

**Hydratech Industries
Holding A/S**
Sigenvej 2
9760 Vrå
Central Business Registration
No 31 59 27 20

Annual report 2018

The Annual General Meeting adopted the annual report on 03.06.2019

Chairman of the General Meeting

Name:

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Entity details

Entity

Hydratech Industries Holding A/S
Sigenvvej 2
9760 Vrå

Central Business Registration No: 31592720
Registered in: Hjørring
Financial year: 01.01.2018 - 31.12.2018

Executive Board

Knud Andersen
Rasmus Sandorff Jacobsen

Board of Directors

John Staunbjerg Dueholm, Chairman
Jacob Østergaard Bergenholtz
Christina Aabo
Esben Bay Jørgensen
Henrik Tyge Krabbe
Peter Kjærsgaard Sørensen, Employee Representative
Mikkel Zachariassen, Employee Representative
Ove Østergaard, Employee Representative

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Hydratech Industries Holding A/S for the financial year 1 January 2018 - 31 December 2018.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and disclosure requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2018 and of the results of their operations and cash flows for the financial year 1 January 2018 - 31 December 2018.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the Annual General Meeting.

Vrå, 03.06.2019

Executive Board

Knud Andersen

Rasmus Sandorff Jacobsen

Board of Directors

John Staunbjerg Dueholm
Chairman

Jacob Østergaard Bergenholtz

Christina Aabo

Esben Bay Jørgensen

Henrik Tyge Krabbe

Peter Kjærsgaard Sørensen
Employee Representative

Mikkel Zachariassen
Employee Representative

Ove Østergaard
Employee Representative

Independent auditor's report

To the shareholders of Hydratech Industries Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Hydratech Industries Holding A/S for the financial year 1 January 2018 - 31 December 2018, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2018, and of the results of their operations and cash flows for the financial year 1 January 2018 - 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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 the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

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

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

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

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

Auditor's responsibilities for the consolidated financial statements and the parent financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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.

Independent auditor's report

- 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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.

Aarhus, 03.06.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jacob Nørmark
State Authorised Public Accountant
Identification number (MNE) mne30176

Jakob Olesen
State Authorised Public Accountant
Identification number (MNE) mne34492

Management commentary

	IFRS 2018 DKK'000	IFRS 2017 DKK'000	DK GAAP 2016 DKK'000	DK GAAP 2015 DKK'000
Financial highlights				
Key figures				
Revenue	456.507	527.090	561.311	698.916
Gross profit/loss	82.396	139.356	147.569	231.558
Operating profit/loss	(32.269)	(3.119)	(31.141)	(55.253)
Net financials	(35.568)	(43.867)	(30.650)	(22.395)
Profit/loss for the year	(59.721)	(45.476)	(67.575)	(81.023)
Total assets	636.611	639.359	633.563	666.462
Investments in property, plant and equipment	4.656	1.959	11.932	6.107
Equity	145.952	163.464	78.765	89.393
Ratios				
Gross margin (%)	18,1	26,4	26,3	33,1
Net margin (%)	(13,1)	(8,6)	(12,0)	(11,6)
Return on equity (%)	(38,6)	(37,6)	(80,4)	(62,9)
Equity ratio (%)	22,0	25,0	12,4	13,4

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Referring to section 128(4) of the Danish Financial Statements Act, the statement of financial highlights only covers the figures for 2015, 2016, 2017 and 2018.

The figures stated for 2017 and 2018 have been prepared in accordance with IFRS. All other figures have been prepared in accordance with the Danish Financial Statement Act. The effect of the change to IFRS is described in note 1.

Ratios	Calculation formulas	Explanation
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operation profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Net interest-bearing debt is defined as interest-bearing liabilities, including income tax payable, net of interest-bearing assets, including cash and income tax receivable.

Management commentary

Primary activities

The primary activities are to develop, manufacture, sell and service hydraulic components.

Hydratech Industries Holding A/S consists of three divisions (Wind, Fluid and Service) and is headquartered in Denmark, with subsidiaries in the US, China, India, Singapore, Czech Republic and Hong Kong. The company serves as sub-supplier in the market segments of wind, oil, gas, mining, industry and marine with related service activities. Hydratech Industries Holding A/S is positioned as a major supplier in both Europe, Asia and the Americas, and are serving the largest OEM-producers in the Wind segment around the world

Development in activities and finances

The fiscal year was characterized by high activity within the company's Wind division in terms of introducing new products and adapting the group supply chain to ramp-up of new customers. The Service Division experienced strong growth whereas the development in the company's Fluid division was flat.

The general price pressure in the wind industry, combined with the increased complexity in operations, meant profitability was under pressure during 2018. However, with a continued focus on efficiency in operations, significant supply chain improvements were seen towards the end of the year.

In late 2018, our new factory in Czech Republic started prototype production and has now been approved for serial production. In May 2019, we have announced that we will transfer production from our facility in Silkeborg to the new factory in Czech Republic. The new factory in the Czech Republic is the last part of the recovery plan that was initiated in 2016 to ensure the best possible global production setup for servicing the customers optimally at a competitive cost level.

To support the activities within the Wind division during the year, a capital injection of 45,8 mill. DKK was made by the shareholders and the investment partners through issuance of new shares and cash increase. The capital injection is a positive recognition from shareholders and investment partners of the great market opportunities for the company.

Financial development in 2018

The revenue went down from DKK 527m in 2017 to DKK 456m in 2018 mainly driven by introduction of a new production facility at one of the company's main Wind customers in first half of 2018. The revenue in second half of 2018 has on the other hand improved and is significantly higher than second half of 2017 and first half of 2018. Especially the Service division has experienced high growth in 2018 compared to earlier years. The gross margin dropped from 26,4% to 18,1% from 2017 to 2018, due to costs related to introduction of new products and ramp-up of new customers in 2018 coupled with the general price pressure in the Wind industry. The gross margin is expected to increase in 2019 and to be fully restored in 2020 when the new production facility in the Czech Republic is fully implemented.

Management commentary

The financial performance in 2018 has been negatively impacted by the cost of establishing the new facility in Czech Republic with 10 MDKK.

Outlook

Hydratech Industries Holding A/S expects the revenue in all 3 Divisions to continue the positive development from second half of 2018. The operation cost will be impacted by the cost of closing down the production in Silkeborg, but the overall performance for 2019 is expected to result in an increase in revenue within the range of 20-30% DKK and an improved operating profit in the range of 15-30 MDKK.

Fluid Division

Hydratech Industries Holding A/S currently experiences an increasing activity in the Oil and Gas market and the high activity level has continued in the first months of 2019 and the division is expected to contribute positively to the profitability in 2019.

Wind Division

Hydratech Industries Holding A/S expects a positive development in revenue in the Wind Division since we are now well-positioned with some of the largest OEM-producers worldwide, who are all experiencing high activity. The order backlog end of 2018 is at the highest level ever.

Service Division

Hydratech Industries Holding A/S expects the positive development from 2018 to continue in 2019 and this is supported by a huge and still increasing installed base of the group products and the aging profile of the installed base.

Particular risks

The main operating risk relates to the ability of being strongly positioned in the markets where the products are sold and to ensure an always competitive production price.

Among other fields, Hydratech Industries Holding A/S is engaged in the Oil and Gas industry, which is characterized by a cyclical level of activity that is affected by developments in crude oil prices and the US dollar rate. Furthermore, products are sold to the global Marine and Shipbuilding industry, traditionally a market sensitive to market fluctuations.

Warranty commitments

As a supplier to the wind turbine industry, Hydratech Industries Holding A/S has contracts with longer warranty coverage and extended coverage for serial claims that deliverables are defective.

Price risks

The use of steel as a raw material involves a risk of general increases in the price of this type of commodity. However, for most production, the Hydratech Industries Holding A/S may include possible increases in the prices of commodities in the prices of the finished products.

Management commentary

Currency risks

Selling the products abroad means that results, cash flows and equity are affected by exchange rate developments in a number of currencies. Currency risk hedging takes place primarily by purchases and billing being effected in the same currency. No speculative foreign currency transactions are conducted.

Currency adjustments of investments in subsidiaries are recognized in other comprehensive income. As a main rule, related currency risks are not hedged, as Hydratech Industries Holding A/S believes that current hedging of such long-term investments will not be optimal from an overall risk and cost point of view.

Interest-rate risks

Hydratech Industries Holding A/S' loan financing is exposed to fluctuations in the interest-rate level.

Funding risk

Hydratech has entered into a committed financing agreement with credit facilities enabling both current operations and planned expansion. Treasury management is centralized and ensures that sufficient financial resources are available to meet planned requirements.

Credit risk

Credit risk mainly relates to trade debtors, other receivables and cash at banks. The aggregate amounts recognized under these items in the balance sheet constitute the maximum credit risk. Receivables primarily relate to sales from the Wind and Fluid division. Handling increased credit risk in the wind and fluid industry, Hydratech's global credit function monitors the creditworthiness of existing and new customers and assists in debt collection. Hydratech conducts individual assessments of its customers' creditworthiness, managed globally. The majority of trade receivables are credit ensured. Cash is held with banks with high credit ratings.

Financial reporting

The mitigation of the key risks relating to the Group's financial reporting is ensured through group policies, internal controls and the statutory audit. Hydratech adheres to firm budgeting and reporting schedules and monitors the performance of its business units on a monthly basis. Structured business review meetings are held quarterly.

Compliance with regulations

Hydratech is committed to conducting its business in compliance with all applicable laws and other regulation and adhering to principles of good corporate citizenship in all the countries in which it is active. The manager of each business unit, supported by group functions, is responsible for monitoring and enforcing the Group's policies as well as ensuring compliance with national legislation and local requirements.

Intellectual capital resources

Hydratech Industries Holding A/S constantly works to develop and make customised products and solutions. A large portion of revenue arises from projects and turnkey solutions, and this poses considerable demands on the knowledge resources of staff within each of the segments that its products are sold to.

Management commentary

To meet Hydratech Industries Holding A/S' own high demands for the development and production of these solutions, it is vital to be able to recruit and retain staff with a high level of education as well as staff with technical experience. Hydratech Industries Holding A/S thus intends to remain an attractive place of work and uses the global presence to attract the best candidates around the world.

Research and development activities

The range of products is adjusted and developed on a regular basis to accommodate the customers' demands.

Also, in the financial year 2018, Hydratech Industries Holding A/S participated in various development projects together with current customers. These are projects that will help expand the range of products.

Statutory report on corporate social responsibility

Main risks are related to child labour, bribery, health and environmental issues at our sites and with our partners.

Hydratech Industries Holding A/S operates globally and are exposed to risks related to these regions. In order to mitigate the identified risks Hydratech Industries Holding A/S has implemented a code of conduct with internal guidelines, objectives and strategies, under which a targeted effort is made to ensure a safe and healthy working environment so that both environmental and climatic matters are considered in the processes.

We have created a zero-philosophy within Health, Safety and Environment with a goal of 0-accidents and 0-impact on environment.

We are committed to the health and safety of our employees. We control our activities and working environment to comply to the local legislative requirements and to the prevention of injuries and ill health of our employees.

Our management system reflects the continuous improvement of our internal and external processes towards proactively to identify hazards and performance of risk assessments to increase the health and safety of our employees. We will maintain a certified occupational health and safety management system in full compliance with the requirements of ISO 45001 version 2018.

The company culture is built on the statement: "safety first", and the whole organization is bound to the pledge of taking the necessary actions to avoid any accidents.

We use defined objectives and KPI's to monitor our improvement progress and set ambitious targets.

As mentioned above, efforts are made to ensure a healthy working environment, for example, by focusing on the working environment in the daily operation, target setting and reporting.

Management commentary

With respect to the working environment, we arrange training sessions on a safe working environment. Also in this area, the efforts in 2018 have helped sustain a healthy and safe working environment for the staff, and there have been no serious accidents in 2018.

We are committed to be responsible for the environmental impact of our products, processes, and services. We control our activities to comply to the local legislative requirements and to the protection of the environment.

Our management system reflects the continuous improvement of our internal and external processes towards proactively identifying and evaluating risks and reduce the environmental impact of our products, processes and services. We have maintained a certified environmental management system in full compliance with the requirements of ISO 14001 version 2015.

We use defined objectives and KPI's to monitor our improvement progress.

The companies are certified by external parties with respect to the quality of processes with both the companies and their suppliers. These are requirements also posed by the customers, and the companies comply with them partly through internal processes and control procedures, partly through site visits to the suppliers.

Hydratech Industries Holding A/S has set up a global quality and process department to ensure that guidelines are drawn up in this respect and to subsequently check that the companies comply with them. To ensure a common and integrated approach to our quality, environment and health & safety work we have a certified management system according to ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2008

Management believes that the organizational processes are at a satisfactory and necessary level and that the measures implemented will improve results in the years ahead within quality, environmental and health & safety management.

Hydratech Industries Holding A/S respects international conventions and observes national law for protecting human rights, and preventing corruption and has implemented this as part of the code of conduct. All employees are educated in the code of conduct and formal procedures are setup to secure that both employees and business partners are compliant with the code of conduct. As a result of the clear rules in our code of conduct and the training and communication provided, we believe that we have maintained a high level of business integrity and ethics in our companies in 2018.

Management commentary

Statutory report on the underrepresented gender

The Board of Directors and the Executive Board aim for equal opportunity for both genders at management levels and believe that diversity generates business value. In 2013, the Board of Directors laid down objectives for diversity on the Board of Directors and at other management levels. When nominating new candidates for the Board of Directors, the Board carefully considers what knowledge and professional experience are needed to ensure that the competencies required exist on the Board. Also, the Board of Directors strives to have the best composition possible based on background, gender etc.

Gender composition of Management

When engaging managers, the knowledge and professional experience needed are considered carefully to ensure that the competencies required exist at all management levels. At least two executives are involved in the appointment of managers to ensure that the biggest management talents are hired, regardless of gender.

The Board of Directors has set the following target figures for the gender composition:

- That both genders are represented on the Board of Directors by a share of at least 33%;
- That both genders are represented at management levels globally by a share of at least 33%.

At the balance sheet date, the Board of Directors consists of seven men and one woman. There have not been any changes on the Board of Directors in 2019, and so we are not yet closer to meeting the target but the aim is to meet the target before 2021. When nominating candidates for the Board of Directors, the Board pursues the objective of adding more women to the Board. However, this must not affect the other recruiting criteria.

At year-end 2018, the gender composition at the other management levels was 0 women and 14 men. Efforts will continue in 2019.

Statutory report on corporate governance

The Company complies with the Danish Venture Capital and Private Equity Association's guidelines for disclosures in the annual report. Please refer to www.dvca.dk for further information.

The Company's share capital is divided into share classes. Hydratech Industries Holding A/S is the parent whereas the private equity fund BWB Partners is the ultimate parent to Hydratech Industries Holding A/S holding an ultimate ownership share of 88%.

Board of directors and management team

The board of directors consist of 8 members of which 3 are employee representatives. The composition follows in the table below.

Management commentary

Name	John Staunbjerg Dueholm (Chairman)	Jacob Østergaard Bergenholtz	Christina Aabo	Esben Bay Jørgensen	Henrik Tyge Krabbe
Position	Senior advisor	Managing Partner - BWB Partners	Head of R&D - Wind Power - Ørsted	Director & Partner - BWB Partners	COO & CFO - Brødrene A. & O. Johansen A/S
Chairman of the Board of Directors in	Holmris B8 A/S, Holmris Holding A/S, Hydratech Industries A/S, Hydratech Industries Holding A/S, HTHH ApS, SSG A/S, Intermail A/S, SSG Group A/S, SSG Partners A/S	14. Oktober 2013 A/S, 28. Juni 2012 II A/S, Odin Equity Partners Management II K/S, SH Group A/S		Holdingselskabet af 27. marts 2017 ApS, Jagger Junk ApS, Jagger Junk Holding ApS, MOEP A/S, Jack-up Holding A/S	AVN Invest A/S
Deputy chairman of the Board of Directors in	DPF Svendborg A/S, SBS Automotive A/S, SBS Friction A/S, Scandinavian Brake Systems A/S	CIPP Technology Holding ApS, Hydratech Industries Holding A/S			
Member of the Board of Directors in	Air Greenland A/S, BWBP Fonden, Globus Wine A/S	BWBP Fonden, BWB Partners P/S, CIPP Technology Solutions A/S, Jack-up Holding A/S, MOEP A/S, Stema Holding A/S, System Frugt A/S	Engineer the Future F.M.B.A, Fonden Lindoe Offshore Renewables Center, Hydratech Industries Holding A/S	BWB Partners P/S, Hydratech Industries A/S, Qubiq Holding A/S, System Frugt A/S	AVN Gruppen A/S, AVN Hydraulik A/S, AVN Pladeteknik A/S, BB Hydraulik Service A/S, Greenline A/S, HTHH ApS, Hydratech Industries Holding A/S, Krabbe Gruppen ApS, TQ217 ApS
Member of the Executive Board in	BWB Partners I K/S, BWB Partners II K/S	Anpartsselskabet af 1. december 2011, Anpartsselskabet af 4. juli 2008, Anpartsselskabet af 7. juni 2007, Anpartsselskabet af 28. juni 2012, Anpartsselskabet af 28. marts 2007, Anpartsselskabet af 16. november 2015, Anpartsselskabet af 31. oktober 2007, Anpartsselskabet af 14. oktober 2013, Anpartsselskabet af 9. september 2010, BWB CIV GP ApS, BWB Partners GP ApS, BWB Partners P/S, CIPP Technology Solutions A/S		Anpartsselskabet af 1. december 2011, Anpartsselskabet af 4. juli 2008, Anpartsselskabet af 7. juni 2007, Anpartsselskabet af 28. juni 2012, Anpartsselskabet af 28. marts 2007, Anpartsselskabet af 16. november 2015, Anpartsselskabet af 31. oktober 2007, Anpartsselskabet af 14. oktober 2013, Anpartsselskabet af 9. september 2010, BWBP CIV GP ApS, BWB Partners GP ApS, EBJ ApS, Holdingselskabet af 27. marts 2017	AO Invest A/S, Brødrene A. & O. Johansen A/S, HTBK Holding ApS

Management commentary

Name	Peter Kjærsgaard Sørensen	Mikkel Zachariassen	Ove Østergaard
Position	Employee representative	Employee representative	Employee representative

The management team consists of two members.

Name	Knud Andersen	Rasmus Sandorff Jacobsen
Position	CEO - Hydratech Industries A/S	CFO - Hydratech Industries A/S
Chairman of the Board of Directors in	6100 Haderslev A/S, BEMA A/S, Ejendomsselskabet Bredholm 3, Investeringselskabet BEMA A/S, Polytech A/S, Polytech Lightning A/S, Polytech Manufacturing A/S, Polytech Test & Validation A/S, VC VIII Polytech Holding ApS	
Deputy chairman of the Board of Directors in		
Member of the Board of Directors in	28. juni 2012 II A/S, Flonidan A/S, Hydratech Industries A/S, Resolux ApS, Science Flow Lab A/S, SH Group A/S	CAVIUS ApS, Cavius Holding ApS
Member of the Executive Board in	HTHH ApS, Hydratech Industries A/S, Hydratech Industries Holding A/S, Klosterdal ApS	FORST IVS, HTHH ApS, Hydratech Industries A/S, Hydratech Industries Holding A/S

Management commentary

Transition to IFRS

The accounting policies have been changed relative to last year due to the transition from reporting according to the Danish Financial Statements Acts to reporting according to IFRS as of 1 January 2018. The comparative figures for 2017 have been restated in accordance with the IFRS standards, and the opening balance sheet as at 1 January 2017 has also been restated so that it too complies with the transitional provisions set out in IFRS 1 concerning first-time adoption of International Financial Reporting Standards.

The transition to presenting the financial statements in accordance with IFRS impacts the Hydratech Industries Holding A/S, for example, in the following areas:

- Adjustments in equity will in future be classified as other comprehensive income
- The disclosures in the notes have been significantly expanded
- Hydratech has adopted the new IFRS 16 Leases from 1 January 2017 applying the modified retrospective method with the value of right of use assets as of 1 January 2017 equalling the present value at that date of future lease payments. Major part of the leases is recognised in the balance sheet as right-of-use assets with a related lease liability at the present value of future lease payments. The income statement is affected, as the lease costs will be split between depreciation of the right-of-use asset recognised in operating costs and interest on the lease liabilities recognised in Financial expenses.
- Revenue from contracts regarding wind and fluid cylinders is recognized when control is transferred to the customer, and considerations is expected to be received. Control is transferred upon production and Hydratech recognizes revenue over time.
- Goodwill is no longer amortised on a straight-line basis, but is subject to an annual impairment test in which the value of goodwill is assessed based on several financial ratios

All adopted and relevant standards have been applied on implementation.

The effect of the transition to IFRS is shown in the notes to the financial statements along with explanations of the most significant changes to the financial figures. The most significant changes for the 2017 financial year relate to the implementation of IFRS 15, IFRS 16 and that goodwill is no longer amortized. Hydratech's profit/loss for 2017 rose from DKK -67m to DKK -45m, due to implementation of IFRS.

Hydratech's balance sheet total as of 31 December 2017 rose from DKK 560m to DKK 639m, of which DKK 48m results from implementation of IFRS 16 and DKK 23m reversal amortisation of goodwill.

Equity rose from DKK 135m to DKK 163m primarily due to reversal amortisation of goodwill and implementation of IFRS 15.

For a further specification of the changes in the income statement and balance sheet, reference is made to note 1 to the financial statements.

Events after the balance sheet date

Hydratech Industries A/S have in 2019 announced close-down of production in the Silkeborg location. Production will be handled in other Group entities. There have been no other post-balance sheet events material to this Annual Report which have not been recognised or mentioned.

Consolidated income statement for 2018

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Revenue	2	456.507	527.090
Cost of sales		(335.163)	(346.658)
Other external expenses		(38.948)	(41.076)
Gross profit/loss		82.396	139.356
Staff costs	3	(94.122)	(118.578)
Depreciation and amortisation	4	(20.543)	(23.897)
Operating profit/loss		(32.269)	(3.119)
Other financial income	5	4.696	5.582
Other financial expenses	6	(40.264)	(49.449)
Profit/loss before tax		(67.837)	(46.986)
Tax on profit/loss for the year	7	8.116	1.510
Profit/loss	8	(59.721)	(45.476)

Statement of comprehensive income

Profit for the year	(59.721)	(45.476)
Other comprehensive income		
Items that can be reclassified to the income statement when certain conditions are met:		
Exchange differences, foreign entities	(2.513)	2.492
Other adjustments	692	(4)
Total comprehensive income	(61.542)	(42.988)

Consolidated cash flow statement for 2018

	<u>Notes</u>	2018 DKK'000	2017 DKK'000
Operating profit/loss		(32.269)	(3.119)
Amortisation and depreciation		20.543	23.897
Other provisions		100	(1.460)
Working capital changes	9	55.333	29.344
Cash flow from ordinary operating activities		43.707	48.662
Financial income received		422	618
Financial income paid		(33.311)	(44.780)
Income taxes refunded/(paid)		2.601	765
Cash flows from operating activities		(30.288)	(43.397)
Acquisition etc of intangible assets		(12.432)	(13.735)
Acquisition etc of property, plant and equipment		(4.656)	(1.959)
Sale of property, plant and equipment		76	582
Sale of fixed assets investments		0	367
Changes in equity and other adjustments		0	3.961
Cash flows from investing activities		(17.012)	(10.784)
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control		25.000	0
Loans raised		21.500	34.250
Instalments on loans etc		(53.002)	(72.562)
Cash increase of capital		0	40.000
Payables to other credit institutions			(4.926)
Cash flows from financing activities		(6.502)	(3.238)
Increase/decrease in cash and cash equivalents		(10.095)	(8.757)
Cash and cash equivalents beginning of year		22.303	27.812
Currency translation adjustments of cash and cash equivalents		(3.664)	3.248
Cash and cash equivalents end of year		8.544	22.203
Cash and cash equivalents at year-end are composed of:			
Cash		8.544	22.303
Cash and cash equivalents end of year		8.544	22.303
Non cash transactions	10		
Reconciliation of liabilities from financial activities	11		

Consolidated balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>	<u>1 January 2017 DKK'000</u>
Completed development projects		20.908	9.904	6.827
Acquired licences		5.344	5.053	5.804
Goodwill		276.870	276.870	276.870
Development projects in progress		11.405	15.859	12.534
Intangible assets	12	<u>314.527</u>	<u>307.686</u>	<u>302.035</u>
Land and buildings		61.119	70.451	80.001
Plant and machinery		15.647	11.889	15.529
Other fixtures and fittings, tools and equipment		3.931	3.502	4.941
Leasehold improvements		2.814	7.382	8.659
Property, plant and equipment in progress		0	0	9
Property, plant and equipment	13	<u>83.511</u>	<u>93.224</u>	<u>109.139</u>
Other investments		184	184	184
Deposits		1.949	1.887	2.254
Fixed asset investments	14	<u>2.133</u>	<u>2.071</u>	<u>2.438</u>
Non-current assets		<u>400.171</u>	<u>402.981</u>	<u>413.612</u>
Raw materials and consumables		89.987	79.507	74.017
Work in progress		9.239	13.147	21.107
Manufactured goods and goods for resale		0	1.340	0
Prepayments for goods		0	1.052	1.303
Inventories		<u>99.226</u>	<u>95.046</u>	<u>96.427</u>
Trade receivables	15	44.702	41.175	74.417
Contract assets	16	47.204	39.149	43.062
Receivables from group enterprises	17	14.825	15.254	15.909
Deferred tax	18	7.838	10.999	13.554
Other receivables		11.544	7.221	4.340
Income tax receivable		0	2.601	0
Prepayments		2.557	2.630	2.849
Receivables		<u>128.670</u>	<u>119.029</u>	<u>154.131</u>
Cash		<u>8.544</u>	<u>22.303</u>	<u>27.812</u>
Current assets		<u>236.440</u>	<u>236.378</u>	<u>278.370</u>
Assets		<u>636.611</u>	<u>639.359</u>	<u>691.982</u>

Consolidated balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>	<u>1 January 2017 DKK'000</u>
Contributed capital	19	15.080	15.079	15.079
Reserve for development expenditure		23.257	17.835	6.547
Retained earnings		107.615	105.015	68.701
Shareholders' share of equity		145.952	137.929	90.327
Non-controlling interests		0	25.535	0
Equity		145.952	163.464	90.327
Deferred tax	18	4.037	9.432	6.622
Other provisions		1.100	1.000	2.460
Subordinate loan capital	20	115.382	104.420	149.447
Mortgage debts	20	6.293	7.073	74.859
Bank loans	20	0	12.500	0
Finance lease liabilities	20	34.500	44.120	53.259
Other payables	20	23.652	27.443	25.522
Non-current liabilities		184.964	205.988	312.169
Current portion of long-term liabilities other than provisions	20	50.822	49.768	24.800
Bank loans		26.867	79.869	119.520
Payables to other credit institutions		0	0	4.926
Prepayments received from customers	21	48.265	5.206	9.114
Trade payables		136.235	96.332	102.872
Payables to shareholders and management		0	1.246	0
Income tax payable		39	1.322	1.325
Other payables		43.467	36.164	26.929
Current liabilities		305.695	269.907	289.486
Liabilities		490.659	475.895	601.655
Equity and liabilities		636.611	639.359	691.982
Mortgages and securities	22			
Subsidiaries	23			
Related parties with controlling interest	24			
Financial risks and financial instruments	25			
Events after the reporting period	26			

Consolidated statement of shareholders' equity

DKK'000	Share capital	Retained earnings	Foreign currency translation adjustment	Reserve for develop- ment expen- diture	Non- controlling interest	Total
2018						
Shareholders equity at beginning of year	15.079	104.926	89	17.835	25.535	163.464
Profit for the year	0	(59.721)	0	0	0	(59.721)
Transfer to reserves	0	(5.422)	0	5.422	0	0
Other comprehensive income	0	0	(2.513)	0	0	(2.513)
Other adjustments	0	(1.086)	0	0	0	(1.086)
Total comprehensive income	0	(66.229)	(2.513)	5.422	0	(63.320)
Increase of capital	1	20.807	0	0	0	20.808
Transactions with owners	1	20.807	0	0	0	20.808
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control	0	0	0	0	25.000	25.000
Adjustments preference right to distribution	0	25.000	0	0	(25.000)	0
Adjustments preference right to distribution	0	25.535	0	0	(25.535)	0
Transactions with non-controlling interest	0	50.535	0	0	(25.535)	25.000
Shareholders equity at end of year	15.080	110.039	(2.424)	23.257	0	145.952
2017						
Shareholders equity at beginning of year	15.079	64.247	(2.403)	6.547	0	83.470
Adjustment according to IFRS	0	6.857	0	0	0	6.857
Adjusted equity at beginning of year	15.079	71.104	(2.403)	6.547	0	90.327
Profit for the year	0	(45.476)	0	0	0	(45.476)
Transfer to reserves	0	(11.288)	0	11.288	0	0
Other comprehensive income	0	(4)	2.492	0	0	2.488
Total comprehensive income	0	(56.768)	2.492	11.288	0	(42.988)
Increase of capital	0	56.125	0	0	0	56.125
Transactions with owners	0	56.125	0	0	0	56.125
Adjustments preference right to distribution	0	34.465	0	0	25.535	60.000
Transactions with non-controlling interest	0	34.465	0	0	25.535	60.000
Shareholders equity at end of year	15.079	104.926	89	17.835	25.535	163.464

The capital was in 2017 increased by DKK 0k nominal, whereby equity has been increased by a total of DKK 56.125k.

The capital was in 2018 increased by DKK 1k nominal, whereby equity has been increased by a total of DKK 20.808k.

Number of shares is 15.080.000 with the nominal value of DKK 15.080.000.

Notes to consolidated financial statements

1. Basis of preparation

The consolidated financial statements of Hydratech Industries Holding A/S have been prepared in accordance with the international Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act.

1.1 Effect of transition to IFRS

In previous years, Hydratech Industries Holding A/S did not present consolidated financial statements. The consolidated financial statements for 2018 are therefore the first consolidated financial statements of the Group. In addition the consolidated financial statements of Hydratech Industries Holding A/S are the first consolidated financial statements to be prepared in accordance with IFRS. The amounts in the financial statements for 2018 and 2017 as well as the opening balance sheet at 1 January 2017 have been prepared as if IFRS had always been applied, as explained below. Amounts specified below referred to as "Applied after Danish GAAP" represent the amounts that would have been presented in the Groups consolidated financial statements for the specified periods under Danish GAAP if such consolidated financial statements had been presented. Similarly, financial highlights and key ratios for the year 2015 and 2016 in the management commentary represent the consolidated amounts for the Group under Danish GAAP and have not been restated to IFRS.

The effects of the transition to IFRS on the income statement and balance sheet position are shown in the overview below with explanatory notes:

	1 January 2017			2017	31 December 2017		
	Assets	Liabilities	Equity	Profit/loss	Assets	Liabilities	Equity
Applied after Danish GAAP	625.713	542.243	83.470	(66.795)	559.598	424.310	135.288
Recognition of revenue over time (IFRS 15)	8.791	1.934	6.857	(229)	8.562	1.884	6.678
Recognition of lease liability and ROU assets (IFRS 16)	57.478	57.478	0	(1.632)	48.069	49.701	(1.632)
Reversed amortisation of goodwill				23.130	23.130	0	23.130
Tax effect on above changes				50			
Adjustments Total	66.269	59.412	6.857	21.319	79.761	51.585	28.176
Applied after IFRS	691.982	601.655	90.327	(45.476)	639.359	475.895	163.464

Other comprehensive income

Profit/loss for the year	
Exchange difference, foreign entities	2.492
Other adjustments	(4)
Total comprehensive income	(42.988)

In the cash flow statement short term bank debt is no longer presented as part of cash and cash equivalents but presented as part of the cash flow from financing activities.

Impact of initial application of IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out a single model of recognition of revenue that apply to all contracts to customers.

Hydratech recognizes revenue from the following major sources:

- Fluid power contract sales
- Wind power contract sales
- Spare-part sales

Notes to consolidated financial statements

1.1 Effect of transition to IFRS continuing

Hydratech have implemented IFRS 15 with full retrospective effect, with correction of comparative figures for 2017 and the opening balance as of 1 January 2017.

Revenue from contract with costumers is recognized when control is transferred to the costumer, and considerations is expected to be received. Control is transferred upon production from OEM sales in the fluid and wind division and consequently Hydratech recognizes revenue over time.

Previously under Danish GAAP, Hydratech recognized revenue from contracts with customers upon delivery to the customers.

Impact of initial application of IFRS 9 Financial Instruments

Hydratech has applied IFRS 9 Financial instruments (as revised in July 2014) and the related consequential amendments to other IFRS standard. Hydratech has restated comparatives in respect of the classification and measurement of financial instruments.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to the incurred credit loss model applied under DK GAAP. The expected credit loss model requires Hydratech to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires Hydratech to recognise a loss allowance for expected credit losses on trade receivables and receivables from group enterprices. According to IFRS 9 the group has decided not to restate comparative figures.

Hydratech have calculated the effect of IFRS 9, which shows no material effects in the provision for trade receivables.

Impact of initial application of IFRS 16 Leases

Hydratech has decided to early adopt IFRS 16 with the recognizing the value of the right of use asset in the opening balance as of 1 January 2017.

IFRS 16 have changed how Hydratech accounts for leases previously classified as operating leases under DK GAAP, which were off-balance sheet. On initial application of IFRS 16, for all leases Hydratech has:

- a) recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) recognised depreciation of right-of-use assets and interest on lease liabilities in the income statement;
- c) separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Notes to consolidated financial statements

1.1 Effect of transition to IFRS continuing

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), Hydratech recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Leased assets Hydratech formerly held as Finance Lease in Hydratech are not impacted by implementation of IFRS 16, and there are no changes on the amounts recognized in the financial statement for these.

Goodwill

Goodwill is no longer amortised in the income statement. Instead, the Group performs impairment tests annually and when there are indications for impairments. Until this point in time, goodwill has been amortised on a straight-line basis over its economic life up to a maximum of 20 years. At the transition to IFRS, the Group has exercised the exemption provision of IFRS 1, which allows the use of the carrying value of goodwill at the date of transition as the new cost price in the opening balance sheet as at 1 January 2017.

1.2 New and revised IFRSs in issue but not yet effective

At the time of publication of the 2018 financial statements of Hydratech Industries A/S, there are a number of new or changed standards and interpretations which have not yet come into effect and have therefore have not been incorporated into the financial statements.

No material impact is expected from the issued but not yet effective IFRS standards that have not been implemented.

1.3 Critical accounting judgements and key sources of estimation uncertainty continuing

In the application of the accounting policies the Management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statement

Notes to consolidated financial statements

1.3 Critical accounting judgements and key sources of estimation uncertainty continuing

Revenue recognition

Revenue from contracts regarding wind and fluid cylinders is recognized when control is transferred to the customer, and consideration agreed is expected to be received. Control is transferred upon production and Hydratech recognized revenue over time.

Management have assessed recognition of revenue over time due to the specialization of the produced units as well as the possibilities of payment from cancelled orders.

Key Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The key assumptions used in the impairments tests of goodwill are disclosed in note 12.

Revenue recognition

There exist uncertainty about the estimate of the ratio of completion as well as realized margin on work in progress as of 31 December 2018. Management assesses the rate of completion based on incurred cost in the production of the units with a mark-up of expected gross margin on each produced unit.

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
2. Net Sales		
Europe	302.688	373.123
Asia	92.305	102.188
North America	59.620	48.263
Other regions	1.894	3.516
	456.507	527.090
Wind	294.898	384.008
Fluid	44.733	45.118
Service	116.876	97.964
	456.507	527.090

The Group is not listed or in the process of becoming listed, and no segment information is disclosed according to IFRS. Revenue is split between geographical regions and activity. This information does not amount to segment information to IFRS.

Change in contracts assets regarding revenue recognized from contracts with customers recognized over time amounts to 8,0 mio.kr. as of 31 December 2018 (2017: DKK -3,9 mio.). Contract assets amount to DKK 47,2 mio. as of 31 December 2018 (2017: DKK 39,1 mio). All unsatisfied performance obligations at year end are part of contracts with customers that has an original expected duration of one year or less, and consequently, the aggregate amount of the transaction prices allocated to unsatisfied performance obligations are not disclosed.

Revenue is recognized over time to the extend that each of the vendors performance obligations is satisfied. Hydratech evaluates the stage of completion on revenue recognized over time based on the input method. Contract assets as of 31 December 2018 is completed in 2019.

	2018 DKK'000	2017 DKK'000
3. Staff costs		
Wages and salaries	71.030	102.558
Pension costs	12.484	9.850
Other social security costs	10.608	6.170
	94.122	118.578
Average number of employees	438	438

Notes to consolidated financial statements

	Top ma- nagement DKK'000	Other top manage- ment DKK'000	Total DKK'000
3. Staff costs continuing			
2018			
Remuneration and salary	2.723	9.599	12.322
Pension, company contributions	0	510	510
Benefits (car, housing, phone etc.)	187	1.044	1.231
Cost at end of year	2.910	11.153	14.063
2017			
Remuneration and salary	2.500	11.374	13.874
Pension, company contributions	0	562	562
Benefits (car, housing, phone etc.)	251	598	849
Cost at end of year	2.751	12.534	15.285

Referring to section 98(b3) of the Danish Financial Statements Act, the remuneration of the Board of Directors and the Executive Board is listed together.

The Executive Board and a number of members of other top management are comprised by special bonus arrangements in the parent company Hydratech Industries Holding A/S, which becomes effective at sale of Hydratech Industries Holding A/S if certain enterprise values are met. The bonus arrangements are maximized at 3 mDKK and for other top management these vary between 0,3-1,5 mDKK of the individual basic salary.

Niether the Executive Board nor members of other top management are comprised by special bonus arrangements besides the above mentioned exitbonus.

Certain employees and members of management have in November 2018 acquired warrants and shares in the parent company Hydratech Industries Holding A/S at the fair value of the warrants at the date of acquisition. The warrants outstanding at 31 December 2018 are exercisable at the time Hydratech Industries Holding A/S is sold and terms of employment is not terminated. However, exercise also requires that certain thresholds for increase in the fair value of the shares in Hydratech Industries A/S are achieved.

As the warrants are purchased by the employees at their fair value, and are equity instruments in the parent company Hydratech Industries Holding A/S, no amounts related to the warrants or shares are recognized in Hydratech Industries A/S.

Notes to consolidated financial statements

	Warrants number	Excercise prices DKK
3. Staff costs continuing		
Number of outstanding warrants		
Beginning of year 2018	0	0
Issued during the period	4.755.000	1
End of year 2018	4.755.000	1
	2018 DKK'000	2017 DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	5.001	8.059
Depreciation of property, plant and equipment	13.297	15.774
Profit/loss from sale of intangible assets and property, plant and equipment	2.245	64
	20.543	23.897
Hereof depreciation of right of use assets	10.078	9.663
Hydratech leases several assets including buildings, plants and other fixtures, tools and equipment.		
	2018 DKK'000	2017 DKK'000
5. Financial income		
Exchange rate adjustments	4.274	4.964
Other financial income	422	618
	4.696	5.582
	2018 DKK'000	2017 DKK'000
6. Financial expenses		
Exchange rate adjustments	6.953	4.669
Interest expenses on lease liabilities	3.265	3.412
Financial expenses to external lenders	30.046	41.368
	40.264	49.449

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
7. Income tax		
<i>Current tax:</i>		
Current tax on profit for the year	(1.210)	(2.601)
Adjustment in respect of prior years	0	234
Total current tax	<u>(1.210)</u>	<u>(2.367)</u>
<i>Deferred tax:</i>		
Adjustment of deferred tax asset/liability	(6.906)	857
Adjustment of deferred tax asset/liability in respect of prior years	0	0
Total deferred tax	<u>(6.906)</u>	<u>857</u>
Total income tax	<u>(8.116)</u>	<u>(1.510)</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profit of the consolidated entities as follows:

	2018 DKK'000	2017 DKK'000
Earnings before tax	<u>(67.837)</u>	<u>(46.986)</u>
Calculated tax at Danish statutory rate of 22%	(14.924)	(10.337)
Effect of difference in tax rate in foreign subsidiaries	982	595
Adjustment in respect of prior years	0	234
Income / expenses not subject to tax	5.826	7.998
Tax charge	<u>(8.116)</u>	<u>(1.510)</u>

The changes in local tax rate is primary related to China, India and US.

	2018 DKK'000	2017 DKK'000
8. Proposed distribution of profit/loss		
Retained earnings	(59.721)	(45.476)
	<u>(59.721)</u>	<u>(45.476)</u>

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
9. Change in working capital		
Increase/decrease in inventories	(4.180)	1.381
Increase/decrease in receivables	(15.403)	35.147
Increase/decrease in trade payables etc	74.916	(7.184)
	55.333	29.344

10. Non cash transactions

Conversion of debt to equity	20.808	76.125
	20.808	76.125

11. Reconciliation of liabilities arising from financing activities

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2018	195.556	129.637	325.193
Cash flows	0	(53.002)	(53.002)
Loans raised	0	21.500	21.500
Sale of enterprises	0	(25.000)	(25.000)
Non cash transactions	0	(20.808)	(20.808)
Foreign exchange movement	0	9.633	9.633
Reclassifications	(15.729)	15.729	0
31 December 2018	179.827	77.689	257.516

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2017	303.087	144.320	447.407
Cash flows	(55.756)	(21.732)	(77.488)
Loans raised	12.500	21.750	34.250
Non cash transactions	(60.000)	(16.125)	(76.250)
Foreign exchange movement	0	(2.851)	(2.726)
Reclassifications	(4.275)	4.275	0
31 December 2017	195.556	129.637	325.193

Notes to consolidated financial statements

	Goodwill DKK'000	Completed develop- ment projects DKK'000	Acquired lincences DKK'000	Development projects in progress DKK'000
12. Intangible assets				
2018				
Cost at beginning of year	276.870	19.371	16.253	15.859
Transfer	0	14.447		(14.447)
Additions	0	0	2.439	9.993
Disposals	0	(5.694)	(2.128)	0
Total cost at end of year	276.870	28.124	16.564	11.405
Amortisation at beginning of year	0	(9.467)	(11.303)	0
Amortisation for the year	0	(3.193)	(1.808)	0
Reversal regarding disposals	0	5.444	1.891	0
Total amortisation at end of year	0	(7.216)	(11.220)	0
Carrying amount at end of year	276.870	20.908	5.344	11.405
2017				
Cost at beginning of year	505.933	9.802	16.253	12.534
Adjusted to net value according to IFRS	(229.063)	0	0	0
Adjusted cost at beginning of year	276.870	9.802	16.253	12.534
Exchange rate adjustments	0	0	(263)	0
Transfers	0	9.238	0	(9.238)
Additions	0	331	841	12.563
Disposals	0	0	(475)	0
Total cost at end of year	276.870	19.371	16.356	15.859
Amortisation at beginning of year	(229.063)	(2.975)	(10.449)	0
Adjustment according to IFRS	229.063	0	0	0
Adjusted amortisation at beginning of year	0	(2.975)	(10.449)	0
Exchange rate adjustments	0	0	237	0
Impairment losses for the year	0	(4.537)	0	0
Amortisation for the year	0	(1.955)	(1.566)	0
Reversal regarding disposals	0	0	475	0
Total amortisation at end of year	0	(9.467)	(11.303)	0
Carrying amount at end of year	276.870	9.904	5.053	15.859

Notes to consolidated financial statements

12. Intangible assets continuing

Impairment test Goodwill

Investments in group enterprises include recognition of goodwill at a total value of DKK 276.9m. An impairment test has been prepared to assess the valuation of the recognised goodwill.

Management regards the subsidiary as one CGU. The Group strategy is to use resources, knowledge and production facilities across the business areas. Consequently, there is increased intra-group trading among the divisions, and therefore the impairment test is made on the basis of one CGU.

The most significant assumptions of the impairment test are as follows:

Joint assumptions:

- WACC: 10,96% (11,46 % pre-tax).
- A forecast horizon of 9 years, and subsequently a terminal period. The forecast is in allignment with the strategy implemented for Hydratech Group.
- An expected average growth rate of 9,1% in revenue in the forecast horizon. The growth rate is primarily related to new customers.
- An expected net sales growth rate of 2% in the terminal period

The group consists of three divisions: The Fluid Division, the Wind Division and the Service Division.

For the Fluid Division, the following significant assumptions apply:

- There is a general expectation that the slowly market recovery that begun in 2. half of 2018 will continue with revenue growth at a low level. The increasing price of oil, however, is expected to have a positive impact on revenue but without revenue regaining the previous level.
- An unchanged contribution ratio in the forecast horizon is assumed.
- Continuous adjustment of fixed costs, thus reflecting the level of activity in the forecast horizon.

For the Wind Division, the following significant assumptions apply:

- Growth in revenue is expected to increase as the Chinese customers has been onboarded in 2018 and we have started serial deliveries to a new large customer in the spring of 2019. Revenue has increased with around 50% from first half of 2018 till second half of 2018 and the growth will continue from 2019 to 2020 when these customers are ramping up after which the growth rate is expected to be at a somewhat lower level.
- Revenue to the largest customer in the group is expected to stagnate in the period.
- A slight decline in contribution ratio is assumed at the beginning of the forecast horizon after which this is expected to settle as a result of the current cost-out projects and off-shoring of production to Asia and Eastern Europe.
- Continued focus on fixed costs, that are expected to decrease in 2020.

Notes to consolidated financial statements

12. Intangible assets continuing

Impairment test Goodwill

For the Service Division, the following significant assumptions apply:

- The low level of activity in the off-shore segment has resulted in an increase in the market for servicing of existing parts. In relation to wind turbine development, the strong growth from 2018 will continue in the next few years. Increased focus, among other things, with the employment of a dedicated service director is expected to generate strong growth in revenue within the Wind Division.
- Retention of the contribution ratio over the period up to the terminal period.
- Continued focus on fixed costs, thus reflecting the Group's activities.

The calculation of the value of the recorded goodwill is sensitive to changes in the assumptions applied. If the expected increase in revenue and reduction in fixed costs differs significantly from expectations, it may prove necessary to record a not insignificant goodwill impairment.

Based on the above assumptions and the impairment test performed, it is Management's assessment that there is no indication of impairment of the recognised goodwill.

The table below shows the risk adjusted discount rate and forecast operating cash flow assumptions used in the calculation of value in use for the CGU and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to equal the carrying value:

Value in excess over carrying value (DKK million)	69m
<i>Assumptions use in the calculation of value in use</i>	
WACC	10,96%
Growth rate in the terminal period	1%
Inflation in the terminal period	1%
<i>Change required for the recoverable amount to equal the carrying value</i>	
WACC	12,08%

Development projects in progress

Development projects in progress comprise development of different hydraulic systems to be used in energy production. Costs of development projects consist in all material respects of internal costs of direct wages and direct materials incurred for the development work which is recorded on a continuous basis.

The carrying amount at 31.12.2018 amounts to DKK 11.405k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 12 mio is estimated to complete the development projects in progress.

An amount of DKK 1.146k is expensed in 2018 related to research activities.

Notes to consolidated financial statements

12. Intangible assets continuing

Development projects in progress

Development projects in progress constitute a fundamental factor for the Company's strategy of maintaining the current position as a leader in technology.

Management has carried out an impairment test in 2018 of the carrying amount of development projects in progress. It is assessed that the recoverable amount in the form of value in use exceeds the carrying amount. The value in use is determined on the basis of the expected cash flows based on the budget years 2018-2022 approved by Management and a discount rate before tax of 10%.

Completed development projects

Completed development projects comprise development of hydraulic systems to be used in energy production. The systems are put into operation on a current basis and amortised over the estimated useful life of the product. The projects are continuously reassessed in preparation for a review for impairment, and Management has not found any indication of impairment of the carrying amount.

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
13. Property, plant and equipment			
2018			
Cost at beginning of year	97.201	128.303	17.355
Exchange rate adjustments	0	2.504	737
Additions	253	3.201	1.156
Disposals	0	(415)	(1.208)
Transfers	0	0	(73)
Total cost as at end of year	97.454	133.593	17.967
Depreciation at beginning of year	(26.750)	(116.414)	(13.853)
Depreciation for the year	(9.585)	(1.947)	(1.223)
Reversal regarding disposals	0	415	973
Transfers	0	0	67
Depreciation at end of year	(36.335)	(117.946)	(14.036)
Carrying amount at end of year	61.119	15.647	3.931
Hereof right of use assets:			
Net carrying amount			
31 December 2018	36.768	2.449	1.543
Depreciation expense for the year			
31 December 2018	8.241	959	878
		2018 DKK'000	2017 DKK'000
Amount recognized in profit and loss regarding leases			
Interest		3.265	3.412
Depreciation		10.078	9.663
		13.343	13.075

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
13. Property, plant and equipment continuing 2017			
Cost at beginning of year	42.632	136.158	15.377
Adjustment according to IFRS	54.528	0	2.950
Adjustment cost at beginning of year	97.160	136.158	18.327
Exchange rate adjustments	0	(4.616)	(666)
Additions	41	855	498
Disposals	0	(4.094)	(804)
Total cost at end of year	97.201	128.303	17.355
Depreciation at beginning of year	(17.159)	(120.629)	(13.386)
Adjustment according to IFRS	0	0	0
Adjustment cost at beginning of year	(17.159)	(120.629)	(13.386)
Exchange rate adjustments	0	3.853	(123)
Depreciation for the year	(9.591)	(3.469)	(927)
Reversal regarding disposals	0	3.831	583
Total depreciation at end of year	(26.750)	(116.414)	(13.853)
Carrying amount at end of year	70.451	11.889	3.502
Hereof right of use assets:			
Net carrying amount			
31 December 2017	45.647	1.802	2.845
Depreciation expense for the year			
31 December 2017	8.302	833	528

Notes to financial statements

	Leasehold improve- ments DKK'000	Property, plant and equipment in progress DKK'000
13. Property, plant and equipment continuing		
2018		
Cost at beginning of year	17.412	0
Additions	46	0
Transfers	73	0
Disposals	(4.078)	0
Total cost as at end of year	13.453	0
Depreciation at beginning of year	(10.030)	0
Depreciation for the year	(542)	0
Transfers	(67)	0
Depreciation at end of year	(10.639)	0
Carrying amount at end of year	2.814	0
2017		
Cost at beginning of year	18.074	8
Exchange rate adjustments	(1.086)	0
Additions	565	0
Disposals	(141)	(8)
Total cost at end of year	17.412	0
Depreciation at beginning of year	(9.415)	0
Exchange rate adjustments	622	0
Depreciation for the year	(1.280)	0
Reversal regarding disposals	43	0
Total depreciation at end of year	(10.030)	0
Carrying amount at end of year	7.382	0

Notes to consolidated financial statements

	Other investments DKK'000	Deposits DKK'000
14. Fixed asset investments		
2018		
Cost beginning of year	500	1.887
Additions	<u>0</u>	<u>62</u>
Cost end of year	<u>500</u>	<u>1.949</u>
Impairment losses beginning of year	<u>(316)</u>	<u>0</u>
Impairment losses end of year	<u>(316)</u>	<u>0</u>
Carrying amount end of year	<u>184</u>	<u>1.949</u>
	Other investments DKK'000	Deposits DKK'000
2017		
Cost beginning of year	500	2.254
Disposals	<u>0</u>	<u>(367)</u>
Cost end of year	<u>500</u>	<u>1.887</u>
Impairment losses beginning of year	<u>(316)</u>	<u>0</u>
Impairment losses end of year	<u>(316)</u>	<u>0</u>
Carrying amount end of year	<u>184</u>	<u>1.887</u>
	2018 DKK'000	2017 DKK'000
15. Trade receivables		
Trade receivables	45.822	42.295
Provisions for impairment of trade receivables	<u>(1.120)</u>	<u>(1.120)</u>
	<u>44.702</u>	<u>41.175</u>
Impairment losses at beginning of year	(1.120)	(1.120)
Realised in the year	<u>0</u>	<u>0</u>
Impairment losses at end of year	<u>(1.120)</u>	<u>(1.120)</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The majority of trade receivables are credit insured and therefore provision for impairment of trade receivables according to expected loss ratio according to IFRS 9 is insignificant.

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
16. Contract assets		
Contract assets	47.204	39.149
Provisions for impairment of contract assets	<u>0</u>	<u>0</u>
	<u>47.204</u>	<u>39.149</u>

No lifetime expected losses is expected and therefore no provision for losses have been made. Management have in 2019 delivered all contract assets for 2018 and received payment without any incurred losses.

	2018 DKK'000	2017 DKK'000
17. Receivables from group enterprises		
Receivables from group enterprises	14.825	15.254
Provisions for impairment of group receivables	<u>0</u>	<u>0</u>
	<u>14.825</u>	<u>15.254</u>

Management calculates provision based on 12 month expected losses. Management have not identified objective indication of credit loss. Management have not made provisions for 12-month expected losses in 2018 and 2017. Management assess the need for provisions for 12 month expected losses as well as lifetime expected losses based on budgets for each group enterprises.

Notes to consolidated financial statements

18. Deferred tax assets and deferred tax liabilities

2018 DKK'000	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax beginning of year	6.639	1.599	866	(221)	(10.841)	391	(1.567)
Charge to the income statement	995	(308)	1.923	(21)	(4.581)	(242)	(2.234)
Deferred tax end of year	7.634	1.291	2.789	(242)	(15.422)	149	(3.801)

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	7.838
Deferred tax liability	4.037
Deferred tax asset year end, net	3.801

2017 DKK'000	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax beginning of year	6.597	(82)	673	(541)	0	285	6.932
Charge to the income statement	42	1.681	193	320	(10.841)	106	(8.499)
Deferred tax end of year	6.639	1.599	866	(221)	(10.841)	391	(1.567)

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	10.999
Deferred tax liability	9.432
Deferred tax asset year end, net	1.567

Notes to consolidated financial statements

19. Share Capital

The share capital in Hydratech Industries Holding A/S is divided into following share classes:

31 December 2017

Share Class	Number of Shares (nominel DKK)	Share Capital
A Shares	47.504	47.504
B Shares	271.414	271.414
C Shares	14.760.000	14.760.000
Total	15.078.918	15.078.918

31 December 2018

Share Class	Number of Shares (nominel DKK)	Share Capital
A Shares	47.504	47.504
B Shares	271.414	271.414
C Shares	14.761.082	14.761.082
Total	15.080.000	15.080.000

Each class C preference share, which have a par value of DKK 1, carry a preference right to distribution of proceeds to shareholders in an aggregate amount of DKK 76,9 million with the addition of an accumulating compounding return of 10,0% annually from the date of the initial issuance of the Class C preference shares.

Upon the preference right of the Class C shares having been satisfied, Class A and B preference share, which have a par value of DKK 1, carry a preference right to dividend distribution of proceeds pro rata in an aggregate amount of DKK 58,9 million with the addition of an accumulating compounding return of 10% annually from the date of the initial issuance of the Class A and B shares.

	<u>Number</u>	<u>Nominal value DKK'000</u>	<u>Share of contributed capital %</u>
Treasury shares			
Holding of treasury shares:			
A Shares beginning of 2018	14.826	15	0,100%
Adjustment regarding disposal of partial interest	0	0	-0,002%
Total treasury shares, A Shares	14.826	15	0,098%

Share of contributed capital has been decreased in connection with share of capital in 2018.

Notes to consolidated financial statements

	Instalments within 12 months 2018 DKK'000	Instalments between 12-60 months 2018 DKK'000	Outstanding after 60 months DKK'000
20. Liabilities other than provisions			
Subordinate loan capital	2.088	115.382	0
Mortgage debts	801	6.293	0
Bank loans	37.500	0	0
Other liabilities	2.024	23.652	0
Lease liabilities	8.409	34.500	0
	50.822	179.827	0

	Instalments within 12 months 2017 DKK'000	Instalments between 12-60 months 2017 DKK'000	Outstanding after 60 months DKK'000
Subordinate loan capital	0	104.420	0
Mortgage debts	1.685	7.073	2.322
Bank loans	40.000	12.500	0
Other liabilities	305	27.318	0
Lease liabilities	7.778	41.923	0
	49.768	193.234	2.322

21. Prepayments received from customers

Prepayments received from customers primarily relates to projects in the wind and fluidmor division. Production has not yet begun hence no revenue is recognized in 2018. The projects is expected to be delivered in 2019.

22. Mortgages and securities

Mortgage debt is secured by way of mortgage on properties. The mortgage also comprises the plant and machinery deemed part of the property.

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 15.646k nominal.

Bank loans are secured by way of a company charge.

The carrying amount of mortgaged properties is DKK 24.351k.

Notes to consolidated financial statements

	<u>Registered in</u>	<u>Equity- interest %</u>
23. Subsidiaries		
Hydratech Industries A/S	Silkeborg	85,83
Hydratech Industries Fluid Power Ltd.	China	85,83
Hydratech Industries Fluid Power Inc.	USA	85,83
Hydratech Hong Kong Ltd.	Hong Kong	85,83
Hydratech Industries Fluid Power Asia Pacific Private Ltd.	Singapore	85,83
Hydratech Industries Wind Power India Pvt. Ltd.	India	85,83
Hydratech Industries Wind Power Ltd.	China	85,83
Hydratech Industries Czech Republic s.r.o.	Czech Rep.	85,83

24. Related parties and group relations

HTHH ApS, Hjørring holds the majority of the shares in Hydratech Industries Holding A/S and thus has a controlling interest.

Anpartsselskabet af 4. Juli 2008, Kokkedal holds the majority of the shares in HTHH ApS and thus has a controlling interest.

BWB Partners I K/S, Kokkedal holds the majority of the shares in Anpartsselskabet af 4. Juli 2008 and thus has a controlling interest.

Transactions with parent entities.

	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>
Financial receivables	16.327	16.202

Besides the above listed transactions, there has been made a conversion of debt of DKK 20.808k by the shareholders.

Hydratech Industries Holding A/S has sold shares in Hydrach Industries A/S to Anpartsselskabet af 4. Juli 2008 in 2018.

Notes to consolidated financial statements

25. Financial risks and financial instruments

With reference to note 3 certain employees have in November 2018 acquired warrants in the parent Hydratech Industries Holding A/S at the fair value of the warrants and shares at the date of acquisition. Note 3 also includes staff cost to management.

Financial risk factors refer to fluctuations in the Group's results, cash flows and financial position due to changes in financial exposure. The overall objective of risk monitoring and control is to provide cost-effective financing and to minimise potential adverse impacts from market fluctuations.

Exchange rate risk

The Group's business activities are predominantly based in DKK, USD and EUR, and many credit facilities are primarily denominated in DKK and EUR. Significant investments in foreign entities are financed in USD, DKK and EUR. Material currency exposure for the Group is related to translation risks of foreign subsidiaries, and the loans taken out to finance these investments.

The Group is mainly exposed to the currencies USD and CNY.

The following table details the Company's sensitivity to a 10% increase in USD and CNY. The sensitivity analysis includes investments in relevant subsidiaries and external debt, where the debt is denominated in the relevant currency. A positive number indicates an increase in profit/(loss) or equity where the currency strengthens 10% against DKK at the balance sheet date. A 10% weakening of the currency would have a comparable but opposite impact on profit/(loss) and equity.

mDKK	USD impact		CNY impact	
	2017	2018	2017	2018
Impact on profit/(loss) from translation of debt and investments in subsidiaries	0,1	0,1	0,2	0,2
Impact on equity from translation of debt and investments in subsidiaries	0,2	0,2	0,6	0,6

Interest rate risk

The interest rates of credit facilities and mortgages are variable, and the change in interest rates are monitored monthly.

Interest rate sensitivity analysis:

If interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would decrease by DKK 8,4m (2017: decrease by DKK 12,2m) due to the Company's exposure to interest rates on variable rate borrowings.

The sensitivity analysis have been determined based on the exposure to floating rate liabilities and derivatives at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

Notes to consolidated financial statements

25. Financial risks and financial instruments continuing

Liquidity risk

The Group has entered into a committed financing agreement with credit facilities enabling both the current operations and planned expansion. Treasury management is centralised and ensures that sufficient financial resources are available to meet planned requirements. This is done by monitoring the cash flow on a weekly basis matches the planned cash needs. The Group has agreed on certain covenants towards SEB.

The following table details the Group's liquidity analysis for its financial liabilities based on contractual maturities. The amounts specified represent amounts for payment.

2018	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Subordinated loan capital	8.255	6.058	139.612	0	153.925
Mortgage debts	410	410	6.328	0	7.148
Bank loans	1.287	65.654	0	0	66.941
Lease liabilities	6.312	6.146	33.884	7.369	53.711
Prepayments from costumers	48.265	0	0	0	48.265
Trade payables	136.235	0	0	0	136.235
Other payables	37.472	31.672	0	0	69.144
Total	238.236	109.940	179.824	7.369	535.369
2017	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Subordinated loan capital	5.482	5.482	126.348	0	137.312
Mortgage debts	855	854	4.804	2.341	8.854
Bank loans	22.647	22.247	99.759	0	144.653
Lease liabilities	6.617	6.452	36.327	16.359	65.755
Prepayments from costumers	5.206	0	0	0	5.206
Trade payables	96.332	0	0	0	96.332
Other payables	35.706	28.206	0	0	63.912
Total	172.845	63.241	267.238	18.700	522.024

Credit risk

Credit risk mainly relates to trade debtors, contract assets, other receivables and cash at banks. The aggregate amounts recognised under these items in the balance sheet constitute the maximum credit risk. Receivables relate to sale of goods, spareparts and service. The handling of credit risk is done by the global credit function which monitors the creditworthiness of existing and new customers and assists in collection. The Group credit insures most of the trade receivables and receive prepayments in order to reduce the credit risk. The Group conducts individual assessment of customers' creditworthiness and credit lines are managed globally. Cash is held with banks with high credit ratings. The Group has entered factoring agreements.

Notes to consolidated financial statements

25. Financial risks and financial instruments continuing

Capital structure

The Company's management assesses whether the Company's capital structure is in line with the interests of the company and its shareholders. The overall objective is to ensure a capital structure that supports long-term profitable growth. Hydratech Industries Holding A/S has in 2018 received capital injection of 20.808 tDKK including conversion of debt.

26. Events after the reporting period

The Group have in 2019 announced close-down of the production in the Silkeborg location. Production will be handled by other Group entities. There have been no post-balance sheet events material to this Annual Report which have not been recognised or mentioned.

Parent income statement for 2018

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Other operating income		3.799	2.994
Other external expenses		(1.053)	(5.530)
Gross profit/loss		2.746	(2.536)
Staff costs	2	(4.579)	(3.822)
Operating profit/loss		(1.833)	(6.358)
Income from investments in group enterprises		39.378	(13.829)
Other financial expenses	3	(21.903)	(21.988)
Profit/loss before tax		15.642	(42.175)
Tax on profit/loss for the year	4	2.930	3.928
Profit/loss	5	18.572	(38.247)

Statement of comprehensive income

Profit/loss for the year	18.572	(38.247)
Other comprehensive income		
Items that can be reclassified to the income statement when certain conditions are met:		
Exchange differences, foreign entities	(2.513)	2.492
Total comprehensive income	16.059	(35.755)

Parent cash flow statement for 2018

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Operating profit/loss		(1.833)	(6.358)
Working capital changes	6	(11.543)	31.203
Cash flow from ordinary operating activities		(13.376)	24.845
Financial income paid		(21.903)	(18.263)
Income taxes refunded/(paid)		2.175	1.284
Cash flows from operating activities		(19.728)	(16.979)
Capital contribution to subsidiaries		(1.750)	(8.750)
Sale of non-controlling interests in subsidiary		20.000	0
Cash flows from investing activities		18.250	(8.750)
Loans raised		20.000	0
Instalments on loans etc		(5.200)	(39.068)
Cash increase of capital		0	40.000
Cash flows from financing activities		(14.800)	932
Increase/decrease in cash and cash equivalents		(54)	48
Cash and cash equivalents beginning of year		138	90
Cash and cash equivalents end of year		84	138
Cash and cash equivalents at year-end are composed of:			
Cash		84	138
Cash and cash equivalents end of year		84	138

Non cash transactions	7
Reconciliation of liabilities from financial activities	8

Parent balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>	<u>1 January 2017 DKK'000</u>
Investments in group enterprises		283.882	249.183	311.769
Fixed asset investments	9	283.882	249.183	311.769
Non-current assets		283.882	249.183	311.769
Receivables from group enterprises	10	18.390	16.203	35.495
Deferred tax	11	7.587	10.517	13.554
Other receivables		0	350	71
Income tax receivable		0	2.175	0
Prepayments		0	306	1.100
Receivables		25.977	29.551	50.220
Cash		84	138	90
Current assets		26.061	29.689	50.310
Assets		309.943	278.872	362.079

Parent balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>	<u>1 January 2017 DKK'000</u>
Contributed capital	12	15.080	15.079	15.079
Retained earnings		132.484	95.618	75.248
Equity		147.564	110.697	90.327
Subordinate loan capital	13	115.382	104.420	149.447
Bank loans	13	0	0	67.000
Other payables	13	23.113	27.138	25.274
Non-current liabilities		138.495	131.558	241.721
Current portion of long-term liabilities other than provisions	13	2.088	18.250	15.000
Bank loans		0	0	8.280
Trade payables		3.314	4.905	6.751
Payables to group enterprises		18.482	13.171	0
Other payables		0	291	0
Current liabilities		23.884	36.617	30.031
Liabilities		162.379	168.175	271.752
Equity and liabilities		309.943	278.872	362.079
Contingent liabilities	14			
Mortgages and securities	15			
Related parties with controlling interest	16			
Financial risks and financial instruments	17			
Events after the reporting period	18			

Parent statement of shareholders' equity

DKK'000	Share capital	Retained earnings	Foreign translation adjustment	Reserve for net revalu- ation under the equity method	Total
2018					
Shareholders equity at beginning of year	15.079	95.529	89	0	110.697
Profit for the year	0	18.572	0	0	18.572
Other comprehensive income	0	0	(2.513)	0	(2.513)
Total comprehensive income	0	18.572	(2.513)	0	16.059
Increase of capital	1	20.807	0	0	20.808
Transactions with owners	1	20.807	0	0	20.808
Shareholders equity at end of year	15.080	134.908	(2.424)	0	147.564
2017					
Shareholders equity at beginning of year	15.079	70.794	(2.403)	0	83.470
Adjustment according to IFRS	0	6.857	0	0	6.857
Adjusted equity at beginning of year	15.079	77.651	(2.403)	0	90.327
Profit for the year	0	(38.247)	0	0	(38.247)
Other comprehensive income	0	0	2.492	0	2.492
Total comprehensive income	0	(38.247)	2.492	0	(35.755)
Increase of capital	0	56.125	0	0	56.125
Transactions with owners	0	56.125	0	0	56.125
Shareholders equity at end of year	15.079	95.529	89	0	110.697

The capital was in 2017 increased by DKK 0k nominal, whereby equity has been increased by a total of DKK 56.125k.

The capital was in 2018 increased by DKK 1k nominal, whereby equity has been increased by a total of DKK 20.808k.

Number of shares is 15.080.000 with the nominal value of DKK 15.080.000.

Notes to parent financial statements

1. Basis of preparation

The separate financial statements of Hydratech Industries Holding A/S have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act.

1.1 Effect of IFRS

The separate financial statements for 2018 are the first financial statements of the parent to be prepared in accordance with IFRS.

The net effects of the transition to IFRS on the income statement for 2017 and equity at 1 January 2017 and 31 December 2017 respectively are identical to the net effects in the consolidated financial statements.

In the separate financial statements of the parent, the accumulated effects of the transition related to subsidiaries are reflected in Investments in subsidiaries in the below table. For an explanation of the significant effects of the transition reference is made to note 1 of the consolidated financial statements.

The effects of the transition to IFRS on the income statement and balance sheet position are shown in the overview below with explanatory notes:

	1 January 2017			2017	31 December 2017		
	Assets	Liabilities	Equity	Profit/loss	Assets	Liabilities	Equity
Applied after Danish GAAP	355.222	271.752	83.470	(52.204)	258.058	168.175	89.883
Investments in subsidiaries	6.857	0	6.857	0	0	0	6.857
Reversed amortisation of goodwill	0	0	0	20.814	20.814	0	20.814
Other changes	0	0	0	(6.857)	0	0	(6.857)
Adjustments Total	0	0	0	20.814	20.814	0	20.814
Applied after IFRS	362.079	271.752	90.327	(38.247)	278.872	168.175	110.697

Other comprehensive income

Profit/loss for the year

Exchange difference, foreign entities

2.492

Total comprehensive income

(35.755)

1.2 Key Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Investment in Group enterprises and group receivables

Hydratech measure investment in group enterprises according to the equity method. Hydratech has group enterprises with a negative equity. Receivables from group enterprises are written down to net realisable value based on a specific assessment with underlying budget and discounted cash flow models from each entity in the group. Provision is recognised if Hydratech has an obligation to cover liabilities, and it is probable that such obligation is imminent.

Notes to parent financial statements

1.2 Key Sources of estimation uncertainty continuing

Investment in Group enterprises and group receivables continuing

Based on the budgets including cashflow for the group enterprises, the management in the subsidiary Hydratech Industries A/S have reversed provisions made in Hydratech USA and Hydratech China for DKK 38m which was expensed in the financial statement in 2017 and earlier.

	2018 DKK'000	2017 DKK'000	
2. Staff costs			
Wages and salaries	4.569	3.816	
Other staff costs	10	6	
	4.579	3.822	
Average number of employees	2	2	
	Top ma- nagement DKK'000	Other top manage- ment DKK'000	Total DKK'000
2018			
Remuneration and salary	402	306	708
Pension, company contributions	0	11	11
Benefits (car, housing, phone etc.)	19	32	51
Cost at end of year	421	349	770
2017			
Remuneration and salary	380	407	787
Pension, company contributions	0	17	17
Benefits (car, housing, phone etc.)	25	9	34
Cost at end of year	405	433	838

Referring to section 98(b3) of the Danish Financial Statements Act, the remuneration of the Board of Directors and the Executive Board is listed together.

The Executive Board and a number of members of other top management are comprised by special bonus arrangements, which becomes effective at sale of Hydratech Industries Holding A/S if certain enterprise values are met. The bonus arrangements are maximized at 3 mDKK and for other top management these vary between 0,3-1,5 mDKK of the individual basic salary.

Niether the Executive Board nor members of other top management are comprised by special bonus arrangements besides the above mentioned exitbonus.

Notes to parent financial statements

2. Staff costs continuing

Certain employees and members of management have in November 2018 acquired warrants and shares in Hydratech Industries Holding A/S at the fair value of the warrants at the date of acquisition. The warrants outstanding at 31 December 2018 are exercisable at the time Hydratech Industries Holding A/S is sold and terms of employment is not terminated. However, exercise also requires that certain thresholds for increase in the fair value of the shares in Hydratech Industries A/S are achieved.

As the warrants are purchased by the employees at their fair value, and are equity instruments in Hydratech Industries Holding A/S, no amounts related to the warrants or shares are recognized.

	Warrants number	Excercise prices DKK
Number of outstanding warrants		
Beginning of year 2018	0	0
Issued during the period	4.755.000	1
End of year 2018	4.755.000	1
	2018 DKK'000	2017 DKK'000
3. Financial expenses		
Financial expenses from group enterprises	0	0
Financial expenses to external lenders	21.903	21.988
	21.903	21.988
	2018 DKK'000	2017 DKK'000
4. Income tax		
Current tax		
Current tax on profit for the year	0	0
Adjustment in respect of prior years	0	0
Total current tax	0	0
Deferred tax		
Adjustment of deferred tax asset	(2.930)	(862)
Adjustment of deferred tax asset in respect of prior years	0	(3.066)
Total deferred tax	(2.930)	(3.928)
Total income tax	(2.930)	(3.928)

Notes to parent financial statements

	2018 DKK'000	2017 DKK'000
4. Income tax continuing		
Earnings before tax	15.642	(42.175)
Income from equity method used towards subsidiaries	(39.378)	13.289
Earnings before tax, Parent company	(23.736)	(28.886)
Calculated tax at Danish statutory rate of 22.0%	(5.222)	(6.355)
Adjustment in respect of prior years	2.292	2.427
Tax charge	(2.930)	(3.928)
	2018 DKK'000	2017 DKK'000
5. Proposed distribution of profit/loss		
Retained earnings	18.572	(38.247)
	18.572	(38.247)
	2018 DKK'000	2017 DKK'000
6. Change in working capital		
Increase/decrease in receivables	3.469	19.808
Increase/decrease in trade payables etc.	(15.012)	11.395
	(11.543)	31.203
	2018 DKK'000	2017 DKK'000
7. Non cash transactions		
Debt conversion	25.000	76.125
	25.000	76.125

Notes to parent financial statements

8. Reconciliation of liabilities arising from financing activities

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2018	131.558	18.250	149.808
Cash flows	0	(5.200)	(5.200)
Loans raised	0	20.000	20.000
Non cash transactions, transactions with owners	0	(25.000)	(25.000)
Foreign exchange movement	0	995	995
Reclassifications	6.957	(6.957)	0
31 December 2018	138.515	2.088	140.603
	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2017	241.721	15.000	256.721
Cash flows	(31.913)	(7.155)	(39.068)
Non cash transactions	(60.000)	(16.125)	(76.125)
Acquisition	0	8.750	8.750
Foreign exchange movement	0	(470)	(470)
Reclassifications	(18.250)	18.250	0
31 December 2017	131.558	18.250	149.808

Notes to parent financial statements

	Investments in group enterprises DKK'000
9. Fixed asset investments	
2018	
Cost beginning of year	543.250
Additions	21.750
Disposals	(26.150)
Cost end of year	538.850
Revaluations beginning of year	(294.067)
Exchange rate adjustments	(2.513)
Share of profit/loss for the year	1.476
Adjustment of preference right to distribution	25.535
Reversal regarding disposals	14.601
Revaluations end of year	(254.968)
Carrying amount end of year	283.882

The carrying amount of goodwill is DKK 237.638k.

In 2018, Management has made a reversal of DKK 37,700k regarding provision for loss on receivables from group enterprises made in prior years. Group enterprises with negative equity value which have not been expensed amounts to DKK 40,048k as of 31 December 2018 including the above mentioned reversal of provision for loss on receivables from group enterprises.

Hydratech Industries Holding A/S has a preference right to distribution in Hydratech Industries A/S.

	Investments in group enterprises DKK'000
2017	
Cost beginning of year	594.861
Additions	8.750
Disposals	(60.361)
Cost end of year	543.250
Revaluations beginning of year	(283.092)
Adjustment according to IFRS	23.130
Exchange rate adjustments	2.492
Share of profit/loss for the year	(20.604)
Adjustment of preference right to distribution	(22.982)
Reversal regarding disposals	6.989
Revaluations end of year	(294.067)
Carrying amount end of year	249.183

The carrying amount of goodwill is DKK 249.183k.

Notes to parent financial statements

	2018 DKK'000	2017 DKK'000
10. Receivables from group enterprises		
Receivables from group enterprises	18.390	16.203
Provisions for impairment of group receivables	0	0
	18.390	16.203

Management calculates provision based on 12 month expected losses. Management have not identified objective indication of credit loss. Management have not made provisions for 12-month expected losses in 2018 and 2017. Management assess the need for provisions for 12 month expected losses as well as lifetime expected losses based on budgets for each group enterprises.

11. Deferred tax assets and deferred tax liabilities

2018 DKK'000	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax end of year	0	0	0	0	10.517	0	10.517
Charge to the income statement	0	0	0	0	(2.930)	0	(2.930)
Deferred tax end of year	0	0	0	0	7.587	0	7.587

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	7.587
Deferred tax liability	0
Deferred tax asset year end, net	7.587

2017 DKK'000	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax end of year	0	0	0	0	13.554	0	13.554
Charge to the income statement	0	0	0	0	(3.037)	0	(3.037)
Deferred tax end of year	0	0	0	0	10.517	0	10.517

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	10.517
Deferred tax liability	0
Deferred tax asset year end, net	10.517

Notes to parent financial statements

12. Share Capital

The share capital in Hydratech Industries Holding A/S is divided into following share classes:

31 December 2017

Share Class	Number of Shares (nominel DKK)	Share Capital
A Shares	47.504	47.504
B Shares	271.414	271.414
C Shares	14.760.000	14.760.000
Total	15.078.918	15.078.918

31 December 2018

Share Class	Number of Shares (nominel DKK)	Share Capital
A Shares	47.504	47.504
B Shares	271.414	271.414
C Shares	14.761.082	14.761.082
Total	15.080.000	15.080.000

Each class C preference share, which have a par value of DKK 1, carry a preference right to distribution of proceeds to shareholders in an aggregate amount of DKK 76,9 million with the addition of an accumulating compounding return of 10,0% annually from the date of the initial issuance of the Class C preference shares.

Upon the preference right of the Class C shares having been satisfied, Class A and B preference share, which have a par value of DKK 1, carry a preference right to dividend distribution of proceeds pro rata in an aggregate amount of DKK 58,9 million with the addition of an accumulating compounding return of 10% annually from the date of the initial issuance of the Class A and B shares.

In 2017 A Shares has had preference rights.

	<u>number</u>	<u>Nominal value DKK'000</u>	<u>Share of contributed capital %</u>
Treasury shares			
Holding of treasury shares:			
A Shares	14.826	15	0,100%
Adjustment regarding disposal of partial interest	0	0	-0,002%
Total treasury shares, A Shares	14.826	15	0,098%

Share of contributed capital has been decreased in connection with share of capital in 2018.

Notes to parent financial statements

	Instalments within 12 months 2018 DKK'000	Instalments between 12-60 months 2018 DKK'000	Outstanding after 60 months DKK'000
13. Liabilities			
Subordinate loan capital	2.088	115.382	0
Other payables	0	23.113	0
	2.088	138.495	0

	Instalments within 12 months 2017 DKK'000	Instalments between 12-60 months 2017 DKK'000	Outstanding after 60 months DKK'000
Subordinate loan capital	0	104.420	0
Bank loans	18.250	0	0
Other payables	0	27.138	0
	18.250	131.558	0

14. Contingent liabilities

The Entity participates in a Danish joint taxation arrangement in which Anpartsselskabet af 4. Juli 2008 serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore alternatively liable from the financial year 2013 for income taxes etc for the jointly taxed entities, but only for the share by which the Entity is included in the Group, and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these entities.

15. Mortgages and securities

Investments in the subsidiary are pledged as collateral for the Group's debt to Skansinaviske Enskilda Banken AB (SEB).

Shares in Hydratech Industries A/S, CVR-no. 31 59 27 20 have been pledged with first priority by Skandinaviska Enskilda Banken AB (publ), Kungsträdsgårdsgatan 8, 106 40 Stockholm, Sweden ("SEB").

16. Related parties with controlling interest

HTHH ApS, Hjørring holds the majority of the shares in Hydratech Industries Holding A/S and thus has a controlling interest.

Anpartsselskabet af 4. Juli 2008, Kokkedal holds the majority of the shares in HTHH ApS and thus has a controlling interest.

Notes to parent financial statements

16. Related parties with controlling interest continuing

BWB Partners I K/S, Kokkedal holds the majority of the shares in Anpartsselskabet af 4. Juli 2008 and thus has a controlling interest. BWB Partners I K/S is the ultimate parent of Hydratech Industries A/S.

Transactions with parent entities.

	2018 DKK'000	2017 DKK'000
Financial receivables	16.327	16.202

Transactions with group entities.

	2018 DKK'000	2017 DKK'000
Management fee	3.798	3.010
Financial receivables	18.482	13.130

Besides the above listed transactions, there has been made a conversion of debt of DKK 20.808k by the shareholders.

Hydratech Industries Holding A/S has sold shares in Hydrach Industries A/S to Anpartsselskabet af 4. Juli 2008 in 2018.

With reference to note 3 certain employees have in November 2018 acquired warrants in the parent Hydratech Industries Holding A/S at the fair value of the warrants and shares at the date of acquisition. Note 3 also includes staff cost to management.

17. Financial risks and financial instruments

Financial risk factors refer to fluctuations in the Company's results, cash flows and financial position due to changes in financial exposure. The overall objective of risk monitoring and control is to provide cost-effective financing and to minimise potential adverse impacts from market fluctuations.

Exchange rate risk

The Company's business activities are predominantly based in DKK, and credit facilities are denominated in DKK, thus the company is not exposed to significant exchange rate risk.

Interest rate risk

The interest rates of credit facilities (subordinary loan capital) are fixed, and therefore will an increase or decrease in the interest rates not effect on the Company's exposure to interest rates.

Notes to parent financial statements

17. Financial risks and financial instruments continuing

Liquidity risk

Hydratech Industries Holding A/S has entered into a committed financing agreement with credit facilities enabling both the current operations and planned expansion. Treasury management is centralised and ensures that sufficient financial resources are available to meet planned requirements. This is done by monitoring the cash flow on a weekly basis matches the planned cash needs. Hydratech Industries Holding A/S has agreed on certain covenants towards SEB.

The following table details the Company's liquidity analysis for its financial liabilities based on contractual maturities. The amounts specified represent amounts for payment.

2018	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Subordinated loan capital	8.255	6.058	139.612	0	153.925
Trade payables	3.314	0	0	0	3.314
Payables to group enterprises	18.482	0	0	0	18.482
Other payables	0	0	23.113	0	23.113
Total	30.051	6.058	162.725	0	198.834
2017	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Subordinated loan capital	5.482	5.482	126.348	0	137.312
Bank loans	9.581	9.353	0	0	18.934
Trade payables	4.905	0	0	0	4.905
Payables to group enterprises	13.171	0	0	0	13.171
Other payables	0	0	0	0	0
Total	33.139	14.835	126.348	0	174.322

Credit risk

Credit risk mainly relates to receivables from group enterprises. The aggregate amounts recognised under these items in the balance sheet constitute the maximum credit risk. The handling of credit risk is done by the global credit function which monitors the creditworthiness of the subsidiaries. Cash is held with banks with high credit ratings. Hydratech Industries Holding A/S has entered factoring agreements.

Capital structure

The Company's management assesses whether the Company's capital structure is in line with the interests of the company and its shareholders. The overall objective is to ensure a capital structure that supports long-term profitable growth. Hydratech Industries Holding A/S has in 2018 received capital injection of 20.808 tDKK including conversion of debt.

18. Events after the reporting period

There have been no post-balance sheet events material to this Annual Report which have not been recognised or mentioned.

Accounting policies

Reporting class

The 2018 annual report of the parent company is presented in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for the financial statements of class C enterprises, cf. the Danish Executive Order on IFRS (IFRS-bekendtgørelsen) issued in accordance with the Danish Financial Statements Act.

The accounting policies for the Parent Company and for the Hydratech Industries Group are identical except for the situations mentioned below.

Changes in accounting policies as a result of the adoption of IFRS

The 2018 annual report is the first annual report to be prepared in accordance with IFRS.

Upon transition to IFRS, IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. According to this standard, the opening balance sheet as at 1 January 2017 and the comparative figures for 2017 have been prepared in accordance with the standards and interpretations applicable as at 31 December 2018. The opening balance sheet as at 1 January 2017 has been prepared as if these standards and interpretations had always been applied, except for situations where the special transition exemptions in IFRS 1.

The monetary effect of the changes in accounting policies as a result of the transition to reporting according to IFRS is specified in note 1.

Situations, where the accounting policies of the Parent Company deviate from the Group's Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus or less unamortised positive, or negative, goodwill and plus or less unrealised intra-group profits or losses.

The Parent's share of the enterprises' profits or losses after elimination of unrealised intra-group profits and losses and less amortisation of goodwill is recognised in the income statement.

Subsidiaries with a negative equity value are measured at zero value, and any receivables from these enterprises are written down by the Parent's share of such negative equity if it is deemed irrecoverable. If the negative equity exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

The purchase method is applied in the acquisition of investments in subsidiaries.

Accounting policies

Corporation tax

The Company is jointly taxed with all of its Danish subsidiaries, its ultimate parent Anpartsselskabet af 4 juli 2018 and all subsidiaries of Anpartsselskabet af 4 juli 2018, with Anpartsselskabet af 4 juli 2018 serving as the administration company. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates with functional currencies other than DKK, the share of results for the year is translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. The share of the net assets of subsidiaries and associates are translated using the exchange rates at the balance sheet date.

Income statement

Revenue

Hydratech recognizes revenue from the following major sources:

- Fluid power contract sales
- Wind power contract sales
- Spare-part sales

Revenue is measured based on the consideration specified in a contract with a customer. Revenue from contracts with customers is recognised when control is transferred to the customer, and consideration is expected to be received. Revenue from contracts to deliver wind and fluid contract sales with a high degree of customisation is recognised as the wind power and fluid power units are constructed based on the stage of completion of the individual contracts (turnkey projects).

Control is transferred upon production from OEM sales in the fluid and wind division and consequently Hydratech recognize revenue over time.

Revenue from spare-part sales is recognised in the income statement when control is transferred to the customer, which is considered to be upon delivery. Revenue from spare-parts is recognized at a point in time. Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, were recognised as revenue over the term of the agreement as the services were provided.

Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Accounting policies

Other external expenses

Other external expenses include expenses relating to ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for company staff.

Depreciation and amortisation

Amortisation and depreciation relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises – Separate financial statements

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income from group enterprises

Other financial income from group enterprises comprises interest income etc on receivables from group enterprises.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc. recognized applying the effective interest method

Financial expenses from group enterprises

Financial expenses from group enterprises comprise interest expenses etc from payables to group enterprises, recognized applying the effective interest method.

Other financial expenses

Other financial expenses comprise interest expenses, including net capital losses on payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised in other comprehensive income by the portion attributable to entries recognized in other comprehensive income.

Accounting policies

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress and acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are attributable to the development projects.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. For development projects, protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. The amortisation periods used are 5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment of goodwill is recognised directly in profit/(loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit/(loss) on disposal

Accounting policies

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	25-30 years
Plant and machinery	3-15 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	5-10 years

Estimated useful lives and residual values are reassessed annually. Residual values on buildings contains 11.339 tDKK. Residual values on other assets contains 0 tDKK.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises – Separate financial statements

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus or minus unamortised goodwill and plus or minus unrealised intra-group profits or losses.

Group enterprises with negative equity are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If Hydratech Industries A/S has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

Accounting policies

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Trade receivables are recognised initially at their transaction price and subsequently measured at amortised cost, which usually corresponds to the nominal value less lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experience of the debtors and an analysis of the debtor's current financial position, adjusted for general economic conditions of the market in which the debtor operates.

Hydratech recognises a loss allowance for expected credit losses and writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. The amount of write-downs is recognised in the income statement under sales and distribution costs. Subsequent recoveries of amounts previously written down are credited against sales and distribution costs.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

Accounting policies

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Leases

Hydratech assesses whether a contract is or contains a lease, at inception of the contract. Hydratech recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, Hydratech recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Hydratech uses its incremental borrowing rate.

The right-of-use asset is initially measured at the amount of the corresponding lease liability with the addition of lease payments made at or before the commencement day, any initial direct costs, and obligation for costs to dismantle or remove a leased asset, restore the site on which it is located or restore the underlying asset. Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Accounting policies

Cash flows from investing activities comprise payments in connection with purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank loans.

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