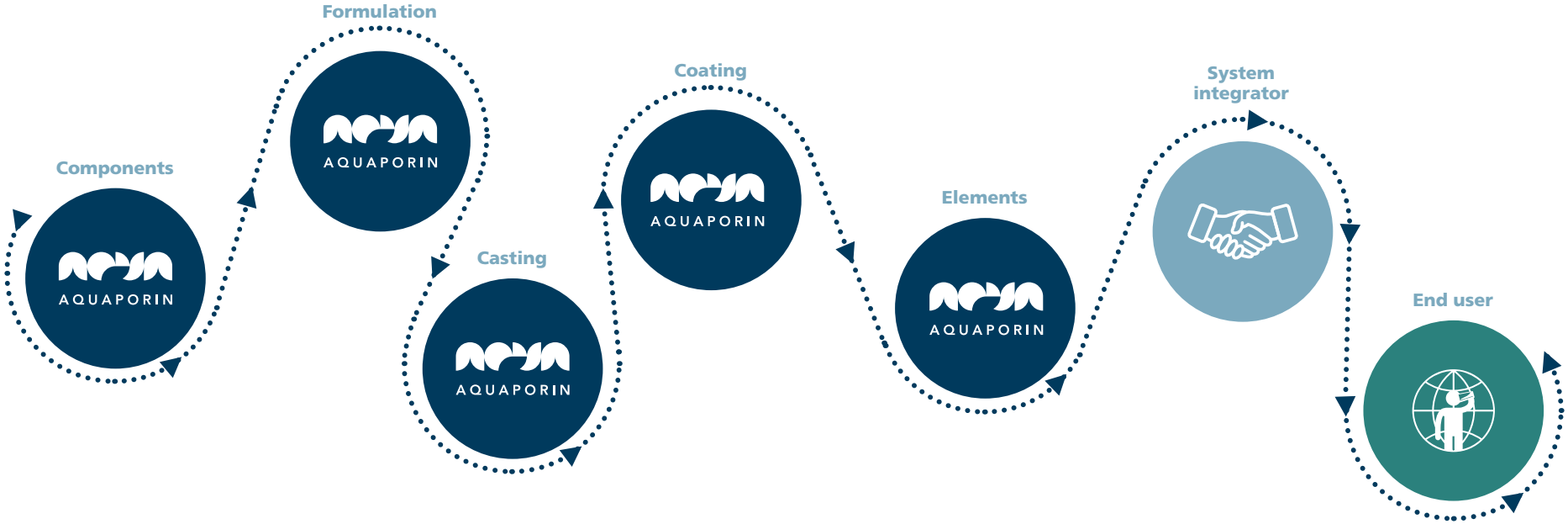
The transition from production of milligrams to kilograms of aquaporin protein requires a dedicated aquaporin production facility including bioreactors and several downstream processing units with the flexibility to produce new aquaporin molecules on a regular basis. This has been completed in record time and the first batch of aquaporin protein was produced late 2017 making Aquaporin Membrane Protein the first company of its kind capable of large-scale production of the aquaporin protein.

Aquaporin is in a rapid commercial development – with a constant eye on securing the business foundation and financial ability to grow. The acquisition of the remaining shares in Aquaporin Membrane Protein is seen as an important milestone in the context of capturing future value.

FULL OWNERSHIP OF THE VALUE CHAIN

The Aquaporin Group has built a strong team around technology development with competences in both Denmark and Singapore consisting of expertise and know how in molecular biology, membrane chemistry, membrane physics, membrane engineering and application engineering.

AQUAPORINS FIVE STEPS



THE PRODUCTION SETUP

The Aquaporin Inside® formulation is the core of the Aquaporin Inside® technology, and is being developed and commercialized in Aquaporin A/S. The aquaporin protein itself is produced inhouse and is incorporated into the stable and active Aquaporin Inside® formulation.

This part of the production is done solely in Denmark, to keep production and know how around the core technology in-house. Aquaporin Inside® flat sheet membranes are produced in-house, and rolling of the flat sheet membranes into final spiral wound elements is outsourced in contract manufacturing (CMO), today.

COMMERCIALIZATION

The major business objective of Aquaporin A/S in the next five years is to develop, product-mature and commercialize the established Aquaporin Product Pipeline. All target markets are solely business to business related.

When commercializing Aquaporin Inside® products, we distinguish between four types of commercial relationships:

- Direct sales to customers
- Re-sellers – distribution network
- Co-Development Partners
- Strategic Commercial Partners (SCP)

In some segments, we will sell directly to the customer (system integrators) or through a distribution network, whereas in emerging markets and emerging applications, co-development and strategic commercial partnerships will be used to accelerate market penetration.

The target markets can be described in four different water markets:

- Household Water Purifiers
- Industrial & Municipal
- Food & Beverage
- Desalination

Aquaporin will penetrate the water market using household water purifiers as the entry market by direct sales of TWRO membranes and elements. Customers will be equipment manufacturers of household water purifiers.

Following market entry, Aquaporin will focus on Industrial and Municipal Water markets. In selected industrial applications, i.e. Food & Beverage, and Emerging markets, Aquaporin will seek strategic commercial partnerships to optimize and accelerate market penetration.

When the market of Household Water Purifiers and Industrial markets are commercialized successfully, the market of Desalination will be addressed. The market of Desalination is large and mature, and requires a well-established production base for market penetration.

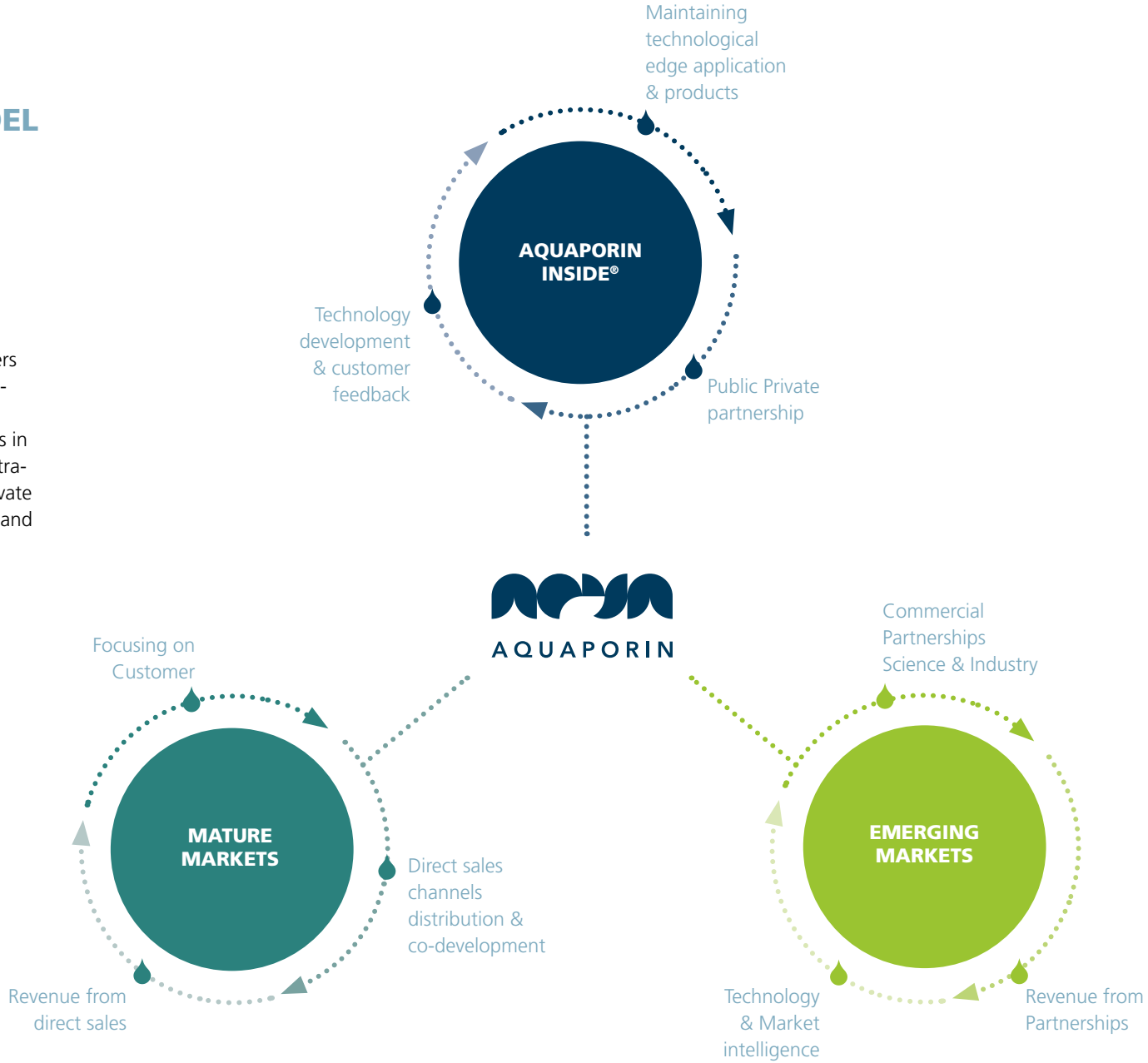
"THE AQUAPORIN INSIDE® PRODUCTS ARE SOME OF THE FIRST INDUSTRIAL EXAMPLES, ON A GLOBAL SCALE, WHERE CLASSICAL ENGINEERING, BIOTECHNOLOGY AND BIOLOGY WORKS TOGETHER. WE ARE VERY PROUD TO BE LEADING THIS FIELD, AS PART OF A NEW GENERATION OF INDUSTRIAL COMPANIES EMERGES"

Peter Holme Jensen, CEO

AQUAPORIN'S BUSINESS MODEL

Aquaporin's business model builds on a unique technology and strong innovation platform, a scalable production setup and strong customer relationships.

The technology will be commercialized through direct sales of Aquaporin Inside® products, directly to customers and through a global distribution network and co-development in mature markets. The business model further holds the possibility of entering commercial partnerships in emerging markets to assist and accelerate market penetration. For both mature- and emerging markets Public Private Partnerships is a key component for priming customers and obtaining market intelligence.



WHO WE ARE – AND HOW WE WORK

Over the last years Aquaporin has developed from a R&D based company to a commercial focused company. We have strengthened sales and business development, product supply and support functions, all to commercialize our Aquaporin Inside® based products.

Employees are Aquaporin's most important asset and our aim is to attract and retain the most qualified people to fulfil our goals. We have focused on maintaining a lean and agile organization.

CORE VALUES

- Sustainability: Environmental & financial sustainability in synergy
- Pioneering: We work in the frontline of technology
- Excellence: Focus & be the best you can
- Influence: Make a difference
- Grow: Bring it to the next level
- Pride: Be proud of yourself and what you do
- Open mind: See the world of opportunities

Our key to success is an open mindset with an innovative drive, coupled with a common company culture that support a dynamic interaction across functions and cultural background. A diverse workforce enhances innovation, increases our ability to work cross-culturally and gives us a better understanding of the communities in which we operate. We employ 16 different nationalities adding up to 41% of our employees being non-Danish. 63% of our employees are male and 37% female.

PERFORMANCE

FINANCIAL REVIEW

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2017. There is no significant difference in the development of the Group and the Parent Company.

REVENUE
Revenue for the year amounted to DKK 2.1 million compared to DKK 8.4 million in 2016. The decrease of DKK 6.3 million relates to a milestone payment in 2016 from Aquapoten in China for launching of the Aquaporin Inside® TWRO modules for household purifiers. Other revenue amounted to DKK 0.7 million

GROSS PROFIT
Gross profit was DKK 1.8 million compared to DKK 8.3 million last year. The driver behind the decrease was higher milestone payments in 2016.

OPERATING COST
Operating costs amounted to DKK 76.3 million of which DKK 7.3 million has been capitalized. In 2016 the operating costs amounted to DKK 56.3 million an increase of DKK 20 million (35,5%).

Sales and distribution costs was DKK 12.7 million compared to DKK 7.8 million in 2016, an increase of 63%. The increase was driven by expansion of the sales organization and increased activity in general.

Research and development costs including capitalized costs amounts to DKK 48.2 million compared to DKK 34.3 million in 2016, an increase of 40.5%. The increase was driven by increased activity in membrane protein development for the aquaporin protein and product development for optimization of our aquaporin-based membranes.

The administrative costs increased by 8% to DKK 15.3 million compared to DKK 14.2 million in 2016. The increase relates to strengthen of the administrative infrastructure.

SHARE OF NET LOSS OF ASSOCIATES
Share of net loss of associates amounted to DKK 5.4 million which primary relates to share of loss in the Aquapoten joint venture in China.

NET FINANCIALS AND TAX
Net financial expenses amounted to DKK 1.9 million compared to DKK 0.5 million in 2016. The increase was primarily due to an increase in bank fees and interest on cash and cash equivalents. Income tax benefit were DKK 9.5 million compared to DKK 5.3 million in 2016.

LOSS FOR THE PERIOD
Loss for the period amounted to DKK 62.2 million compared to a loss of DKK 34.6 million in 2016.

ASSETS
At 31 December 2017, total assets amounted to DKK 226.6 million compared to DKK 242.5 million in 2016. The decrease is mainly due to lesser cash and cash equivalents.

Total non-current assets amount to DKK 172.7 million compared to DKK 163.4 million in 2016, an increase of DKK 9.3 million. Intangible assets increased by DKK 7.3 million, tangible assets increase by DKK 3.0 million and financial assets decreased by DKK 7.2 million.

EQUITY
Total equity amounted to DKK 181.5 million at 31 December 2017 compared to DKK 205.7 million last year. The decrease in equity is primarily a result of the net loss for the year of DKK 62.2 million partly offset by new equity of DKK 34.7 million from a capital increase.

End of 2017 Aquaporin A/S acquired the remaining 49% of the shares in Aquaporin Membrane Protein ApS (formerly Golgi ApS). The purchase price was paid in new shares in Aquaporin A/S. In the consolidated financial statements the transaction has been treated as an acquisition of an equity interest from a non-controlling interest, and recognised in the equity of Aquaporin A/S.

CASH FLOW
Cash flow from operating activities amounted to minus DKK 42.8 million compared to 2.2 million in 2016. The change was primarily due to increased loss for the period partly offset by non-cash items, change in working capital and received tax. A part of the non-cash items relates to the acquisition of the remaining shares in Aquaporin Membrane Protein ApS (formerly Golgi ApS). The acquisition was done as a share swap deal.

Cash flow from investing activities was an outflow of DKK 14.9 million compared to DKK 73.5 million in 2016. The investment activities in 2017 were lower as the investment activities in 2016 related to the finalization of the production facility in Denmark and 2017 has been used for optimization. The high investment activities in recent years has resulted in establishing a production facility in Denmark to expand production capacity considerably.

Cash flow from financing activities amounted to DKK 34.7 million and relates to net proceeds from the capital increase in 2017.

At the end of the year, cash and cash equivalents amounted to DKK 46.4 million.

CORPORATE MATTERS

RISK MANAGEMENT

As we grow our business it is important that we continue successfully managing the risk inherent in our business activities and reduce the potential financial impact of these to an acceptable level

Our risk management approach therefore scales with our activities, enabling a timely response to issues that may have a material impact on the Group's earnings, financial position and the achievement of targets.

Management is working actively with risk management as an integrated part of operations, including ongoing discussions and assessments of actual and potential risks to ensure a proactive approach to potential risks. The Company is identifying material risks that could have an influence on the Company achieving its targets.

PRODUCT SUPPLY AND PRODUCT SAFETY

To ensure the supply chain and the highest product safety, Aquaporin has an extensive quality assurance program covering the entire value chain, from sourcing to finished products are delivered to the customers. The risk planning is to avoid emergency situations, such as lack of or poor access to raw materials. The planning includes preventative inventory management including build-up of contingency inventories of critical inventory to secure an unbroken chain of production and supply.

Production and manufacturing processes are also subject to periodic and routine inspections both internally and externally to ensure production processes and quality standards are followed. Aquaporins value chain is certified according to internationally recognized standards including ISO 9001:2015.

HEALTH, SAFETY AND SECURITY

Aquaporin is committed to continuously improving the psychosocial working environment for its employees. The Company has implemented several initiatives to underline the importance of a safe working environment and are monitoring and following closely up on incidents and near miss both on department level and on Executive Management level.

INTELLECTUAL PROPERTY RIGHTS

A strong and protected technology platform is important for Aquaporin. The Company continuously have a focus on a proactive patent strategy and protect new knowledge created to support the business. Aquaporin has 76 patents granted worldwide with 45 applications pending.

"AS THE COMPANY IS GROWING AND MATURING THE FOCUS ON RISK MANAGEMENT HAS ALSO INCREASED. THE OPERATIONAL RISK ASSESSMENT HAS BEEN STRENGTHENED THROUGHOUT 2017 AND WILL BE FURTHER STRENGTHENED IN 2018"

Bo Karmark, CFO

INTERNAL CONTROL

Risk management and internal controls related to financial reporting are designed of control the risk of material misstatements. There are working plans for the month-end closing process, ensuring an in-depth analysis of deviations between actual performance, business plans, budgets, and quarterly updates of estimates.

FINANCIAL RISK

Due to the nature of its operations, investments and financing, Aquaporin is exposed to a number financial risks relating to currency and fluctuations, funding, liquidity, credit and counterpart risks. The aim is to actively address financial risk to mitigate the risk of material impacts on the Group's financial position. The financial risk is managed centrally with an objective to reduce the sensitivity or earnings of fluctuations in exchange rates, interest rates and liquidity.

GOVERNANCE

The supreme governing body of Aquaporin is comprised of a two-tier management structure consisting of the Board of Directors and the Executive Management.

The Board of Directors supervises the development of the Group and outlines the overall visions, strategies and objectives and day-to day management and execution of the strategy is conducted by the Executive Management. The allocation of responsibilities between the Board of Directors and Executive management is laid down in the relevant rules of procedure.

BOARD OF DIRECTORS

The Board of Directors has the responsibility for the overall and strategic management of the Company and appropriate capital structure, just as the Board of Directors must ensure the sound organization of the activities of the company.

Board members are elected at the general meeting and consists of eight members. The diversity profile of the Board of Directors is one female and two originating from outside Denmark. It is the objective to increase the diversity of the Board of Directors in terms of gender.

EXECUTIVE MANAGEMENT AND KEY EMPLOYEES

The Board of Directors appoints the Executive Board which is responsible for the day-to-day management and compliance with and implementation of the guidelines and recommendations issued by the Board of Directors. The Executive Board shall also present and recommend proposals on the overall strategy and objectives to the Board of Directors. The overall duties, obligations and liabilities of the Executive Board, including specific authorizations within which the Executive Board may transact business, are laid down in the Rules of Procedure for the Executive Board.

The Executive Management is appointed by the Board of Directors and consist of CEO Peter Holme Jensen, CFO Bo Karmark and COO Thomas C. Beck.

Our multicultural composition of employees and our close collaboration with joint venture companies and international projects leads to a natural ethnic diversity. In addition, when recruiting and promoting we follow an equal opportunities approach in terms of gender, ethnic origin and sexual orientation.

The percentage of female and non-Danes in key positions is 17% for female and 33% for non-Danes.

CORPORATE SOCIAL RESPONSIBILITY

We have decided to reflect the UN Global Development Goals in the way we operate and in the choices, we make. Where possible and feasible we will contribute towards the achievement of the sustainable development goals. Furthermore, the principles of the Un Global Compact will guide our policies in the areas of human rights, labour rights, the environment and anti-corruption. We expect suppliers to adhere to the same standards which will be expressed through our supplier code of conduct. We will perform regular audits to ensure, that suppliers understand and respect our standards.

HUMAN CAPITAL

At Aquaporin we feel responsible for the well-being of our employees. We want to be an open and flexible workplace where the individual employee thrives and can develop and grow. We believe in the importance of our employees having a good balance between work time and leisure, and we want to support employees in having a healthy and active life style.

BOARD

NIELS HEERING
Chairman

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2015	1955

Partner at Gorrissen Federspiel. Chairman of the boards of Civ.ing. N.T. Rasmussens Fond, NTR Holding A/S*, Helgstrand Dressage A/S, Nesdu A/S, Henning Stæhr A/S, Imerco A/S and M. Goldschmidt Holding A/S. Deputy Chairman of the boards of J. Lauritzen A/S and 15. Juni Fonden. Member of the boards of Aborethusene AS, Danish Aerospace Company ApS, Lise og Valdemar Káhlers Familiefond, Ole Mathiesen A/S and Scandinavian Private Equity A/S*.

SØREN BJØRN HANSEN
Deputy Chairman

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2007	1972

M.Sc. Economics. Deputy CEO at M. Goldschmidt Holding A/S. Chairman of the board of Aquaporin Space Alliance ApS. Deputy Chairman of the board of Imerco A/S. Member of the board of Aquapoten Co Ltd., China.

LEI ZHANG
Member

INDEPENDENT	NATIONALITY
Yes	Chinese
FIRST ELECTED	**YEAR OF BIRTH**
2014	1982

Master of Law. CEO of Aquapoten Co Ltd and working Deputy Chairman of the board of Poten Environment Group Co, Ltd.* Chairman of the board of Aquapoten Co Ltd., China.

MICHAEL FRANK
Member

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2007	1963

M.Sc. Finance. Investment Director at Syddansk Innovation A/S. Chairman of the boards of Absolute Zero ApS, Ceko Sensors ApS and Dosesystem ApS. Member of the boards of Equinostic ApS, F. Kleemann Motorcycles ApS, MedTrace A/S, Shape Robotics ApS and Terranol A/S.

*Listed company

JENS LAGE HANSEN
Member

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2005	1945

M.Sc. BCom. President and CEO of Intomics US Inc., Chairman of the board of Intomics A/S.

LARS CHRISTIAN HANSEN
Member

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2015	1967

M.Sc. Chemical Engineering.
Executive Director at Villum Foundation.

CAI JIANWEN
Member

INDEPENDENT	NATIONALITY
Yes	Chinese
FIRST ELECTED	**YEAR OF BIRTH**
2014	1974

MBA, Business Administration.
Executive Director of New Concepts Holding Co, Ltd.

TORSTEN FRELTOFT
Member

INDEPENDENT	NATIONALITY
Yes	Danish
FIRST ELECTED	**YEAR OF BIRTH**
2005	1958

M.Sc. / Ph.D. Physics. CEO AcouSort AB* & PlastiSens ApS. Member of the boards of CrimTrack ApS and Xnovo Technology ApS.

*Listed company

EXECUTIVE MANAGEMENT

PETER HOLME JENSEN
Chief Executive Officer (CEO)

NATIONALITY	YEAR OF BIRTH
Danish	1970

M.Sc. / Ph.D. Structural Protein Chemistry, and has an extensive scientific and industrial network. Co-founded three other companies within pharma and biotech.

Chairman of the board of Aquaporin Asia Pte. Ltd. Deputy Chairman of the board of Aquapoten Co Ltd., China. Member of the board of Aquaporin Space Alliance ApS.

BO KARMARK
Chief Financial Officer (CFO)

NATIONALITY	YEAR OF BIRTH
Danish	1965

M.Sc. Business Administration and Audit. Brings more than 25 years of experience from multinational companies within production, the pharma and biotech industries.

Member of the boards of Aquaporin Asia Pte. Ltd. and Zgene A/S.

THOMAS C. BECK
Chief Operating Officer (COO)

NATIONALITY	YEAR OF BIRTH
Danish	1958

M.Sc. Biology. Holds more than 30 years of international experience within biotechnology and business/production planning.

Member of the board of Aquaporin Asia Pte. Ltd.

MANAGEMENT'S STATEMENT

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Aquaporin A/S for the financial year 1 January 2017 to 31 December 2017.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Group and the Company and of the results of the Group and Company operations and consolidated cash flows for the financial year 1 January 2017 to 31 December 2017.

In our opinion, Management's review includes a true and fair account of developments in the operations and financial circumstances of the Group and the Company, of the results for the year and of the financial position of the Group and the Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 20 March 2018

Executive Board

Peter Holme Jensen
CEO

Bo Karmark
CFO

Thomas C. Beck
COO

Board of Directors

Niels Heering
Chairman

Søren Bjørn Hansen
Deputy Chairman

Lei Zhang

Michael Frank

Jens Lage Hansen

Lars Christian Hansen

Cai Jianwen

Torsten Freltoft

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aquaporin A/S

OPINION
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2017 and of the results of the Group's operations and cash flow for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Aquaporin for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("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 Group 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 Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit 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 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 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 disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Hellerup, 20 March 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mikkel Sthyr	René Otto Poulsen
State Authorised	State Authorised
Public Accountant	Public Accountant
MNE: 26693	MNE: 26718

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

tDKK	Note	**2017**	2016
Net revenue	3	2,131	8,419
Cost of goods sold		(348)	(161)
Gross profit		**1,783**	**8,258**
Sales and distribution costs	4,5,6	(12,723)	(7,755)
Research and development costs	4,5,6	(40,942)	(24,782)
Administrative costs	4,5,6	(15,290)	(14,228)
Other operating income		2,812	3,050
Operating profit		**(64,360)**	**(35,457)**
Share of net loss of associates	12	(5,393)	(4,059)
Finance income	7	78	313
Finance costs	8	(2,025)	(764)
Loss before income tax		**(71,700)**	**(39,967)**
Income tax benefit	9	9,465	5,322
Loss for the period		**(62,235)**	**(34,645)**
Loss is attributable to			
Owners of Aquaporin A/S		(60,647)	(33,164)
Non-controlling interests		(1,588)	(1,481)
		(62,235)	**(34,645)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

tDKK	Note	**2017**	2016
Loss for the period		(62,235)	(34,645)
Other comprehensive income			
Items that can be reclassified to profit and loss:			
Exchange differences regarding foreign operations		(280)	841
Other comprehensive income for the period, net of tax		**(280)**	**841**
Total comprehensive income (loss) for the period		(62,515)	(33,804)
Total comprehensive income for the period is attributable to:			
Owners of Aquaporin A/S		(57,991)	(32,346)
Non-controlling interests		(4,524)	(1,458)
		(62,515)	**(33,804)**

CONSOLIDATED BALANCE SHEET ASSETS AT 31 DECEMBER

tDKK	Note	**2017**	2016
Know how	10	2,899	2,899
Development projects	10	61,195	53,910
Intangible assets		**64,094**	**56,809**
Machinery	11	57,927	53,617
Other equipment	11	3,949	4,117
Leasehold improvements	11	20,701	21,879
Tangible assets		**82,577**	**79,613**
Investments in associates	12	5,918	13,097
Financial assets		**5,918**	**13,097**
Deposits		2,015	1,930
Deferred tax assets	13	18,105	11,910
Other non-current assets		**20,120**	**13,840**
Total non-current assets		**172,709**	**163,359**
Inventories		2,915	993
Trade receivables	14	394	308
Other receivables		3,587	7,816
Prepayments		585	646
Receivables		**7,481**	**9,763**
Cash and cash equivalents		**46,374**	**69,344**
Total current assets		**53,855**	**79,107**
Total assets		**226,564**	**242,466**

CONSOLIDATED BALANCE SHEET EQUITY AND LIABILITIES AT 31 DECEMBER

tDKK	Note	**2017**	2016
Share capital	15	6,944	6,604
Retained earnings		155,769	187,944
Foreign currency translation reserve		543	135
Reserve for share based payments		9,432	5,840
Other reserves		13,117	4,966
Capital and reserves attributable to owners of Aquaporin A/S		**185,805**	**205,489**
Non-controlling interests		(4,321)	203
Total equity		**181,484**	**205,692**
Trade payables		9,652	12,418
Other payables		7,210	8,658
Deferred income		28,218	15,698
Total current liabilities		**45,080**	**36,774**
Total liabilities		**45,080**	**36,774**
Total equity and liabilities		**226,564**	**242,466**
Contingent liabilities	16		
Events after the balance sheet date	18		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER

tDKK	Share capital	Retained earnings	Foreign currency translation reserve	Reserve for share based payment	Other reserves	Aquaporin A/S total	Non-controlling interests	Total equity
Balance at 31.12.2015	**6,104**	**167,527**	**(683)**	**3,350**	**0**	**176,298**	**(1,609)**	**174,689**
Profit for the period	0	(33,164)	0	0	0	(33,164)	(1,481)	(34,645)
Capitalized development costs	0	(4,966)			4,966	0	0	0
Other comprehensive income	0	0	818	0	0	818	23	841
Total comprehensive income for the period	**0**	**(38,130)**	**818**	**0**	**4,966**	**(32,346)**	**(1,458)**	**(33,804)**
Transactions with owners in their capacity as owners								
Increase in share capital	500	59,500	0	0	0	60,000	0	60,000
Share based payment	0	0	0	2,490	0	2,490	0	2,490
Balance at 31.12.2016	**6,604**	**188,897**	**135**	**5,840**	**4,966**	**206,442**	**(3,067)**	**203,375**
Correction:								
Aquisition of minority in Aquaporin Membrane Protein ApS (formerly Golgi ApS)		(953)				(953)	3,270	2,317
Balance at 31.12.2016 hereafter	**6,604**	**187,944**	**135**	**5,840**	**4,966**	**205,489**	**203**	**205,692**
Profit for the period	0	(60,647)	0	0	0	(60,647)	(1,588)	(62,235)
Capitalized development costs	0	(8,151)			8,151	0	0	0
Other comprehensive income	0	2,248	408	0	0	2,656	(2,936)	(280)
Total comprehensive income for the period	**0**	**(66,550)**	**408**	**0**	**8,151**	**(57,991)**	**(4,524)**	**(62,515)**
Transactions with owners in their capacity as owners								
Increase in share capital	340	34,375	0	0	0	34,715	0	34,715
Share based payment	0	0	0	3,592	0	3,592	0	3,592
Balance at 31.12.2017	**6,944**	**155,769**	**543**	**9,432**	**13,117**	**185,805**	**(4,321)**	**181,484**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

tDKK	Note	**2017**	2016
Profit before tax		(71,700)	(39,967)
Reversal of financial items		1,947	454
Depreciations and amortizations		4,521	3,208
Non-cash items		14,396	10,652
Change in net working capital	19	3,564	26,177
Cash flows from primary operating activities		(47,272)	524
Received interests		44	17
Paid interests		(461)	(485)
Received tax		4,860	2,160
Cash flow from operating activities		**(42,829)**	**2,216**
Investments in non-current assets		(14,770)	(73,545)
Deposits		(86)	(77)
Cash flow from investment activities		**(14,856)**	**(73,545)**
Capital increase		34,715	60,000
Cash flow from financing activities		**34,715**	**60,000**
Net cash flow for the year		**(22,970)**	**(11,329)**
Cash and cash equivalents, beginning of the year		69,344	80,673
Cash and cash equivalents, end of the year		**46,374**	**69,344**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Consolidated Financial Statements for the Aquaporin Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union as well as additional Danish disclosure requirements applying to entities of reporting class B.

Impact of new accounting standards

The Aquaporin Group has implemented all new and amended standards and interpretations which are effective for the financial year 2017. The implemented standards has no material effect.

General information on recognition and measurement

The Financial Statements have been prepared under the historical cost method, except for the measurement of certain financial instruments at fair value.

The accounting policies set out below have been applied consistently in respect of the financial year and the comparative figures.

In 2017, a correction in the comparative figures related to Aquaporin A/S' acquisition of the controlling part of the shares in Aquaporin Membrane Protein ApS (formerly Golgi ApS) in 2016, was made. The result for 2016 and equity as at 31 December 2016 was effected with DKK 583 thousand and DKK 2,317 thousand (DKK -953 thousand relate to the parent company and DKK 3,270 thousand relate to the non-controlling interests) respectively as a consequence of this.

Received grants for development projects recognised in the balance sheet are now recognised as deferred income. Previously grants were set-off against the asset. Comparative figures, which has increased the balance sheet with DKK 15.7 million has been corrected.

New standards

The IASB has issued a number of new or amended standards and interpretations effective for financial years beginning after 1 January 2016. Some of these have not yet been endorsed by the EU. Most relevant to the Group is the following:

- IFRS 9 "Financial Instruments" reducing the number of asset classes for financial assets to two: amortized cost and fair value. The standard incorporates new requirements for accounting for financial liabilities. The standard will be effective for financial years beginning on or after 1 January 2018.
- IFRS 15 "Revenue Recognition" clarifying the principles for recognizing revenue from contracts with customers. The effective date for this standard has tentatively been deferred by one year so that it will be effective for financial years beginning on or after 1 January 2018.
- IFRS 16 "Leases", requiring lessees to capitalise all leases other than leases with a term of one year or less and leases of low value assets. The effective date for this standard is 1 January 2019. The new standard will result in capitalisation of the Group's operating lease comittments, cf. note 16.

Besides increased numbers in the balance sheet from capitalisation of lease comittments (primarily related to the Company's premises in Lyngby, Denmark), none of the new or amended standards and interpretations are expected to have a material effect on the Group's reporting.

The exact effect of IFRS 16 is being analysed, but of the lease commitments reported in note 16 approx. DKK 98 million relate to commitments for longer-term payments, which is seen as an estimate for the amount to be capitalised.

The Group expects to adopt the standards and interpretations when they become effective.

Basis of consolidation

The Consolidated Financial Statements cover Aquaporin A/S (the Parent Company) and entities over which the Parent Company has a controlling influence. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Purchase of shares in subsidiaries from non-controlling interests are recognised in equity.

Translation from functional currency to presentation currency

Items in the financial statements of each of the reporting companies of the Group are measured in the currency of the primary economic environment in which the company operates (the functional currency).

Assets, liabilities and equity items are translated from each reporting company's functional currency to DKK at the balance sheet date. The income statements are translated from the functional currency into the presentation currency based on the average exchange rate for the individual months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Differences arising on the translation of the equity at the beginning of the period and translation of the income statement from the average rates to the exchange rate at the balance sheet date are recognized in other comprehensive income and presented as a separate reserve in equity.

The functional currency of the Parent Company is the Danish krone (DKK) and the Consolidated Financial Statements are likewise presented in Danish krone (DKK).

Translations and transactions

Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the transaction date.

Exchange adjustments arising due to differences between the transaction date rates and the rates at the payment date are recognized in financial income or financial expenses in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognized in financial income or financial expenses in the income statement.

Government grants

Government grants comprise grants for investments, research and development projects, etc. Grants are recognized when there is a reasonable certainty that they will be received.

Grants are recognized as deferred income under current liabilities and will be recognized in the income statements as the related development projects are recognized in the income statement (depreciation / writing down).

Revenue

Revenue is recognized in the income statement if the risk has been transferred to the purchaser at the balance sheet date, the income can be measured reliably, and expenses incurred or expected to be incurred in connection with the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received excluding VAT and less commission and discounts granted in connection with the sales.

Royalty, license fees and milestone are recognized when earned according to the terms of the license agreements.

Cost of sales

Cost of sales comprises the cost of products sold. Cost comprises the purchase price of raw materials, consumables and goods for resale, direct labor costs and a share of indirect production costs, including costs of operation and depreciation of production facilities as well as operation, administration and management of factories.

Other operating income and expenses

Other operating income and expenses comprise income that is not related to the principal activities. This includes income from government grants, rental income and gains and losses on the disposal of intangible assets and property, plant and equipment and other income of a secondary nature in relation to the main activities of the Group

Financial income and expenses

Financial income and expenses comprise interest receivable and interest payable, surcharges and refunds under Denmark's on-account tax scheme, and value adjustments of financial fixed assets and items denominated in a foreign currency.

Income tax and deferred tax

Current tax liabilities and receivables are recognized 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.

Deferred tax is measured using the balance sheet liability method. All temporary differences between the carrying amount and the tax base of assets and liabilities are recognized, apart from temporary differences arising on the initial recognition of an asset or a liability if the transaction affects neither accounting profit nor taxable income. In cases where the computation of the tax base may be

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

performed according to different tax rules, deferred tax is measured on the basis of Management's intended use of the asset or settlement of the liability.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized when it is probable they can be realized by offset against future taxable profits. At each balance sheet date, it is assessed whether an offset is likely in a foreseeable future.

Intangible assets

Research expenses are recognized in the income statement as they are incurred. Development costs are recognized as intangible assets if all of the following conditions are met

- the technical feasibility to complete the development has been demonstrated,
- management intends to and expects to have sufficient financial ressources to complete development, and
- the costs are expected to be recovered through income from the sale of the goods developed.

Amortization is based on the straight-line method over the expected useful lives of the assets:

- Development projects: 10 years

The amortization begins when the development project is at a stage where its commercial potentials can be utilized in the manner intended by Management.

Know how related to the development of the company's products is assessed to have an indefinable useful life, and is tested for impairment on an annual basis.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment charges. Property, plant and equipment in progress are measured at cost. Cost comprises expenses for materials, other expenses directly related to making the asset ready for use, and reestablishment expenses, provided that a corresponding provision is made at the same time.

The useful lives of the individual groups of assets are estimated as follows:

- Other fixtures and fittings, tools and equipment: 3 - 8 years

Depreciation is based on a straight-line pattern.

Gains and losses on the disposal of property, plant and equipment are recognized in the income statement under other operating income and other operating expenses.

The carrying amounts of property, plant and equipment carried at cost or amortized cost are tested annually to determine whether there are indications of any impairment. Assets is written down to the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized under the same line item as depreciation of the assets.

Investments in associates

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values calculated in accordance with the Group's accounting policies.

The proportionate share of the results of associates and joint ventures after tax is recognised in the consolidated income statement after elimination of the proportionate share of unrealised intra-Group profits/losses.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out convention.

The cost of goods for resale and raw materials and consumables comprises purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising costs incurred to bring the product to the current completion rate and location. Costs include the cost of raw materials, consumables, direct wages and salaries, and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery and equipment, and production administration and management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Trade receivables

Receivables are initially recognized at fair value adjusted for any transaction costs. Subsequently, receivables are measured at amortized cost less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable taking into consideration the period overdue and the expected likelihood of receiving payment.

Provisions

Provisions are recognized when, as a consequence of an event occurring on or before the balance sheet date, the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation. The obligation is measured on the basis of Management's best estimate of the discounted amount at which the obligation is expected to be met.

Financial assets and liabilities

Cash and cash equivalents comprise cash balances and unrestricted deposits with banks.

Financial liabilities are initially measured at fair value less transaction costs incurred. Subsequently, the loans are measured at amortized cost. Amortized cost is calculated as original cost less installments plus/less the accumulated amortization of the difference between cost and nominal value. Losses and gains on loans are thus allocated over the term so that the effective interest rate is recognized in the income statement over the loan period. Financial liabilities are derecognized when settled.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method on the basis of the Group's profit befor tax for the year. The statement shows the Group's cash flow broken down into operating, investment and financing activities, and cash and cash equivalents at year end.

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date. Cash flows from operating activities includes adjustment for non-cash items and changes in working capital. Cash flow from investing activities include investments in non-current asset, associates and joint arrangements. Cash flow from financing activities include cash flows from capital injections.

Share-based payment

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (warrants) of the group. The fair value of the employee services received in exchange for the grant of the warrants is recognised as a compensation expense. The total amount to be expensed is determined by reference to the grant date fair value of the warrants granted including any market performance conditions excluding the impact of any service and non-market performance vesting conditions and including the impact of any non-vesting conditions

At the end of each reporting period, the group revises its estimates of the number of warrants that are expected to vest based on the service and non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the income statement, with a corresponding adjustment to equity.

When the warrants are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING ESTIMATES

In preparing the Consolidated Financial Statements, Management makes various accounting estimates and assumptions which form the basis of presentation, recognition and measurement of the Group's assets and liabilities. The most significant accounting estimates and judgments are presented below.

In applying the Group's accounting policies, Management makes judgments which may significantly influence the amounts recognized in the Consolidated Financial Statements. Determining the carrying amount of some assets and liabilities requires judgments, estimates and assumptions concerning future events.

The judgments, estimates and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise. The most critical judgments, estimates and assumptions for the individual items are described below.

The Group is also subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

For development projects in progress an impairment test is performed annually. The impairment test is performed on the basis of various factors, including future expected use of the outcome of the project, the fair value of the estimated future earnings, interest rates and risks.

For development projects in progress, Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

tDKK	Note	2017	2016
3. NET REVENUE			
Sale of goods		664	231
Milestone Payment		1,467	8,188
		2,131	**8,419**
4. STAFF COSTS			
Salaries		32,135	26,400
Pension costs, defined contribution plans		0	370
Other expenses to social security		532	333
Share based payments (Note 5)		3,590	2,490
Other employee costs		2,613	1,555
		38,870	**31,149**
Average number of full time employees		65	51
Included in the Income statement:			
Sales and distribution costs		5,889	4,886
Research and development costs		27,091	21,987
Administrative costs		5,890	4,276
		38,870	**31,149**

tDKK	Note	2017	2016
4. STAFF COSTS (CONTINUED)			
Remuneration to Board of Directors			
Fixed base fee			
Niels Heering		0	0
Søren Bjørn Hansen		0	0
Lars Christian Hansen		100	100
Lei Zhang		0	0
Jianwen Cai		0	0
Torsten Freltoft		100	100
Jens Lage Hansen		100	100
Michael Frank		0	0
		300	300
Share based incentive (Note 5)			
Lars Christian Hansen		242	311
Torsten Freltoft		122	0
Jens Lage Hansen		437	0
		801	311
		1,101	**611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. STAFF COSTS (CONTINUED)

Remuneration to Executive Board

tDKK	2017				
	Fixed base salary	Bonus	Benefits	Share based incentive	Total
Executive Board					
Peter Holme Jensen	1,380	-	106		1,486
Bo Karmark*	1,370	65	30	242	1,707
Thomas Christian Beck*	1,291	29	76	242	1,638
Claus Helix-Nielsen**	1,190	92	75	242	1,599
	5,231	**186**	**287**	**726**	**6,430**

tDKK	2016			
	Fixed base salary	Benefits	Share based incentive	Total
Executive Board				
Peter Holme Jensen	1,320	108	-	1,428
Bo Karmark*	248	-	311	559
Thomas Christian Beck*	219	20	311	550
Claus Helix-Nielsen**	368	20	311	699
	2,155	**148**	**933**	**3,236**

*Appointed September 1st 2016

** Appointed October 1st 2016, resigned March 15th 2018

5. SHARE BASED PAYMENTS

Aquaporin A/S has established a warrant program for management and certain key employees. The warrant program comprises a total of 558,413 warrants at 31 December 2017 (564,000 warrants at 31 December 2016). Each warrant gives the holder right to buy one ordinary share af nominally 1 DKK in Aquaporin A/S. The outstanding warrants amount to 7% of the share capital if they are all exercised (8% at 31 December 2016).

The number of warrants granted is determined annually by the Board of Directors in accordance with the company's articles of association.

In 2012 and 2014, 414,000 warrants were granted with an exercise price of DKK 20 per warrant. They are immediately exercisable, but the exercise is subject to the emloyee still being employed at the time of exercise. There are no other conditions for vesting or exercise.

The warrants can be exercised in a period of 7 years from the grant date. They can only be settled in new shares in Aquaporin A/S.

In 2016, 150,000 warrants were granted with an exercise price of DKK 120 per warrant. The warrants can be exercised between 3 years and 5 years from the date of the board resolution, but the exercise is subject to the employee still being employed at the time of exercise. There are no other conditions for vesting or exercise.

In 2017, 11,270 warrants were granted with an exercise price of DKK 120 per warrant. The warrants can be exercised at any time within 5 years from the date of the board resolution. There are no other conditions for vesting or exercise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SHARE BASED PAYMENTS (CONTINUED)

Specification of outstanding warrants

	Number
Outstanding 1 January 2016	414,000
Granted	150,000
Outstanding 31 December 2016	564,000
Granted	11,270
Forfeited	(16,857)
Outstanding 31 December 2017	**558,413**

Shares and warrants held by members of the Board, executive management and other key personnel

	2017			2016		
	01.01	Change during the year	31.12	01.01	Change during the year	31.12
Shareholdings						
Niels Heering	-	8,343	8,343	-	-	-
Søren Bjørn Hansen	-	8,343	8,343	-	-	-
Lars Christian Hansen	-	10,001	10,001	-	-	-
Torsten Freltoft	30,000	2,337	32,337	30,000	-	30,000
Jens Lage Hansen	55,000	8,343	63,343	55,000	-	55,000
Peter Holme Jensen	125,000	10,001	135,001	125,000	-	125,000
Bo Karmark	4,171	-	4,171	-	4,171	4,171
Thomas Christian Beck	6,257	-	6,257	-	6,257	6,257
Claus Helix-Nielsen	3,000	10,001	13,001	3,000	-	3,000
Warrants						
Lars Christian Hansen	15,000	-	15,000	-	15,000	15,000
Torsten Freltoft	-	2,337	2,337	-	-	-
Jens Lage Hansen	-	8,343	8,343	-	-	-
Peter Holme Jensen	325,000	-	325,000	325,000	-	325,000
Bo Karmark	15,000	-	15,000	-	15,000	15,000
Thomas Christian Beck	15,000	-	15,000	-	15,000	15,000
Claus Helix-Nielsen	37,000	-	37,000	22,000	15,000	37,000

For outstanding warrants at 31 December 2017 the average remaining life is 3.3 years (2016: 4.1 years). The average exercise price is DKK 47 (2016: DKK 47).

In 2017 the recognized expense related to share-based payments amount to DKK 3,590 thousand (2016: DKK 2,490 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SHARE BASED PAYMENTS (CONTINUED)

Fair value of each warrant granted in 2017 was DKK 34 (2016: DKK 42). The value was calculated using the Black-Scholes option valuation model. The following assumptions were made at the grant in 2017:

Share price:	120 DKK
Expected volatility:	42%
Expected life:	3 years
Expected dividend:	0%
Risk free interest rate:	-0.24%

Fair value of the shares granted in 2017 was determined to be equal to the share price paid by the new investors at the capital increase in October 2017. The expected volatility was determined as the observable volatility for the expected life of the warrants for a peer group of listed companies.

The following assumptions were made at the grant in 2016:

Share price:	120 DKK
Expected volatility:	42%
Expected life:	3 years
Expected dividend:	0%
Risk free interest rate:	-0.62%

Fair value of the shares granted in 2016 was determined to be equal to the share price paid by the new investors at the capital increase in October 2015. The expected volatility was determined as the observable volatility for the expected life of the warrants for a peer group of listed companies.

Determination of fair value of the warrants requires significant judgment regarding fair value of the underlying shares, expected life and volatility. Due to the recent capital increase by new investors, fair value of the underlying shares is in Management's view limited. The expected life of the warrants is based on the assumption that the holder will exercise the warrants when they are fully vested and all restrictions on the holders' ability to dispose of the underlying ordinary shares expire. Actual exercise patterns may differ from the assumption used herein. The expected volatility is based on peer group data and reflects the assumption that the historical volatility over a period similar to the life of the equity awards is indicative of future trends, which may not necessarily be the actual outcome. The peer group consists of listed companies that management believes are similar to the Company in respect to industry and stage of development.

Certain shareholders were granted 106,932 warrants on 19 December 2014. Each warrant gives the holder right to subscribe one ordinary share of nominally 1 DKK in Aquaporin A/S at an exercise price of DKK 30 per warrant. The warrants can be exercised in a period of 7 years from the grant date. They can only be settled in new shares in Aquaporin A/S. As of 31 December 2016, all of the warrants issued were outstanding. The outstanding warrants amount to 2% of the share capital if they are all exercised (2% at 31 December 2016).

Certain shareholders were granted 261,675 warrants on 26. October 2017. Each warrant gives the holder right to subscribe one ordinary share of nominally 1 DKK in Aquaporin A/S at an exercise price of DKK 120 per warrant. The warrants can be exercised at any time. They can only be settled in new shares in Aquaporin A/S. As of 31 December 2017, all of the warrants issued were outstanding. The outstanding warrants amount to 4% of the share capital if they are all exercised.

The warrants are classified as equity instruments.

tDKK	**2017**	2016
6. DEPRECIATIONS AND AMORTIZATIONS		
Sales and distribution costs	430	267
Research and development costs	3,410	2,458
Administrative costs	680	483
Total depreciations	**4,520**	**3,208**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

tDKK	2017	2016
7. FINANCIAL INCOME		
Interest income, banks	44	17
Exchange rate adjustments	34	296
	78	**313**
8. FINANCIAL EXPENSES		
Exchange rate adjustments	461	280
Other financial expenses, including bank fees	1,564	484
	2,025	**764**

	01.01.2017 - 31.12.2017 tDKK	01.01.2017 - 31.12.2017 %	01.01.2016 - 31.12.2016 tDKK	01.01.2016 - 31.12.2016 %
9. TAX ON PROFIT FOR THE YEAR				
Profit before tax	(71,700)	22%	(39,967)	22%
Calculated 22% (2016: 22%) of profit before tax	15,774	22%	8,793	22%
Tax effect of:				
Regulation of calculated tax in foreign affiliated companies in relation to 22% (2016: 22%)	-1,747	-2%	-1,629	-4.1%
Non-deductable expenses	-3,213	-4.5%	-1,282	-3.2%
Adjustments regarding previous years	548	0.8%	-352	-0.9%
Withholding taxes	-421	-0.6%	-394	-1.0%
Other corrections	-1,476	-2.1%	186	0.5%
Tax on profit/loss for the year	**9,465**	**13.2%**	**5,322**	**13.3%**

tDKK	Know how	Development projects in progress	Total
10. OTHER INTANGIBLE ASSETS			
Cost price at 1 January 2017	2,899	53,910	56,809
Additions during the year	0	7,285	7,285
Purchase price at 31 December 2017	2,899	61,195	64,094
Carrying amount 31 December 2017	**2,899**	**61,195**	**64,094**
Cost price at 1 January 2016	0	33,246	33,246
Correction addition earlier years		11,131	11,131
Additions during the year	2,899	9,533	12,432
Purchase price at 31 December 2016	2,899	53,910	56,809
Carrying amount 31 December 2016	**2,899**	**53,910**	**56,809**

Material intangible assets:

Development projects in progress (DKK 61,195 thousand) comprise direct costs related to development of membrane products. Amortization period is 10 years due to the unique character of the product. The amortization begins when the development project is at a stage where its commercial potentials ca be utilized in the manner inteded by Management. Management expect the amortization will start from 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

tDKK	Plant and machinery	Other fixtures, fittings, tools and equipment	Leasehold improve-ments	Tangible assets under construction	Total
11. PROPERTY, PLANT AND EQUIPMENT					
Purchase price at 1 January 2017	55,109	7,122	23,492	0	85,723
Exchange rates	(77)	(8)	(14)	0	(99)
Additions during the year	5,709	868	984	0	7,561
Disposal / transfered during the year	0	0	0	0	0
Purchase price at 31 December 2017	**60,741**	**7,982**	**24,462**	**0**	**93,186**
Depreciations at 1 January 2017	1,492	3,005	1,613	0	6,110
Exchange rates	(7)	(1)	(14)	0	(22)
Depreciations	1,329	1,029	2,162	0	4,520
Depreciations disposal	0	0	0	0	0
Depreciations at 31 December 2017	2,814	4,033	3,761	0	10,608
Carrying amount 31 December 2017	**57,927**	**3,949**	**20,701**	**0**	**82,577**
Purchase price at 1 January 2016	5,121	2,958	1,206	12,188	21,473
Exchange rates	315	0	0	0	315
Additions during the year	44,551	9,845	21,827	0	76,223
Disposal / transfered during the year	0	0	(100)	(12,188)	(12,288)
Reclassfication (from) /to	5,122	(5,681)	559	0	0
Purchase price at 31 December 2016	**55,109**	**7,122**	**23,492**	**0**	**85,723**
Depreciations at 1 January 2016	832	2,065	0	0	2,897
Exchange rates	11	0	0	0	11
Depreciations	839	808	1,561	0	3,208
Depreciations disposal	0	0	(6)	0	(6)
Reclassfication from /to (-)	(190)	132	58	0	0
Depreciations at 31 December 2016	**1,492**	**3,005**	**1,613**	**0**	**6,110**
Carrying amount 31 December 2016	**53,617**	**4,117**	**21,879**	**0**	**79,613**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

tDKK	**2017**	2016
12. INVESTMENTS IN ASSOCIATES		
Purchase price at 1 January	23,353	23,353
Additions during the year	0	0
Purchase price at 31 December	**23,353**	**23,353**
Accumulated write-ups and write-downs at 1 January	(10,256)	(1,794)
Unrealised gain on sale of assets from Aquaporin	869	(4,053)
Share of result after tax	(7,246)	(3,702)
Exchange rate adjustments	(802)	(707)
Accumulated write-ups and write-downs at 31 December	**(17,435)**	**(10,256)**
Carrying amount 31 December	**5,918**	**13,097**

Investments in associates includes:

tDKK	**31.12.2017**			31.12.2016		
	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Total	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Total
Country	China	Denmark		China	Denmark	
Ownership share	45%	50%		45%	50%	
Share of equity 31 December	**9,070**	**33**	**9,102**	17,120	31	17,150
Share of intangible assets related to IP-transfer at 1 January	(4,053)	0	(4,053)	0	0	0
Addition during the year regarding share of intangible assets related to IP-transfer	0	0	0	(4,053)	0	0
Reversal of share of depreciation of intangible assets related to IP-transfer during the year	869	0	869	0	0	0
Share of intangible assets related to IP-transfer at 31 December	**(3,184)**	**0**	**(3,184)**	**(4,053)**	**0**	**(4,053)**
Carrying amount 31 December	**5,886**	**33**	**5,918**	**13,067**	**31**	**13,097**

Summarised financial information for included associates:

tDKK	**2017**		2016	
	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Aquapoten Company Limited	Aquaporin Space Alliance ApS
Country	China	Denmark	China	Denmark
Ownership share	45%	50%	45%	50%
Comprehensive income				
Net revenue	73	6	1,040	22
(Loss)/profit for the period	(14,820)	4	(10,944)	(5)
Balance sheet				
Total non-current assets	12,495	2	16,783	0
Total current assets	8,726	68	22,223	66
Total liabilities	(1,068)	(5)	(1,084)	(5)
Total equity	**20,153**	**65**	**37,922**	**61**

tDKK	**2017**	2016
13. DEFERRED TAX		
Deferred tax at 31 December	**18,105**	**11,910**

31 December 2017 DKK 24.6 million of the deferred tax asset relate to tax losses. Management expects that these can be set off against positive taxable income within 3-5 years. DKK 8 million relate to deferred tax on development projects and DKK 1.5 million relate to deferred tax assets on tangible assets and provisions.

14. TRADE RECEIVABLES

Ageing of receivables

Not due	**394**	**308**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL

The share capital comprise 6,944,277 shares of a nominal value of DKK 1 each.
No shares carry any special rights.

Capital management

Management evaluates the needs for capital on an ongoing basis. The objectives when maintaining capital are to maintain sufficient capital in order to meet short term obligations and at the same time preserve investor's confidence required to sustain future development of the business. As of 31 December 2017, the Group is financed solely through equity.

As of 31 December 2017 cash and cash equivalents amounted to DKK 46 million. In addition, Aquaporin A/S has obtained credit facility of DKK 35 million.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease

Rental and leasing commitments related to noncancelable operating lease contracts expire within the following periods from the reporting date:

	2017	2016
Operating lease commitments:		
Due within 1 year	5,751	5,496
Due between 1 and 5 years	25,306	24,138
Due after 5 years	72,910	22,398
	103,967	**52,032**
The following amounts have been recognized in the income statement for Aquaporin A/S in respect of operating leases and rentals	6,657	5,903

Lease commitments relate primarily to office- and car rental.

Contigent liabilities

There are no pending court and arbitration cases or other contigent liabilities.

17. FINANCIAL RISKS

General risk management

Due to its activities the Group is exposed to various financial risks, including foreign exchange, interest, liquidy and credit risks. The Group manages the risks centrally and follows the policies approved by the Board of Directors. The Group does not actively engage in speculation of financial risks.

Credit risks

The Group's credit risks mainly relates to trade receivables and other receivables. Maximum exposure corresponds to the carrying amount.

The Group assesses the risks of losses on an ongoing basis and if necessary write-downs are made according to the Group's policies. Excess cash is placed with banks with ratings A or above. The Group does not have any material risks related to individual customers.

Forreign exchange risks

The Groups sales, cost of goods sold and expenses are mainly incurred in DKK, EUR or USD. The Group has transactions in other currencies, but the foreign exchange risks related to this are not considered material.

Interest rate risk

The Group is not exposed to any material interest rate risks, because it is equity funded and does not carry any significant interest bearing financial liabilities.

Liquidity risk

The Group is not exposed to any material liquidity risks, because it is equity funded and does not carry any significant financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. FINANCIAL RISKS (CONTINUED)

tDKK	0-1 year	1-5 years	>5 years	Total	Carrying amount
31 December 2017					
Trade and other receivables	3,981	0	0	3,981	3,981
	3,981	**0**	**0**	**3,981**	**3,981**
31 December 2016					
Trade and other receivables	8,124	0	0	8,124	8,124
	8,124	**0**	**0**	**8,124**	**8,124**

18. EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date of importance to the Annual Report.

tDKK	**2017**	2016
19. CHANGES IN NET WORKING CAPITAL		
Change in Inventory	(1,922)	(993)
Changes in trade receivables	(85)	(277)
Changes in other receivables	4,289	5,637
Changes in trade payables	(2,765)	21,311
Changes in other payables	(1,450)	(2,501)
Changes in deferred income	5,497	0
	3,564	**26,177**

NOTE 20. RELATED PARTIES AND OWNERSHIP

Related parties:

Aquaporin A/S is renting the current facility at Nymøllevej 78 of Atlas Ejendomme A/S. The facility is administrated by M. Goldsmidt Ejendomme A/S. In 2017 Aquaporin A/S has paid DKK 4,449 thousand (2016: DKK 3,510 thousand) for renting and administration fees related to the facility. The lease commitment amounts to DKK 101.3 million.

Ownership

The following shareholders are recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

M. Goldschmidt Capital A/S, Grønningen 25, DK-1270 København K
Kapitalforeningen Danske Invest Institutional, Afdeling Danica Pension - Offensiv, Parallelvej 17, DK-2800 Kongens Lyngby
InterChina Water Treatment Hong Kong Company Ltd, 15/F, CBB Tower, 3 Connaught Road, Central Hong Kong

NOTE 21. GOVERNMENT GRANTS

During 2017, the Group received DKK 2.8 million in public grants for research & development purposes (2016: DKK 8.5 million), which was recognized in the income statement as other income. The group also received DKK 2.4 million in public grants relating to projects which qualifies for capitalization (2016: 4.3 million).

NOTE 22. LIST OF GROUP COMPANIES AT 31 DECEMBER 2017

Company	Country	Currency	Nominal capital	Aquaporin's holding
Aquaporin Asia Ltd.	Singapore	SGD	103	80%
Aquaporin Membrane Protein ApS (formerly Golgi ApS)	Denmark	tDKK	128	100%
Aquapoten	China	CNY	49,349	45%
Aquaporin Space Alliance ApS	Denmark	tDKK	80	50%

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY STATEMENT OF PROFIT AND LOSS

tDKK	Note	**2017**	2016
Net revenue		1,986	8,419
Cost of goods sold		(348)	(161)
Gross profit		**1,638**	**8,258**
Sales and distribution costs	2	(10,746)	(7,628)
Research and development costs	2	(37,491)	(18,635)
Administrative costs	2	(13,251)	(11,446)
Other operating income		1,930	900
Operating profit		**(57,920)**	**(28,551)**
Share of net profit of associates		(5,393)	(3,702)
Finance income	3	937	797
Finance costs	4	(1,963)	(747)
Profit before income tax		**(64,339)**	**(32,203)**
Income tax expenses		11,055	5,321
Profit for the period		**(53,284)**	**(26,882)**

PARENT COMPANY BALANCE SHEET ASSETS AT 31 DECEMBER

tDKK	Note	2017	2016
Know how		2,319	0
Development projects		61,195	53,910
Intangible assets		**63,514**	**53,910**
Machinery		54,834	44,385
Other equipment		3,752	2,735
Leasehold improvements		20,369	21,380
Tangible assets		**78,955**	**68,500**
Investments in subsidaries		12,310	6,286
Investments in associates		5,918	13,097
Financial assets		**18,228**	**19,383**
Deposits		1,884	1,745
Deferred tax assets		18,105	11,645
Other non-current assets		**19,989**	**13,390**
Total non-current assets		**180,686**	**155,183**
Inventories		2,915	993
Receivables from group enterprises		25,821	20,143
Trade receivables		1,646	309
Other receivables		1,870	4,241
Prepayments		561	278
Receivables		**32,813**	**25,964**
Cash and cash equivalents		**30,900**	**62,600**
Total current assets		**63,713**	**88,564**
Total assets		**244,399**	**243,747**

PARENT COMPANY BALANCE SHEET EQUITY AND LIABILITIES AT 31 DECEMBER

tDKK	Note	2017	2016
Share capital		6,944	6,604
Retained earnings		175,103	201,518
Reserve for exchange rate translation		(2,082)	(1,280)
Other reserves		22,547	10,804
Total equity		**202,512**	**217,646**
Trade payables		9,712	6,052
Other payables		4,758	3,989
Payables to group enterprises		73	0
Deferred income		27,344	15,697
Prepayments		0	363
Total current liabilities		**41,887**	**26,101**
Total liabilities		**41,887**	**26,101**
Total equity and liabilities		**244,399**	**243,747**
Contingent liabilities	4		
Events after the balance sheet date	5		

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER

tDKK	Share capital	Retained earnings	Reserve for exchange rate	Reserve for intangible assets	Reserve for share based payment	Total equity
Balance at 31.12.15	**6,104**	**173,866**	**(571)**	**0**	**3,350**	**182,749**
Profit for the period	0	(26,882)	0	0	0	(26,882)
Capitalized development costs		(4,966)	0	4,966		0
Exchange rate translation		0	(709)	0	0	(709)
Total comprehensive income for the period	**0**	**(31,848)**	**(709)**	**4,966**	**0**	**(27,591)**
Transactions with owners in their capacity as owners						
Increase in share capital	500	59,500	0	0	0	60,000
Share based payment	0	0	0	0	2,488	2,488
Balance at 31.12.2016	**6,604**	**201,518**	**(1,280)**	**4,966**	**5,838**	**217,646**
Profit for the period	0	(53,284)	0	0	0	(53,284)
Aquisition of minority in Aquaporin Membrane Protein ApS (formerly Golgi ApS)		(5,380)				(5,380)
Capitalized development costs		(8,151)	0	8,151		0
Exchange rate translation		0	(802)	0	0	(802)
Total comprehensive income for the period	**0**	**(66,815)**	**(802)**	**8,151**	**0**	**(59,466)**
Transactions with owners in their capacity as owners						
Increase in share capital	340	40,400	0	0	0	40,740
Share based payment	0	0	0	0	3,592	3,592
Balance at 31.12.2017	**6,944**	**175,103**	**(2,082)**	**13,117**	**9,430**	**202,512**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements of Aquaporin A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class B) on the presentation of financial statements.

Basis of Preparation

Financial Statements of Aquaporin A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B with choice of few rules in reporting class C.

Besides from the below mentioned the accounting policies applied remain unchanged from last year.

Received grants for development projects recognised in the balance sheet are now recognised as deferred income. Previously grants were set-off against the asset. Comparative figures, which has increased the balance sheet with DKK 15.7 million has been corrected.

Financial Statements for 2017 are presented in DKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Gross profit/loss

Gross margin' consists of grants and support net of other external expenses.

Revenue

Revenue is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses. Staff costs related to development projects are capitalized under intangible assets.

Dividends

Dividends from the Group companies are recognized as income in the income statement of the Parent Company in the financial year in which the divident is declared. If the carrying amount of an investment in a subsidiary exceeds the carrying amount of the net assets in the subsidiary's financial statements or the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared, the carrying amount of the sudsidiary is tested for impairment.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Amortisation, depreciation and impairment losses
Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year
Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance Sheet

Intangible assets
Development projects are measured at the lower of cost less accumulated amortisation and recoverable amount.

Cost comprises of direct salaries and materials.

Depreciation period is 10 years due to the unique character of the product.

An amount corresponding to the capitalized development costs has been reclassified from retained earnings to reserve for intangible assets net of tax.

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight line basis over the expected useful lives of the assets, which are:
Other fixtures and fittings, tools and equipment 3-8 years

Investments in subsidiaries and associates
Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write down is made to this lower value.

Investments in associates are recognised and measured under the equity method.

The total net revaluation of investments in associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in associates.

Intra-group company acquisitions are recognised according to the merger method (sammenlægningsmetoden). Comparative figures are adjusted back to the point in time, where control was obtained. Added value (goodwill), if any, in connection with the acquisition is recognised in equity.

In connection with acquisition of further equity investments in a subsidiary, management assess the equity method as a method of consolidation, where recognition in the parent company reflects the accounting treatment in the consolidated financial statements. Acquisition of further equity investments in subsidiaries as a consequence are recognised directly in equity.

Receivables
Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

Deferred tax assets and liabilities
Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set off against deferred tax liabilities within the same legal tax entity.

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. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Other debts are measured at amortised cost, substantially corresponding to nominal value.

tDKK	**2017**	2016
2. STAFF		
Average number of full time employees	47	36
3. FINANCIAL INCOME		
Interest income, banks	44	17
Interest income, intercompanies	879	611
Exchange rate adjustments	14	169
	937	**797**

tDKK	**2017**	2016
4. FINANCIAL EXPENSES		
Interest expenses, intercompanies	20	0
Exchange rate adjustments	1,563	431
Other financial expenses, including bank fees	380	316
	1,943	**747**

4. COMMITMENTS AND CONTINGENT LIABILITIES AT 31 DECEMBER

Operating leases

Rental and leasing commitments related to noncancelable operating lease contracts expire within the following periods form the reporting date:

Due within 1 year	5,751	5,244
Due between 1 and 5 years	25,306	24,138
Due after 5 years	72,910	22,398
	103,967	**51,780**
The following amounts have been recognized in the income statement for Aquaporin A/S in respect of operating leases and rentals	6,657	5,003

Lease commitments relate primarily to office- and car rental and there are no peding court and arbitration cases.

5. EVENTS AFTER THE BALANCE SHEET DATE

Please see subsequence events after the balance sheet date in the management report for the Aquaporin Group.

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Design & production: Noted