



AQUAPORIN

2016

ANNUAL REPORT

THE ANNUAL REPORT WAS ADOPTED AT THE ANNUAL GENERAL MEETING OF THE COMPANY:

CHAIRMAN OF THE BOARD, SØREN BJØRN HANSEN
DATO: 19TH OF MAY 2017

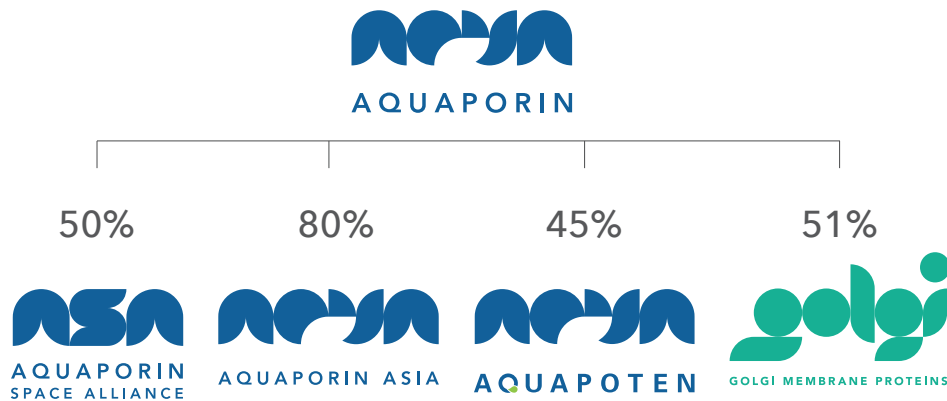
AQUAPORIN A/S · NYMØLLEVEJ 78, DK-2800 KONGENS LYNGBY · CVR NO 28 31 56 94



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THE AQUAPORIN GROUP



ABOUT AQUAPORIN

Aquaporin is a global cleantech company located in Kongens Lyngby, Denmark. Our company is dedicated to revolutionizing water purification through the use of industrial biotechnological techniques and thinking.

Our company is a global leader in developing, producing and marketing biomimetic membranes for industrial and consumer water applications based on nature's own water filtration system – the highly selective and efficient aquaporin water channels. The Aquaporin Inside™ platform uses biotechnological principles in a technological context which is a novel upcoming field with large commercial perspectives and is capable of separating and purifying water from all other compounds.

Water scarcity is a global problem and we are a global company. Aquaporin was founded in 2005. Our activities have since broadened to include our own full-scale manufacturing facility in Denmark, office in Singapore (Aquaporin Asia), investment in a biotech company in Denmark (Golgi ApS) and two joint ventures, one in China (Aquapoten) and one focusing on space applications (Aquaporin Space Alliance ApS).

Aquaporin invested in Golgi ApS in 2016 and holds a 51% ownership. The investment in Golgi ApS was done in order to secure the most critical part of our supply chain, namely the supply of the aquaporin protein itself. The company will upscale and manufacture aquaporin proteins in kilogram scale.

China is a significant market for Aquaporin. In order to secure the market penetration Aquaporin has established Aquapoten Co. Ltd. in a joint venture with Poten Environment Group Co Ltd., a strong Chinese partner listed on Shanghai Stock Exchange (Stock code: 603603).

Together with Danish Aerospace Company ApS (DAC), Aquaporin has established a joint venture, Aquaporin Space Alliance ApS, with the focus of commercializing the patented Aquaporin Inside™ technology in space applications and space programs.



LETTER FROM CHAIRMAN AND CEO

2016 has been a year of transformation for the Aquaporin Group focused on operational execution with the overall goal of creating an integrated industrial membrane production company, with a technological base in industrial biotechnology and membrane science.

During the year, we reached significant corporate milestones and paved the way for a worldwide market entry for Aquaporin Inside™ products in 2017. These achievements are the result of our strategy, aiming at providing Aquaporin Inside™ solutions to a wide range of applications for the water purification industry globally, and a lot of hard work by our dedicated employees.

Building a robust basis for further expansion

Aquaporin relocated to our new global headquarter in Kongens Lyngby, Denmark, just north of Copenhagen, and close to, The Technical University of Denmark, with whom Aquaporin A/S has a decade long collaboration record.

The headquarter combines offices, laboratories, membrane testing, showroom, large-scale production and storage facilities. Accommodating the different business areas under one roof enables extremely close collaboration and integration from R&D via pilot production to production, business development and sales.

The relocation also made it possible to establish the first large-scale production plant in the Aquaporin Group. The new plant enables Aquaporin to expand production capacity considerably in 2017, and hence scale-up existing and new Aquaporin Inside™ prod-

ucts. The first products will be Tap Water Reverse Osmosis (TWRO) Aquaporin Inside™ membranes and modules, followed by several new products in different form factors of the product pipeline.

Aquaporin in China

In parallel to the commissioning of large-scale production in Denmark, Chinese-based Aquapoten Co. Ltd. a joint venture of Aquaporin and Potent Environment Group Co. Ltd, in December 2016 launched the first commercially available Aquaporin Inside™ TWRO modules for household water purifiers in the Chinese market. The first products for the Chinese market are produced at Aquapoten's pilot facility in Miyun, close to Beijing, and preparations have begun to build a large-scale production facility in China with the aim of becoming operational during 2018.

Growth and opportunities

With the achievements obtained in 2016, Aquaporin is looking into a new exiting and important year in 2017. Our new large-scale production plant will expand our production capacity considerably. This will enable product launch of additional products during the coming year. Furthermore, we will focus on supporting Aquapoten in the Chinese market on the commercialization of Aquaporin Inside™ membranes and modules.

Søren Bjørn Hansen
Chairman of the Board

Peter Holme Jensen
President & CEO



KEY EVENTS 2016

MARCH

NEW PATENT GRANTED

A patent covering the Aquaporin Inside™ technology was granted in the US, bringing the total up to 56 granted patents worldwide



APRIL

SETUP OF GOLGI

To secure the supply chain, Aquaporin A/S invested in Golgi Membrane Proteins ApS



JUNE

NEW HEADQUARTER

Grand Opening of Aquaporin's new 7,400 square meter headquarter, R&D and production facility outside Copenhagen



OCTOBER

NEW MANAGEMENT STRUCTURE

The Aquaporin organization matures through the appointment of CTO, COO and CFO



OCTOBER

RESULTS FROM SPACE

Second round of experiments with Aquaporin Inside™ membranes are conducted aboard the International Space Station



DECEMBER

FIRST PRODUCT LAUNCH

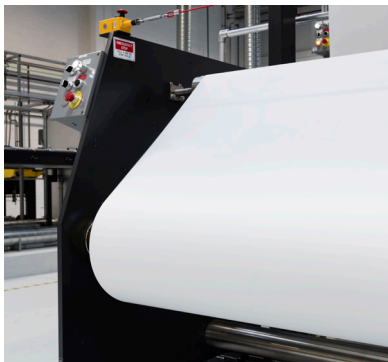
The first RO elements launched for the Chinese residential market by the Aquapoten Joint Venture and Aquaporin receive milestone payments



DECEMBER

PRODUCTION FACILITY

Aquaporin's commercial scale production line outside Copenhagen, Denmark is ready for commissioning



FINANCIAL HIGHLIGHTS

Amounts in tDKK	2016	2015	*2013/14
Income statement			
Net revenue	8.419	236	136
Sales and distribution costs	7.755	3.553	2.835
Research and development costs	29.206	13.075	12.508
Administrative costs	14.228	7.571	7.555
EBITDA	(33.450)	(21.522)	(20.716)
Operating profit (EBIT)	(36.658)	(22.167)	(21.356)
Share of net loss of associates	(3.702)	(1.212)	(8)
Net financial items	(454)	2.377	(185)
Result for the period	(35.228)	(16.016)	(12.663)
Balance sheet			
Total non-current assets	144.762	83.718	36.917
Total current assets	79.107	94.803	70.272
Total assets	223.869	178.521	107.189
Equity	202.792	174.689	104.304
Total liabilities	21.077	3.832	2.885
Cash flow			
Cash flow from operating activities	(2.351)	(24.040)	(21.415)
Cash flow from investment activities	(68.978)	(47.042)	(2.241)
-Investments in intangible assets	(4.966)	(5.324)	(884)
-Investments in tangible assets	(63.936)	(16.612)	(949)
-Investments in associates and joint arrangements	0	(23.313)	0
Cash flow from financing activities	60.000	87.030	88.334
Key ratios			
Equity share	91%	98%	98%
Average number of FTE's	55	33	24

* The period covers 15 months

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.





HQ, PRODUCTION AND R&D IN DENMARK

Aquaporin A/S located outside Copenhagen, Denmark with built-for-purpose labs, pilot production and a newly installed state-of-the-art large-scale membrane production line.



THE AQUAPORIN GROUP



R&D & BUSINESS DEVELOPMENT HUB IN SINGAPORE

Aquaporin Asia located in Singapore's water technology hub handles both membrane development and pilot production as well as business development and sales activities for Asia outside China.



KEY COMPONENT PRODUCTION IN DENMARK

Golgi Membrane Proteins ApS produces the core aquaporin proteins in Denmark, for use by the entire Aquaporin group.



LOCAL PRODUCTION AND PRESENCE IN CHINA

The Aquapoten Joint Venture with Poten Environment Group produces and commercializes Aquaporin Inside™ membranes in China



AQUAPORIN IN SPACE

The Aquaporin Space Alliance Joint Venture with Danish Aerospace Company ApS tests and markets Aquaporin Inside™ membranes for the Space Industry, working with both the European and American space agencies.







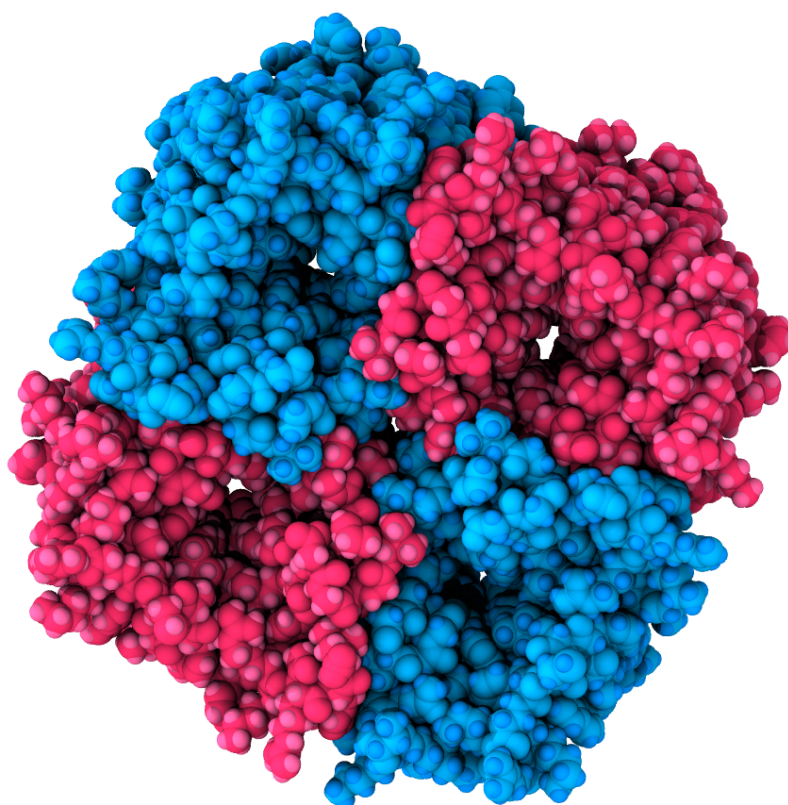
THE MEGATREND OF WATER

According to the UN, water scarcity affects more than 40 percent of the global population and this number is projected to rise. More than 80 percent of wastewater resulting from human activities is discharged into rivers or the sea without any pollution removal.

This very basic dynamic of water scarcity is driven further by the megatrends of rising population and living standard, urbanization and global warming.

This results in a greater reliance on technology to drive performance by utilities as well as industry, with a growth forecast of 3.8 % until 2020 in the USD +700 bn global water market (GWI 2016).

The groundbreaking technology of AquaPorin A/S allows for cheaper and better treatment of impure water through biomimetic membrane solutions.



Computer image of an aquaporin protein pore comprised of four subunits. The structure is around 5 nm in diameter.

THE AQUAPORIN INSIDE™ TECHNOLOGY

The essential building block in the Aquaporin Inside™ technology of Aquaporin A/S is the natural aquaporin water channel protein.

Aquaporin water channels are crucial for life in any form and they are found in cells of all organisms, from bacteria via plants to man. Aquaporin water channels facilitate rapid, highly selective water transport, thus allowing the cell to regulate its volume and internal osmotic pressure as needed.

The understanding of aquaporin water channels and their role in life has opened the possibility of using aquaporin water channels in an industrial context. Aquaporin A/S has developed a unique technolo-

gy base enabling the use of aquaporins as building blocks in water filtering devices to be employed in industrial and household water filtration and purification.

The Aquaporin Groups core know-how includes the efficient production of pure aquaporin protein, the stabilization of the active protein through a proprietary formulation process and the incorporation of the formulated protein into industrially applicable membranes. Further, Aquaporin A/S has successfully scaled up the production process to pilot and commercial scale production and invested in quality control testing as well as process development for different application segments of reverse osmosis and forward osmosis membranes.



AQUAPORIN
PRODUCTION

AQUAPORIN
FORMULATION

INCORPORATION
INTO INDUSTRIAL
MEMBRANES

TESTING,
SCALE-UP AND
LARGE-SCALE
MEMBRANE
PRODUCTION

FORWARD
OSMOSIS
PROCESSES

REVERSE
OSMOSIS
APPLICATIONS

AQUAPORIN PLAYS ACROSS INDEPENDENTLY GROWING MARKETS

Water filtration membranes are used in many different industries and applications. This allows Aquaporin to play in independent markets all with high growth rates.

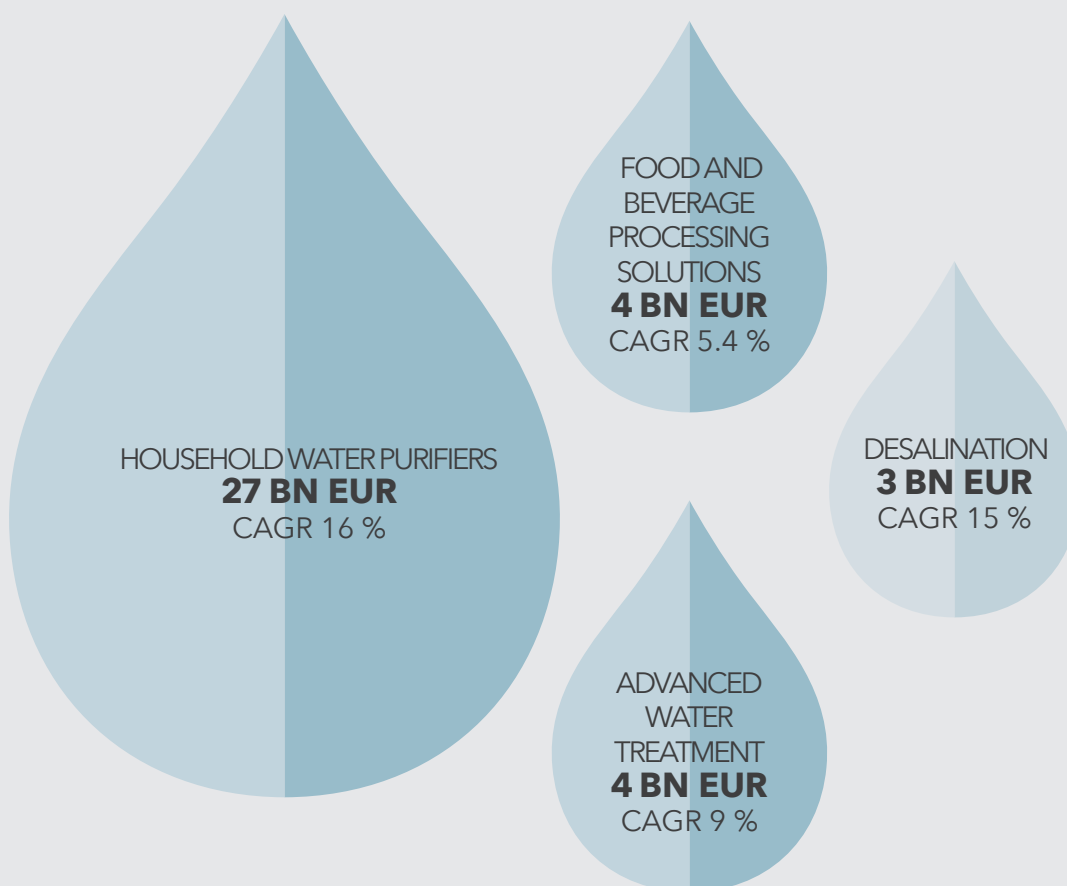
Household water purifiers are point-of-use or whole-house water purification systems. The total 27 bnEUR market is 70 % RO purifiers with the largest market and largest growth in China and the rest of Asia. The market has a number of premium brands with large reach and a long tail of cheap and simple solutions. The RO membrane is the heart of the unit but this has not been innovated in many years. OEMs are looking for a way to differentiate themselves in a crowded market, and the Aquaporin Inside™ technology can enable this differentiation, reducing size of the units and increasing the recovery rate and flow of water.

Food & Beverage separations include solutions for dairy products, juices and bottled water, as well as a whole range of drying or concentration processes. Water and energy efficiency is high on the industry agenda, but key is of course consumer experience.

Aquaporin Inside™ membranes can improve product quality by avoiding loss of flavors and removing heating steps from process lines.

Advanced water treatment we define as “dissolved solids removal”. Here, Aquaporin Inside™ Reverse Osmosis is a key technology and there is a large potential for Aquaporin Inside™ Forward Osmosis as well. Growth is driven by depletion of clean water sources and increased regulation. Additionally, industry requires more and more process water of ever higher quality, including ultrapure water systems for the power, semiconductor and pharmaceutical industries.

Desalination for drinking water is experiencing dramatic growth and reverse osmosis membrane processes have outcompeted the older, thermal technologies. Investment in desalination softened after the boom of infrastructure investments after the financial crisis, but has picked up in 2016. The largest market as well as the largest growth is in the Middle East.



Note: Market size includes system/appliance purchase cost, but not operational expenses.

Sources, Global Water Intelligence, Tech Sci Research, LUX Research

HOUSEHOLD WATER PURIFIERS

- Strong push for product differentiation between established players
- Focus on customer experience, including reducing size of the units and increasing the recovery rate and flow of water.

FOOD & BEVERAGE PROCESSING SOLUTIONS

- Strong push for improving water efficiency in the industry
- Strong pull for innovations, especially for improving product quality
- Increasing consumer pull for natural products

ADVANCED WATER TREATMENT

- Ever increasing share of water undergoes advanced (tertiary) treatment
- Increasing concern over micropollutants, pesticides, and other contaminants
- Increased regulatory requirements, e.g. towards zero liquid discharge
- Strong focus on energy efficiency and cost-of-ownership for end-users



GO-TO-MARKET

Aquaporin employs a differentiated go-to-market strategy across the three independent markets of household water purifiers, food and beverage processing and industrial water treatment.

Our market entry is in household water purifiers. Here, 5-10 key accounts will be our focus, with a combination of large market reach and a top-tier brand. Further, we will offer plug-and-play products in standard form-factors broadly through a network of already established resellers of water treatment equipment.

In the broader market of advanced water treatment, entry needs to be supported by reference projects.

We will incentivize early adopters as development partners and sell directly to large projects, but at the same time make our products broadly available through resellers.

Food and beverage processing is different, both in terms of regulatory burden and safety concerns as well as the level to which a membrane process is integrated into the whole food plant. Here, we will work more closely with leading processing equipment providers for them to bring full solutions to the end-user, based on Aquaporin Inside™ membranes.

SEGMENT	CHARACTERISTICS	GO TO MARKET
HOUSEHOLD WATER PURIFIERS	<ul style="list-style-type: none"> · Strong pull for product differentiation · Large accounts in Asia · Some players incorporate their own flat sheets into elements 	<ul style="list-style-type: none"> · Offer customized solutions (element size and/or flat sheet supply) to key accounts · Market improved standard products broadly through established distributors and direct sales
ADVANCED WATER TREATMENT	<ul style="list-style-type: none"> · More conservative markets · Focus on cost-of-ownership for end-user · Standard form factors (8" elements) 	<ul style="list-style-type: none"> · Develop plug-and-play products with clear economic benefit · Incentivize early adopters to prove products · Market broadly through established distributors and direct sales to large accounts
FOOD AND BEVERAGE PROCESSING	<ul style="list-style-type: none"> · Higher regulatory burden · Deeper process integration · Membranes can add value to final product 	<ul style="list-style-type: none"> · Prove processes and go to market with dedicated partners leading in their field

OUR FIRST PRODUCT: REVERSE OSMOSIS FOR HOUSE- HOLD WATER PURIFIERS

In Reverse Osmosis, water is pushed across a very tight membrane by a hydraulic pressure, producing high purity water as a product. In household water purifiers, a key characteristic of the Aquaporin Inside™ membrane is how much water is produced pr. area of the membrane – this is called water flux. Aquaporin Inside™ TWRO membranes show 20 to 50 % higher water flux than conventional membranes.



"TWRO product lets the customer design a purifier with a better water stream, a smaller size and with less loss of water. I think that is very exciting"

JÖRG VOGEL,
Head of Technology Development



"We see the Aquaporin Inside™ TWRO as exactly the right entry product for Aquaporin and for Aquapoten. In China alone, the residential RO membrane market is estimated at more than 2.2 bnUSD in 2016, and growing by 28 % between 2011 and 2021 (Tech Sci Research 2016)"

ZHANG LEI,
Vice President, Poten Environment Group,
General Manager, Aquapoten



"The feedback we have recieved from the +15 customers who have tested our TWRO membrane has been consistently good so I have very high expectations for the sales ramp-up of this product"

CHRISTIAN DØRING LARSEN,
Head of Sales

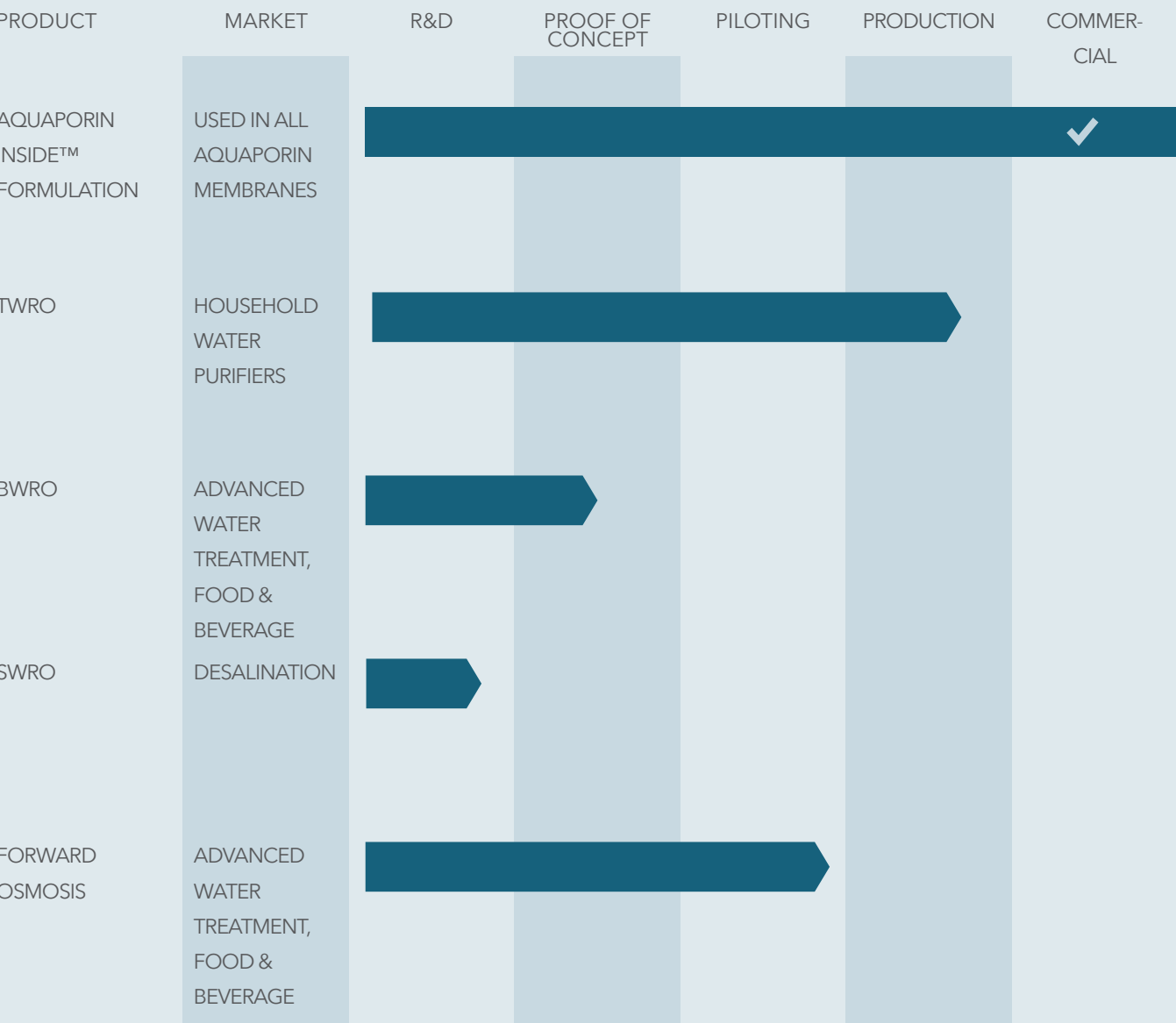




PRODUCT PIPELINE

The Aquaporin Inside™ technology enables drastically improved membranes in both Forward Osmosis and the full range of Reverse Osmosis membrane types. The entry product to the market is our TWRO products, which are being produced in full scale, fol-

lowed closely by Brackish Water Reverse Osmosis (BWRO), Seawater Reverse Osmosis (SWRO) membranes and Forward Osmosis membranes currently in lab scale and pilot-scale production with proven performance.







INDUSTRIAL LARGE-SCALE PRODUCTION

We have established a superior large-scale Aquaporin Inside™ production facility, the first in the Aquaporin Group, and the first aquaporin-based membrane production facility ever on a global scale. This production facility will enable us to expand the production capacity considerably in 2017, and scale-up existing and new Aquaporin Inside™ products.

The entry market and first products produced in industrial scale will be TWRO Aquaporin Inside™ membranes and modules, followed by new products in the Aquaporin Group product pipeline. The production facility will form the basis for further expansion of our global presence.

FINANCIAL REVIEW

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2016. There is no significant difference in the development of the Group and the Parent Company.

Consolidated statement of profit and loss

Revenue

Revenue for the year was 8,419 tDKK (236 tDKK in 2015). Launch of the Aquaporin Inside™ TWRO modules for household purifiers is the first milestone achievement in the Joint Venture, and has released a milestone payment of 8,188 tDKK. Other revenue amounted to 231 tDKK compared to 236 tDKK last year.

Gross profit

Gross profit amounted to 8,258 tDKK compared to 71 tDKK last year. The driver behind the increase was milestone payments.

Operating cost

Operating costs amounted to 49,882 tDKK of which 4,966 tDKK have been capitalized. In 2015, the operating costs amounted to 27,562 tDKK. The increase of 22,320 tDKK (81%) is driven by relocation to a new headquarter and expansion of activities in all functions.

Sales and distribution costs amounted to 7,755 tDKK compared to 3,533 tDKK in 2015, an increase of 120%.

Research and development costs including capitalized costs amounted to 34,172 tDKK compared to 18,399 tDKK in 2015, an increase of 86%. The increasing research and development activities have partly offset against an increase in financing from the public private partnership activities recognized under other operating income.

The total administrative costs increased by 100% to 15,128 tDKK compared to 7,571 tDKK in 2015.

Share of net loss of associates

Share of net loss of associates amounted to 3,702 tDKK which primary relates to share of loss in the Aquapoten Joint Venture in China.

Result for the period

Result for the period amounted to a loss of 35,228 tDKK compared to a loss of 16,016 tDKK in 2015.

Assets

At 31 December 2016, total assets amounted to 223,869 tDKK compared to 178,521 tDKK in 2015. The

increase is mainly due to increasing investments activities relating to the relocation and investment in a large-scale production facility in a new headquarter.

Total non-current assets amounted to 144,762 tDKK compared to 83,718 tDKK in 2015, an increase of 61,044 tDKK. Tangible assets increased, by 61,037 tDKK.

Equity

Total equity amounted to 202,792 tDKK at 31 December 2016 compared to 174,688 tDKK last year. In 2016, a cash capital increase of DKK 60 million was made by the existing shareholders in the company.

Cash flow

Cash flow from operating activities amounted to minus 2,351 tDKK compared to minus 24,040 tDKK in 2015. The improvement was primarily due to change in net working capital.

Cash flow from investment activities amounted to 68,978 tDKK compared to 47,042 tDKK in 2015.

Investment in non-current assets increased by 46,964 tDKK continuing the extraordinary high investment activities relating to establishment of the new headquarter and large-scale production.

Cash flow from financing activities amounted to 60,000 tDKK due to a capital injection in 2016.

At the end of the year, cash and cash equivalents amounted to 69,344 tDKK.

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 2016 to 31 December 2016.

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 2016 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 2016 to 31 December 2016.

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, 31 March 2017

Executive Board

Peter Holme Jensen
CEO

Board of Directors

Søren Bjørn Hansen
Chairman

Niels Heering
Vice Chairman

Lars Christian Hansen

Lei Zhang

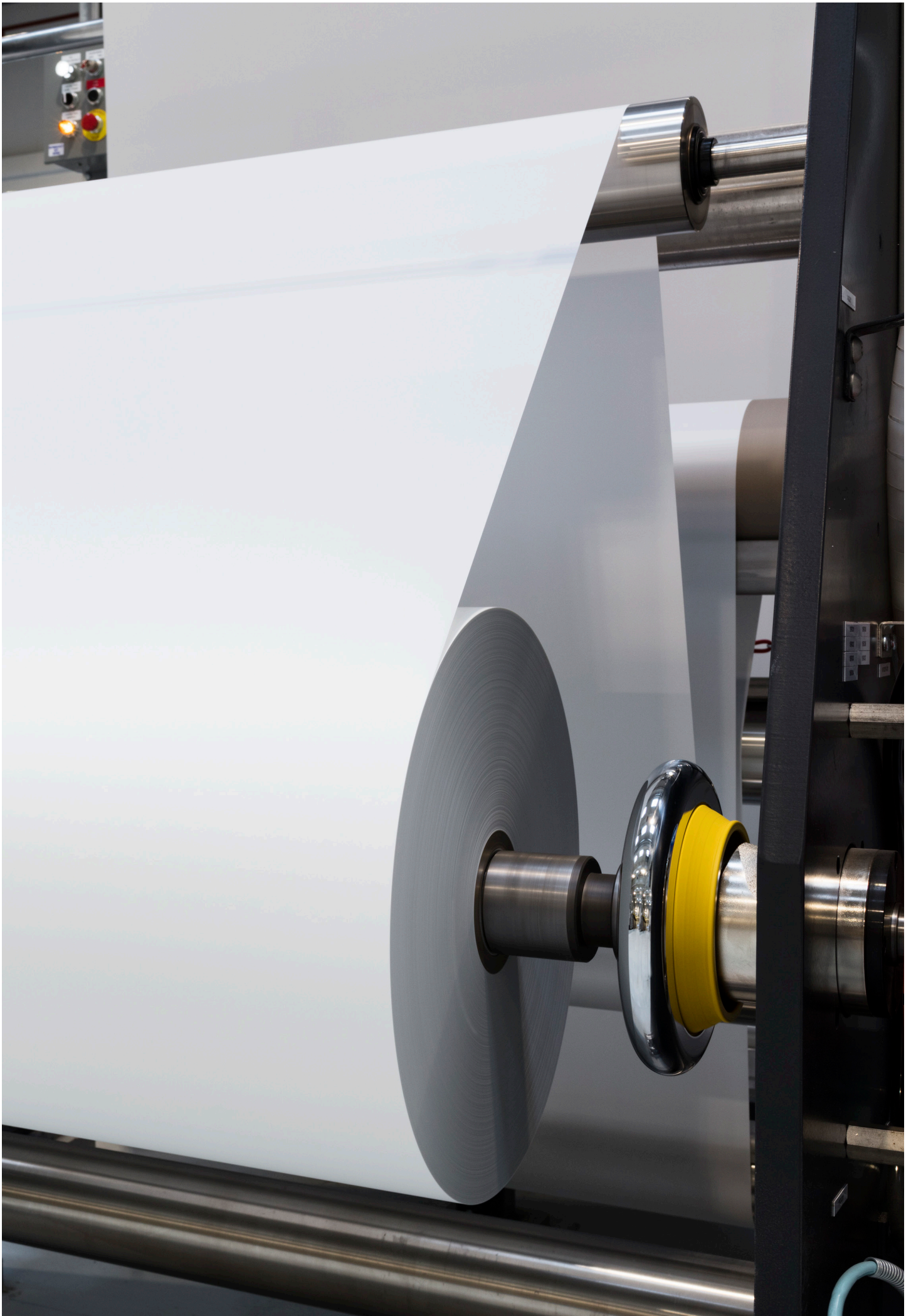
Jianwen Cai

Torsten Freltoft

Jens Frederik Lage Hansen

Michael Frank

Daniel Goldschmidt



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 2016 and of the results of the Group's operations and cash flow for the financial year 1 January to 31 December 2016 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 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 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 2016, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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 addition-

al 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 mis-stated.

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

Based on the work we have performed, in our view, Management's Review is in accordance with the 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, 31 March 2016

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mikkel Sthyr
State Authorised Public Accountant

René Otto Poulsen
State Authorised Public Accountant





CONSOLIDATED FINANCIAL STATEMENTS 2016

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	Note	T.DKK	T.DKK
Net revenue	3	8.419	236
Cost of goods sold		(161)	(165)
Gross profit		8.258	71
Sales and distribution costs	4,5,6	(7.755)	(3.553)
Research and development costs	4,5,6	(29.206)	(13.075)
Administrative costs	4,5,6	(14.228)	(7.571)
Other operating income		6.273	1.961
Operating profit		(36.658)	(22.167)
Share of net loss of associates	12	(3.702)	(1.212)
Finance income	7	347	3.803
Finance costs	8	(801)	(1.426)
Result before income tax		(40.814)	(21.002)
Income tax benefit	9	5.586	4.986
Result for the period		(35.228)	(16.016)
Result is attributable to			
Owners of Aquaporin A/S		(33.367)	(15.017)
Non-controlling interests		(1.861)	(999)
		(35.228)	(16.016)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	01.01.2016- 31.12.2016 T.DKK	01.01.2015- 31.12.2015 T.DKK
Result for the period	(35.228)	(16.016)
Other comprehensive income		
<i>Items that can be reclassified to profit and loss</i>		
Exchange differences regarding subsidiaries in another currency	841	(629)
Other comprehensive income for the period, net of tax	841	(629)
Total comprehensive income (loss) for the period	(34.387)	(16.645)
Total comprehensive income for the period is attributable to:		
Owners of Aquaporin A/S	(32.549)	(15.634)
Non-controlling interests	(1.838)	(1.011)
	(34.387)	(16.645)

CONSOLIDATED BALANCE SHEET

		31.12.2016	31.12.2015
	Notes	T.DKK	T.DKK
Development projects	10	38.212	33.246
Intangible assets		38.212	33.246
Machinery	11	48.305	4.289
Other equipment	11	9.930	893
Leasehold improvements	11	21.378	1.206
Tangible assets in progress	11	0	12.188
Tangible assets		79.613	18.576
Investments in associates	12	13.097	21.559
Financial assets		13.097	21.559
Deposits		1.930	1.853
Deferred tax assets	13	11.910	8.484
Other non-current assets		13.840	10.337
Total non-current assets		144.762	83.718
Inventories		993	0
Trade receivables	14	308	31
Other receivables		7.816	14.061
Prepayments		646	38
Receivables		9.763	14.130
Cash and cash equivalents		69.344	80.673
Total current assets		79.107	94.803
Total assets		223.869	178.521

CONSOLIDATED BALANCE SHEET

		31.12.2016	31.12.2015
	Note	T.DKK	T.DKK
Share capital	15	6.604	6.104
Retained earnings		188.694	167.527
Reserve for exchange rate transactions		135	(683)
Reserve for share based payments		5.840	3.350
Other reserves		4.966	0
Capital and reserves attributable to owners of Aquaporin A/S		206.239	176.298
Non-controlling interests		(3.447)	(1.609)
Total equity		202.792	174.689
Trade payables and other payables		21.077	3.832
Total current liabilities		21.077	3.832
Total liabilities		21.077	3.832
Total equity and liabilities		223.869	178.521
Contingent liabilities	16		
Events after the balance sheet date	20		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Reserve for Exchange rate translation	Reserve for share based payment	Other reserves	Aquaporin A/S total	Non-controlling interests	Total equity
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Equity 01.01.2014	5.363	96.227	(66)	3.378	0	104.902	(598)	104.304
Result for the period	0	(15.017)	0	0	0	(15.017)	(999)	(16.016)
Other comprehensive income	0	0	(617)	0	0	(617)	(12)	(629)
Total comprehensive income for the period	0	(15.017)	(617)	0	0	(15.634)	(1.011)	(16.645)
Transactions with owners in their capacity as owners								
Capital increase	741	86.289	0	0	0	87.030	0	87.030
Share based payment	0	28	0	(28)	0	0	0	0
Balance at 31.12.2015	6.104	167.527	(683)	3.350	0	176.298	(1.609)	174.689
Result for the period	0	(33.367)	0	0	0	(33.367)	(1.861)	(35.228)
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	(38.333)	818	0	4.966	(32.549)	(1.838)	(34.387)
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	188.694	135	5.840	4.966	206.239	(3.447)	202.792

CASH FLOW STATEMENT

		01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	Notes	T.DKK	T.DKK
Result before tax		(40.814)	(21.002)
Reversal of financial items		454	(2.377)
Depreciations and amortizations		3.208	645
Non-cash items		11.499	3.686
Change in net working capital	19	21.610	(7.288)
Cash flows from primary operating activities		(4.043)	(26.336)
Received interests		17	16
Paid interests		(485)	(172)
Received tax		2.160	2.452
Cash flow from operating activities		(2.351)	(24.040)
Investments in non-current assets		(68.901)	(21.937)
Deposits		(77)	(1.792)
Investments in associates and joint arrangements		0	(23.313)
Cash flow from investing activities		(68.978)	(47.042)
Capital injections		60.000	87.030
Cash flow from financing activities		60.000	87.030
Net cash flow for the year		(11.329)	15.948
Cash and cash equivalents, beginning of the year		80.673	64.725
Cash and cash equivalents, end of the year		69.344	80.673

NOTES

- Note 1. Accounting policies
- Note 2. Significant accounting estimates
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- Note 20. Related parties and ownership
- Note 21. Government grants
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NOTES

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 2016. The implemented standards have 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.

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 are 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 commitments, cf. note 17.

None of the new or amended standards and interpretations are expected to have a material effect on the Group's reporting. 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.

NOTES

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. 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 kroner (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 for capitalized development projects are set off against the cost of the assets to which the grants relates. Grants for investments are accrued and the release follows the useful lives. Other grants are recognized in the income statement as other income.

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.

NOTES

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 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 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 resources to complete development, and
- the costs are expected to be recovered through income from the sale of the goods developed.

NOTES

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.

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 are 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.

NOTES

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.

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 before 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 include adjustment for non-cash items and changes in working capital.

Cash flow from investing activities includes investments in non-current asset, associates and joint arrangements.

Cash flow from financing activities includes cash flows from capital injections.

NOTES

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.

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

3. Net revenue

Sale of goods
Milestone payment

01.01.2016- 31.12.2016 T.DKK	01.01.2015- 31.12.2015 T.DKK
231	236
8.188	0
8.419	236

4. Staff costs

Salaries
Pension costs, defined contribution plans
Other expenses to social security
Share based payments (Note 5)
Other employee costs

01.01.2016- 31.12.2016 T.DKK	01.01.2015- 31.12.2015 T.DKK
26.800	16.564
370	210
333	140
2.490	0
69	355
30.061	17.269
51	33

Average number of full time employees

Remuneration to Board of Directors

Fixed base fee

Søren Bjørn Hansen
Niels Heering
Lars Christian Hansen
Lei Zhang
Jianwen Cai
Torsten Freltoft
Jens Frederik Lage Hansen
Michael Frank
Daniel Goldschmidt

0	0
0	0
100	100
0	0
0	0
100	100
100	100
0	0
0	0
300	300

Share based incentive (Note 5)

Lars Christian Hansen

311	0
611	300

NOTES

Remuneration to Executive Board and other members of the senior management board

	2016				2015			
	Fixed base salary T.DKK	Benefits T.DKK	Share based incentive T.DKK	Total T.DKK	Fixed base salary T.DKK	Benefits T.DKK	Share based incentive T.DKK	Total T.DKK
Executive Board								
Peter Holme Jensen	1.320	108	0	1.428	1.215	110	0	1.325
Other members of the senior management board								
Bo Karmark**	248	0	311	559	0	0	0	0
Claus Helix-Nielsen*	368	20	311	699	0	0	0	0
Thomas Christian Beck**	219	20	311	550	0	0	0	0
	2.155	148	933	3.236	1.215	110	0	1.325

*Appointed September 1st

**Appointed October 1st

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 564.000 warrants at 31 December 2016 (414.000 warrants at 31 December 2015). Each warrant gives the holder right to buy one ordinary share of nominally 1 DKK in Aquaporin A/S. The outstanding warrants amount to 8% of the share capital if they are all exercised (6% at 31 December 2015).

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 20 DKK per warrant. They are immediately exercisable, 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.

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 120 DKK 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.

NOTES

Specification of outstanding warrants	Number
Outstanding 1 January 2015	424.000
Exercised	-10.000
Outstanding 31 December 2015	414.000
Granted	150.000
Outstanding 31 December 2016	564.000

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

	2016			2015		
	01.01.	Changes during the year	31.12.	01.01.	Changes during the year	31.12.
Shareholdings						
Torsten Freltoft	30.000	0	30.000	30.000	0	30.000
Jens Frederik Lage Hansen	55.000	0	55.000	55.000	0	55.000
Peter Holme Jensen	125.000	0	125.000	125.000	0	125.000
Bo Karmark	0	4.171	4.171	0	0	0
Claus Helix-Nielsen	3.000	0	3.000	3.000	0	3.000
Thomas Christian Beck	0	6.257	6.257	0	0	0
Warrants						
Lars Christian Hansen	0	15.000	15.000	0	0	0
Peter Holme Jensen	325.000	0	325.000	325.000	0	325.000
Bo Karmark	0	15.000	15.000	0	0	0
Claus Helix-Nielsen	22.000	15.000	37.000	22.000	0	22.000
Thomas Christian Beck	0	15.000	15.000	0	0	0

For outstanding warrants at 31 December 2016, the average remaining life is 4.1 years (2015: 4.2 years). The average exercise price is DKK 47 (2015: DKK 20).

In 2016, the recognized expense related to share-based payments amount to 2.490 T.DKK (2015: 0 T.DKK).

NOTES

Fair value of each warrant granted in 2016 was 42 DKK (2015: 0 DKK). The value was calculated using the Black-Scholes option valuation model. 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 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 judgement 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 2015).

The warrants are classified as equity instruments.

	01.01.2016- 31.12.2016 T.DKK	01.01.2015- 31.12.2015 T.DKK
6. Depreciations and amortizations		
Sales and distribution costs	267	15
Research and development costs	2.458	600
Administrative costs	483	30
Total depreciations	3.208	645
7. Financial income		
Interest income, banks	17	7
Exchange rate adjustments	330	3.796
	347	3.803
8. Financial expenses		
Exchange rate adjustments	317	1.258
Other financial expenses, including bank fees	484	168
	801	1.426

NOTES

9. Tax on profit for the year

	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	T.DKK	T.DKK
Profit before tax	(40.813)	(21.002)
Danish tax rate for Aquaporin A/S	22,0%	23,5%
Tax	8.979	4.935
Revaluation tax assets	(3.053)	(1.366)
Adjustments regarding previous years	359	1.173
Withholding taxes	(394)	0
Non-deductable expenses	(468)	244
Change in tax rate	163	0
Tax on profit/loss for the year	5.586	4.986
Changes related to deferred tax	5.620	3.813
Withholding taxes	(394)	0
Adjustments regarding previous years	360	1.173
Tax on profit for the year	5.586	4.986

10. Other intangible assets

	Development projects in progress	Total
	T.DKK	T.DKK
Cost price at 1 January 2016	33.246	33.246
Additions during the year	4.966	4.966
Purchase price at 31 December 2016	38.212	38.212
Carrying amount 31 December 2016	38.212	38.212
	T.DKK	T.DKK
Cost price at 1 January 2015	27.922	27.922
Additions during the year	5.324	5.324
Purchase price at 31 December 2015	33.246	33.246
Carrying amount 31 December 2015	33.246	33.246

NOTES

11. Property, plant and equipment

	Plant and machinery T.DKK	Other fixtures, fittings, tools and equipment T.DKK	Leasehold im- provements T.DKK	Tangible assets in progress T.DKK	Total T.DKK
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 / transferred during the year	0	0	(100)	(12.188)	(12.288)
Purchase price at 31 December 2016	49.987	12.803	22.933	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)
Depreciations at 31 December 2016	1.682	2.873	1.555	0	6.110
Carrying amount 31 December 2016	48.305	9.930	21.378	0	79.613
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Purchase price at 1 January 2015	2.602	2.259	0	0	4.861
Exchange rates					
Additions during the year	2.519	699	1.206	12.188	16.612
Purchase price at 31 December 2015	5.121	2.958	1.206	12.188	21.473
Depreciations at 1 January 2015	304	1.948	0	0	2.252
Depreciations	528	117	0	0	645
Depreciations at 31 December 2015	832	2.065	0	0	2.897
Carrying amount 31 December 2015	4.289	893	1.206	12.188	18.576

NOTES

	31.12.2016	31.12.2015
	T.DKK	T.DKK
12. Investments in associates		
Purchase price at 1 January	23.353	40
Additions during the year	0	23.313
Purchase price at 31 December	23.353	23.353
Accumulated write-ups and write-downs at 1 January	(1.794)	(10)
Unrealised gain on sale of assets from Aquaporin	(4.053)	0
Share of result after tax	(3.702)	(1.212)
Exchange rate adjustments	(707)	(572)
Accumulated write-ups and write-downs at 31 December	(10.256)	(1.794)
Carrying amount 31 December	13.097	21.559

Investments in associates includes:

	31.12.2016		31.12.2015	
	T.DKK	T.DKK	T.DKK	T.DKK
	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	1.040	22	318	22
Loss for the period	-10.944	-5	-1.374	6

Balance sheet

Total non-current assets	16.783	-	3.429	-
Total current assets	22.223	66	47.494	72
Total liabilities	-1.084	-5	-362	-6
Total equity	37.922	61	50.560	66

NOTES

	31.12.2016	31.12.2015
	T.DKK	T.DKK
13. Deferred tax		
Deferred tax at 31 December	11.910	8.484

31 December 2016 DKK 17.4 million of the deferred tax asset relates to tax losses. Management expects that these can be set off against positive taxable income within 3-5 years.

	31.12.2016	31.12.2015
	T.DKK	T.DKK
14. Trade receivables		
Ageing of receivables		
Not due	308	31

15. Share capital

The share capital comprises 6,604,384 shares of a nominal value of DKK 1 each. No shares carry any special rights.

	Number of shares
	DKK
Changes in share capital:	
Share capital at 1 October 2010	1.634.327
Capital increase 2010/11	653.673
Capital increase 2011/12	568.000
Capital increase 2012/13	590.000
Capital increase 2013/14	1.916.501
Capital increase 2015	741.299
Capital increase 2016*	500.584
Share capital at 31 December 2016	6.604.384

* In October 2016, the Company's share capital increased by capital injection from existing shareholders by nominally DKK 500,584 at a subscription price of DKK 120 corresponding to a subscription amount of DKK 60 million.

Capital management

Management evaluates the needs for capital on an ongoing basis. The objectives when maintaining capital are to secure sufficient capital in order to meet short term obligations and at the same time preserve investors' confidence required to sustain future development of the business. As of 31 December 2016, the Group is financed solely through equity.

The company is not exposed to any externally imposed capital requirements.

NOTES

16. Commitments and contingent liabilities

Operating leases

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

	31.12.2016 T.DKK	31.12.2015 T.DKK
Operating lease commitments:		
Due within 1 year	5.496	4.945
Due between 1 and 5 years	24.138	23.468
Due after 5 years	22.398	21.958
	52.032	50.371
The following amounts have been recognized in the income statement for Aquaporin A/S in respect of operating leases and rentals	5.903	301

Lease commitments relate primarily to office- and car rental.

Contigent liabilities

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

17. Financial risks

General risk management

Due to its activities, the Group is exposed to various financial risks, including foreign exchange, interest, liquidity 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 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.

Foreign exchange risks

The Group 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

17. Financial risks (continued)

	0-1 year	1-5 years	>5 years	Total	Carrying amount
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
31 December 2016					
Trade and other receivables	8.124	0	0	8.124	8.124
	8.124	0	0	8.124	8.124
31 December 2015					
Trade and other receivables	14.092	0	0	14.092	14.092
	14.092	0	0	14.092	14.092

The analysis is based on all undiscounted cash flows including estimated interest payments and expected installments on loans. The estimates on interests are based on current market conditions.

18. Events after the balance sheet date

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

19. Changes in net working capital

	31.12.2016	31.12.2015
	T.DKK	T.DKK
Change in inventory	(993)	0
Changes in trade receivables	(277)	0
Changes in other receivables	5.637	(8.236)
Changes in trade payables	19.744	(1.389)
Changes in other payables	(2.501)	2.337
	21.610	(7.288)

NOTES

Note 20. Related parties and ownership

Related parties

Aquaporin A/S is renting the new facility at Nymøllevej 78 of M. Goldschmidt Ejendomme A/S. In 2016 Aquaporin A/S has paid DKK 1.7 million in deposit.

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

Other significant shareholders:

Poten Environment Group Co Ltd, Trade Tower, Floor 12A, No. 60 Xizhimen North Street, Beijing

Note 21. Government grants

During 2016, the Group received DKK 8.5 million in public grants for research & development purposes (2015: DKK 2.0 million), which was recognized in the income statement as other income. The group also received DKK 4,3 million in public grants relating to projects which qualify for capitalization (2015: 4.4 million), which has been set off against capitalized developments costs.

Note 22. List of Group companies at 31 December 2016

Company	Country	Currency	Nominal capital	Aquaporin's holding
Aquaporin Asia Ltd.	Singapore	SGD	103	80%
Golgi ApS	Denmark	tDKK	50	51%
Aquapoten	China	CNY	49,349	45%
Aquaporin Space Alliance ApS	Denmark	tDKK	80	50%

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STATEMENT OF PROFIT AND LOSS

		01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	Note	T.DKK	T.DKK
Net revenue		8.419	236
Cost of goods sold		(161)	(165)
Gross result		8.258	71
Sales and distribution costs	2	(7.628)	(3.527)
Research and development costs	2	(18.635)	(8.975)
Administrative costs	2	(11.446)	(5.157)
Other operating income		900	0
Operating result		(28.551)	(17.588)
Share of net profit of associates		(3.702)	(1.212)
Finance income		797	4.196
Finance costs		(747)	(1.403)
Result before income tax		(32.203)	(16.007)
Income tax expenses		5.321	4.986
Result for the period		(26.882)	(11.021)

BALANCE SHEET

	31.12.2016	31.12.2015
Notes	T.DKK	T.DKK
Development projects	38.212	33.246
Intangible assets	38.212	33.246
Machinery	44.385	1.702
Other equipment	2.735	893
Leasehold improvements	21.380	1.206
Prepayments for property, plant and equipment	0	12.188
Tangible assets	68.500	15.989
Investments in subsidiaries	6.286	15
Investments in associates	13.097	21.560
Financial assets	19.383	21.575
Deposits	1.746	1.712
Deferred tax assets	11.645	8.484
Other non-current assets	13.391	10.196
Total non-current assets	139.486	81.006
Inventories	993	0
Receivables from group enterprises	20.143	12.565
Trade receivables	309	31
Other receivables	4.241	12.800
Prepayments	278	0
Receivables	25.964	25.396
Cash and cash equivalents	62.600	80.110
Total current assets	88.564	105.506
Total assets	228.050	186.512

BALANCE SHEET

	31.12.2016	31.12.2015
Notes	T.DKK	T.DKK
Share capital	6.604	6.104
Retained earnings	201.518	173.866
Reserve for exchange rate translation	(1.280)	(571)
Other reserves	10.804	3.350
Total equity	217.646	182.749
Trade payables	6.052	1.331
Other payables	3.989	1.529
Prepayments	363	903
Total current liabilities	10.404	3.763
Total liabilities	10.404	3.763
Total equity and liabilities	228.050	186.512
Contingent liabilities	3	
Events after the balance sheet date	4	

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Reserve for ex- change rate	Reserve for intangi- ble assets	Reserve for share based payment	Total equity
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Equity 01.01.2015	5.363	98.570	0	0	3.378	107.311
Result for the period	0	(11.021)	0	0	0	(11.021)
Exchange rate translation	0	0	(571)	0	0	(571)
Total comprehensive income for the period	0	(11.021)	(571)	0	0	(11.592)
Transactions with owners in their capacity as owners						
Capital increase	741	86.289	0	0	0	87.030
Exercised warrants	0	28	0	0	(28)	0
Balance at 2015	6.104	173.866	(571)	0	3.350	182.749
Result 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 2016	6.604	201.518	(1.280)	4.966	5.838	217.646

NOTES

Note 1. Accounting policies

Note 2. Staff

Note 3. Commitments and contingent liabilities

Note 4. Events after the balance sheet date

NOTES

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. The accounting policies are unchanged from last year.

Basis of Preparation

Financial Statements of Aquaporin A/S for 2016 have 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.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 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.

NOTES

Income Statement

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 dividend 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 subsidiary is tested for impairment.

Amortization, depreciation and impairment losses

Amortization, 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 recognized 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 recognized in the income statement, whereas the tax attributable to equity transactions is recognized directly in equity.

NOTES

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 and is reduced by received grants.

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.

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

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

Investments in subsidiaries and associates

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

Investments in associates are recognized 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.

NOTES

Receivables

Receivables are measured in the balance sheet at the lower of amortized 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 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 crystallize as current tax. Any changes in deferred tax due to changes to tax rates are recognized in the income statement.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognized 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 recognized in the income statement in financial income and expenses.

Financial debts

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

NOTES

01.01.2016-	01.01.2015-
31.12.2016	31.12.2015
T.DKK	T.DKK

2. Staff

Average number of full time employees

36	26
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3. Commitments and contingent liabilities

Operating leases

31.12.2016	31.12.2015
T.DKK	T.DKK

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

Due within 1 year	5.244	4.945
Due between 1 and 5 years	24.138	23.468
Due after 5 years	22.398	21.958
	51.780	50.371

The following amounts have been recognized in the income statement for Aquaporin A/S in respect of operating leases and rentals

5.003	301
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Lease commitments relate primarily to office- and car rental and there are no pending court and arbitration cases.

4. Events after the balance sheet date

Please see subsequence events after the balance sheet date in the Management Report for the Aquaporin Group.

