

**Hydratech Industries A/S**  
Suensonsvej 14  
8600 Silkeborg  
Central Business Registration  
No 83 45 51 28

## **Annual report 2018**

The Annual General Meeting adopted the annual report on 03.06.2019

### **Chairman of the General Meeting**

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Name:

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## Entity details

### Entity

Hydratech Industries A/S  
Suensonsvej 14  
8600 Silkeborg

Central Business Registration No: 83455128  
Registered in: Silkeborg  
Financial year: 01.01.2018 - 31.12.2018

### Executive Board

Knud Andersen  
Rasmus Sandorff Jacobsen

### Board of Directors

John Staunbjerg Dueholm, Chairman  
Esben Bay Jørgensen  
Knud Andersen

### 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 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 financial statements give a true and fair view of the Entity'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.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

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

Silkeborg, 03.06.2019

### Executive Board

Knud Andersen

Rasmus Sandorff Jacobsen

### Board of Directors

John Staunbjerg Dueholm  
Chairman

Esben Bay Jørgensen

Knud Andersen

## Independent auditor's report

### To the shareholders of Hydratech Industries A/S

#### Opinion

We have audited the financial statements of Hydratech Industries 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. The 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 financial statements give a true and fair view of the 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 financial statements section of this auditor's report. We are independent of the Entity 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 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 financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the 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.

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

## Independent auditor's report

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the 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 financial statements unless Management either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent auditor's report

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

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

Aarhus, 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

	<b>IFRS 2018 DKK'000</b>	<b>IFRS 2017 DKK'000</b>	<b>DK GAAP 2016 DKK'000</b>	<b>DK GAAP 2015 DKK'000</b>	<b>DK GAAP 2014 DKK'000</b>
<b>Financial highlights</b>					
<b>Key figures</b>					
Revenue	385.006	413.033	455.428	573.899	549.073
Gross profit/loss	60.660	104.112	121.991	180.030	180.209
Operating profit/loss	(12.709)	11.955	27.973	1.564	54.726
Net financials	(12.584)	(12.342)	(5.429)	(2.007)	(1.754)
Profit/loss for the year	1.476	(20.604)	(6.073)	(5.862)	20.779
Total assets	336.720	303.157	307.185	276.641	290.186
Investments in property, plant and equipment	4.656	1.046	1.632	33	16
Equity	46.244	25.535	28.040	44.954	50.816
<b>Ratios</b>					
Gross margin (%)	15,8	25,2	26,8	31,4	32,8
Net margin (%)	0,4	(5,0)	(1,3)	(1,0)	3,8
Return on equity (%)	4,1	(76,9)	(16,6)	(17,6)	50,4
Equity ratio (%)	13,7	8,4	9,1	16,3	17,5

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

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 Statements Act. The effect of the change to IFRS is described in note 1.

<b>Ratios</b>	<b>Calculation formulas</b>	<b>Explanation</b>
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 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 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 21,2 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 413m in 2017 to DKK 385m 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 25.2% to 15.8% 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.

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

## Management commentary

### Outlook

Hydratech Industries 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 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 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 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 A/S is engaged in the Oil and Gas industry, which is characterised 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 A/S has contracts with longer warranty coverage and extended coverage for serial claims if it can be proven 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 A/S may include possible increases in the prices of commodities in the prices of the finished products.

### 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.

## Management commentary

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 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 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 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.

To meet Hydratech Industries 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 A/S thus intends to remain an attractive place of work and uses the global presence to attract the best candidates around the world.

## Management commentary

### 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 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 operates globally and are exposed to risks related to these regions. In order to mitigate the identified risks Hydratech Industries 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 KPIs 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.

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.

## Management commentary

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 KPIs 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 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 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.

### **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.

## Management commentary

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 three men. 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 11 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](http://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%.

### 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 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 consideration is expected to be received. Control is transferred upon production and Hydratech recognizes revenue over time.

## Management commentary

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 and IFRS 16. Hydratech's operating profit (EBIT) for 2017 was reduced from DKK 13m to DKK 12m, due to implementation of IFRS.

Hydratech's balance sheet total as of 31 December 2017 rose from DKK 265m to DKK 303m, of which DKK 31m results from implementation of IFRS 16.

Equity rose from DKK 20m to DKK 26m primarily due to 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

In 2019, Hydratech Industries A/S has announced close-down of production in the Silkeborg location. Production will be handled in other group entities. No other post-balance sheet events material to this Annual Report have been recognised or mentioned.

## Income statement for 2018

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Revenue	2	385.006	413.033
Cost of sales		(297.922)	(288.777)
Other external expenses		(26.424)	(20.144)
<b>Gross profit/loss</b>		<b>60.660</b>	<b>104.112</b>
Staff costs	3	(60.858)	(76.543)
Depreciation and amortisation	4	(12.511)	(15.614)
<b>Operating profit/loss</b>		<b>(12.709)</b>	<b>11.955</b>
Income from investments in group enterprises		21.535	(18.934)
Other financial income	5	7.332	5.837
Other financial expenses	6	(19.916)	(18.179)
<b>Profit/loss before tax</b>		<b>(3.758)</b>	<b>(19.321)</b>
Tax on profit/loss for the year	7	5.234	(1.283)
<b>Profit/loss</b>	8	<b>1.476</b>	<b>(20.604)</b>

## Statement of comprehensive income

<b>Profit/loss for the year</b>	<b>1.476</b>	<b>(20.604)</b>
<b>Other comprehensive income</b>		
<b>Items that can be reclassified to the income statement when certain conditions are met:</b>		
Exchange differences, foreign entities	(2.513)	2.492
Other adjustments	(4)	0
<b>Total comprehensive income</b>	<b>(1.041)</b>	<b>(18.112)</b>



## Cash flow statement for 2018

	<b>Notes</b>	<b>2018 DKK'000</b>	<b>2017 DKK'000</b>
Operating profit/loss		(12.709)	11.955
Amortisation and depreciation		12.511	15.614
Other provisions		100	(1.460)
Working capital changes	9	41.827	(16.040)
<b>Cash flow from ordinary operating activities</b>		<b>41.729</b>	<b>10.069</b>
Financial income received		1.059	873
Financial income paid		(12.689)	(13.664)
Income taxes refunded/(paid)		426	(2.702)
<b>Cash flows from operating activities</b>		<b>(11.204)</b>	<b>(15.493)</b>
Acquisition etc of intangible assets		(12.261)	(13.553)
Sale of intangible assets		26	0
Acquisition etc of property, plant and equipment		(4.656)	(1.046)
Sale of property, plant and equipment		76	367
Acquisition of enterprises		(180)	0
<b>Cash flows from investing activities</b>		<b>(16.995)</b>	<b>(14.232)</b>
Loans raised		21.500	34.250
Increase of bank loans		0	(795)
Bank loans		(51.955)	(31.460)
Mortgage debt		(776)	0
Cash increase of capital		1.750	8.750
<b>Cash flows from financing activities</b>		<b>(29.481)</b>	<b>10.745</b>
<b>Increase/decrease in cash and cash equivalents</b>		<b>(15.951)</b>	<b>(8.911)</b>
Cash and cash equivalents beginning of year		16.309	25.063
Currency translation adjustments of cash and cash equivalents		(275)	157
<b>Cash and cash equivalents end of year</b>		<b>83</b>	<b>16.309</b>
Cash and cash equivalents at year-end are composed of:			
Cash		83	16.309
<b>Cash and cash equivalents end of year</b>		<b>83</b>	<b>16.309</b>
Non cash transactions	10		
Reconciliation of liabilities from financial activities	11		

## 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		20.907	9.904	6.827
Acquired licences		4.654	4.414	5.332
Development projects in progress		11.405	15.859	12.534
<b>Intangible assets</b>	<b>12</b>	<b><u>36.966</u></b>	<b><u>30.177</u></b>	<b><u>24.693</u></b>
Land and buildings		50.044	53.261	56.875
Plant and machinery		10.821	9.568	11.522
Other fixtures and fittings, tools and equipment		2.707	3.015	3.934
Leasehold improvements		2.814	3.304	3.421
Property, plant and equipment in progress		0	0	8
<b>Property, plant and equipment</b>	<b>13</b>	<b><u>66.386</u></b>	<b><u>69.148</u></b>	<b><u>75.760</u></b>
Investments in group enterprises		30.805	44.579	46.034
Other investments		184	184	184
Deposits		1.811	1.887	2.255
<b>Fixed asset investments</b>	<b>14</b>	<b><u>32.800</u></b>	<b><u>46.650</u></b>	<b><u>48.473</u></b>
<b>Non-current assets</b>		<b><u>136.152</u></b>	<b><u>145.975</u></b>	<b><u>148.926</u></b>
Raw materials and consumables		54.587	51.278	51.353
Work in progress		3.984	7.304	6.393
Manufactured goods and goods for resale		0	2.840	0
Prepayments for goods		0	0	509
<b>Inventories</b>		<b><u>58.571</u></b>	<b><u>61.422</u></b>	<b><u>58.255</u></b>
Trade receivables	15	15.417	10.912	30.998
Contract assets	16	34.152	17.110	26.240
Receivables from group enterprises	17	86.026	47.166	58.356
Other receivables		3.922	2.059	433
Income tax receivable		0	426	0
Prepayments		2.397	1.778	1.295
<b>Receivables</b>		<b><u>141.914</u></b>	<b><u>79.451</u></b>	<b><u>117.322</u></b>
<b>Cash</b>		<b><u>83</u></b>	<b><u>16.309</u></b>	<b><u>25.063</u></b>
<b>Current assets</b>		<b><u>200.568</u></b>	<b><u>157.182</u></b>	<b><u>200.640</u></b>
<b>Assets</b>		<b><u>336.720</u></b>	<b><u>303.157</u></b>	<b><u>349.566</u></b>

## 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	18	10.212	10.200	10.100
Reserve for development expenditure		23.257	17.835	6.547
Retained earnings		12.775	(2.500)	18.250
<b>Equity</b>		<b><u>46.244</u></b>	<b><u>25.535</u></b>	<b><u>34.897</u></b>
Deferred tax	19	3.180	8.414	6.939
Other provisions		1.100	1.000	2.460
Provisions for investments in group enterprises	20	0	2.330	3.978
Mortgage debts	21	6.293	7.073	7.859
Bank loans	21	0	12.500	0
Lease liabilities	21	28.395	31.958	35.447
<b>Non-current liabilities</b>		<b><u>38.968</u></b>	<b><u>63.275</u></b>	<b><u>56.683</u></b>
Current portion of long-term liabilities other than provisions	21	42.967	26.035	4.246
Bank loans		24.627	76.583	108.046
Payables to other credit institutions		0	0	4.926
Prepayments received from customers	22	38.110	145	3.640
Trade payables		95.159	51.745	55.229
Payables to group enterprises		11.654	27.442	57.729
Payables to shareholders and management		0	1.246	0
Joint taxation contribution payable		0	0	2.702
Other payables		38.991	31.151	21.468
<b>Current liabilities</b>		<b><u>251.508</u></b>	<b><u>214.347</u></b>	<b><u>257.986</u></b>
<b>Liabilities</b>		<b><u>290.476</u></b>	<b><u>277.622</u></b>	<b><u>314.669</u></b>
<b>Equity and liabilities</b>		<b><u>336.720</u></b>	<b><u>303.157</u></b>	<b><u>349.566</u></b>
Contingent liabilities	23			
Mortgages and securities	24			
Subsidiaries	25			
Related parties with controlling interest	26			
Financial risks and financial instruments	27			
Events after the reporting period	28			

## Statement of shareholders' equity

DKK'000	Share capital	Retained earnings	Foreign currency translation adjustment	Reserve for development expenditure	Total
<b>2018</b>					
<b>Shareholders' equity at beginning of year</b>	<b>10.200</b>	<b>(2.589)</b>	<b>89</b>	<b>17.835</b>	<b>25.535</b>
Profit for the year	0	1.476	0	0	1.476
Transfer to reserves	0	(5.422)	0	5.422	0
Other comprehensive income	0	0	(2.513)	0	(2.513)
Other adjustments	0	(4)	0	0	(4)
<b>Total comprehensive income</b>	<b>0</b>	<b>(3.950)</b>	<b>(2.513)</b>	<b>5.422</b>	<b>(1.041)</b>
Increase of capital	12	21.738	0	0	21.750
<b>Transactions with owners</b>	<b>12</b>	<b>21.738</b>	<b>0</b>	<b>0</b>	<b>21.750</b>
<b>Shareholders' equity at end of year</b>	<b>10.212</b>	<b>15.199</b>	<b>(2.424)</b>	<b>23.257</b>	<b>46.244</b>
<b>2017</b>					
<b>Shareholders' equity at beginning of year</b>	<b>10.100</b>	<b>13.796</b>	<b>(2.403)</b>	<b>6.547</b>	<b>28.040</b>
Adjustment according to IFRS	0	6.857	0	0	6.857
<b>Adjusted equity at beginning of year</b>	<b>10.100</b>	<b>20.653</b>	<b>(2.403)</b>	<b>6.547</b>	<b>34.897</b>
Profit for the year	0	(20.604)	0	0	(20.604)
Transfer to reserves	0	(11.288)	0	11.288	0
Other comprehensive income	0	0	2.492	0	2.492
<b>Total comprehensive income</b>	<b>0</b>	<b>(31.892)</b>	<b>2.492</b>	<b>11.288</b>	<b>(18.112)</b>
Increase of capital	100	8.650	0	0	8.750
<b>Transactions with owners</b>	<b>100</b>	<b>8.650</b>	<b>0</b>	<b>0</b>	<b>8.750</b>
<b>Shareholders' equity at end of year</b>	<b>10.200</b>	<b>(2.589)</b>	<b>89</b>	<b>17.835</b>	<b>25.535</b>

In 2018, the Entity's capital was increased by DKK 12k nominal, whereby equity has been increased by a total of DKK 21,750k.

No dividend was declared in 2018.

## Notes to financial statements

### 1. Basis of preparation

The separate financial statements of Hydratech Industries 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.

In accordance with paragraph 4(a) of IFRS 10, Hydratech Industries A/S does not prepare consolidated financial statements. Hydratech Industries Holding A/S (Silkeborg, Denmark) prepares consolidated financial statements in accordance with IFRS in which the Company is consolidated. The consolidated financial statements of Hydratech Industries Holding A/S may be obtained from the company address Suensonsvej 14, DK-8600 Silkeborg.

#### 1.1 Effect of transition to IFRS

The financial statements for 2018 are the first financial statements of the entity 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. Financial highlights and key ratios for the year 2014, 2015 and 2016 in the management commentary have not been restated.

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
<b>Applied after Danish GAAP</b>	<b>307.185</b>	<b>279.145</b>	<b>28.040</b>	<b>(19.248)</b>	<b>264.734</b>	<b>244.700</b>	<b>20.034</b>
Recognition of revenue over time (IFRS 15)	8.029	1.172	6.857	(229)	7.544	866	6.628
Recognition of lease liability and ROU assets (IFRS 16)	34.352	34.352		(1.178)	30.879	32.056	(1.178)
Tax effect on above changes				51			51
<b>Adjustments Total</b>	<b>42.381</b>	<b>35.524</b>	<b>6.857</b>	<b>(1.356)</b>	<b>38.423</b>	<b>32.922</b>	<b>5.501</b>
<b>Applied after IFRS</b>	<b>349.566</b>	<b>314.669</b>	<b>34.897</b>	<b>(20.604)</b>	<b>303.157</b>	<b>277.622</b>	<b>25.535</b>

#### Other comprehensive income

Profit/loss for the year

Exchange difference, foreign entities

2.492

#### Total comprehensive income

(18.112)

In the above mentioned adjustment of recognition of lease liability and ROU assets, a part of the effect in the profit/loss is due to ROU assets in group enterprises.

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.

## Notes to financial statements

### 1.1 Effect of transition to IFRS continuing

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

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

Hydratech recognises revenue from the following major sources:

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

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

Revenue from contracts with customers is recognised when control is transferred to the customer, and consideration is expected to be received. Control is transferred upon production from OEM sales in the Fluid and Wind divisions, and consequently Hydratech recognises revenue over time. Previously under Danish GAAP, Hydratech recognises 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 standards. 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, contract assets and receivables from group enterprises. According to IFRS 9 the Group has decided not to restate comparative figures.

Hydratech has calculated the effect of IFRS 9, which shows no material effects in the provision for trade receivables, contract assets and receivables from group enterprises.

#### ***Impact of initial application of IFRS 16 Leases***

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

IFRS 16 has 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;

## Notes to financial statements

### 1.1 Effect of transition to IFRS continuing

- 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.

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 recognises a lease expense on a straight-line basis as permitted by IFRS 16.

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

### 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 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

In the application of the accounting policies the Management of the Company is 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 recognised in the financial statement

#### **Revenue recognition**

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

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

## Notes to financial statements

### 1.3 Critical accounting judgements and key sources of estimation uncertainty continuing

#### 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.

#### *Revenue recognition*

The estimate of the stage of completion as well as realised margin on work in progress as of 31 December 2018 is subject to uncertainty. Management assesses the stage of completion based on the cost incurred in the production of the units with a mark-up of expected gross margin on each unit produced.

#### *Investments in group enterprises and group receivables*

Hydratech measures investments 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.

Based on the budgets including cash flow for the group enterprises, Management has reversed provisions made in Hydratech USA and Hydratech China for DKK 38m, which was expensed in the financial statements in 2017 and earlier.

As of 31 December 2018, Hydratech A/S has group receivables of DKK 113m of which DKK 27m is provided for loss. The carrying amount at 31 December 2018 amounts to DKK 86m.



## Notes to financial statements

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>2. Net sales</b>		
Europe	298.465	319.185
Asia	48.880	32.854
North America	36.288	59.312
Other regions	<u>1.373</u>	<u>1.682</u>
	<b><u>385.006</u></b>	<b><u>413.033</u></b>
Wind	262.630	303.523
Fluid	40.878	41.840
Service	<u>81.498</u>	<u>67.670</u>
	<b><u>385.006</u></b>	<b><u>413.033</u></b>

The Company 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 recognised from contracts with customers recognised over time amounts to DKK 17.0m as of 31 December 2018 (2017: DKK -9.1m). Contract assets amount to DKK 34.2m as of 31 December 2018 (2017: DKK 17.1m). All unsatisfied performance obligations at year-end are part of contracts with customers that have an original expected duration of one year or less, and consequently, the aggregate amount of the transaction prices allocated to unsatisfied performance obligations is not disclosed.

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

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>3. Staff costs</b>		
Wages and salaries	44.601	64.098
Pension costs	12.484	9.632
Other social security costs	<u>3.773</u>	<u>2.813</u>
	<b><u>60.858</u></b>	<b><u>76.543</u></b>
Average number of employees	<u>217</u>	<u>231</u>

## Notes to financial statements

<b>3. Staff costs continuing</b>	<b>Top ma- nagement DKK'000</b>	<b>Other top manage- ment DKK'000</b>	<b>Total DKK'000</b>
<b>2018</b>			
Remuneration and salary	2.321	8.837	11.158
Pension, company contributions	0	499	499
Benefits (car, housing, phone etc.)	168	917	1.085
<b>Cost at end of year</b>	<b>2.489</b>	<b>10.253</b>	<b>12.742</b>
<b>2017</b>			
Remuneration and salary	2.120	7.940	10.060
Pension, company contributions	0	489	489
Benefits (car, housing, phone etc.)	266	276	502
<b>Cost at end of year</b>	<b>2.346</b>	<b>8.705</b>	<b>11.051</b>

Referring to section 98(b3) of the Danish Financial Statements Act, information on 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 become effective at the sale of Hydratech Industries Holding A/S if certain enterprise values are met. The bonus arrangements are maximised at DKK 3m and for other top management these vary between DKK 0.3-1.5m of the individual basic salary.

Neither the Executive Board nor members of other top management are comprised by special bonus arrangements besides the above mentioned exit bonus.

In November 2018, certain employees and members of Management 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 are 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 recognised in Hydratech Industries A/S.

## Notes to financial statements

	<b>Warrants number</b>	<b>Exercise prices DKK</b>
<b>3. Staff costs continuing</b>		
<b>Number of outstanding warrants</b>		
Beginning of year 2018	0	0
Issued during the period	4.755.000	1
<b>End of year 2018</b>	<b>4.755.000</b>	<b>1</b>
	<b>2018 DKK'000</b>	<b>2017 DKK'000</b>
<b>4. Depreciation, amortisation and impairment losses</b>		
Amortisation of intangible assets	4.985	8.069
Depreciation of property, plant and equipment	7.183	7.481
Profit/loss from sale of intangible assets and property, plant and equipment	343	64
	<b>12.511</b>	<b>15.614</b>
Hereof depreciation of right-of-use assets	5.119	4.565
Hydratech leases several assets including buildings, plants and other fixtures, tools and equipment.		
	<b>2018 DKK'000</b>	<b>2017 DKK'000</b>
<b>5. Financial income</b>		
Financial income, group enterprises	1.040	873
Exchange rate adjustments	6.274	4.964
Other financial income	18	0
	<b>7.332</b>	<b>5.837</b>
	<b>2018 DKK'000</b>	<b>2017 DKK'000</b>
<b>6. Financial expenses</b>		
Financial expenses, group enterprises	5	0
Exchange rate adjustments	6.953	4.669
Interest expenses on lease liabilities	2.151	2.014
Financial expenses to external lenders	10.807	11.496
	<b>19.916</b>	<b>18.179</b>

## Notes to financial statements

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>7. Income tax</b>		
<i>Current tax:</i>		
Current tax on profit for the year	0	(426)
Adjustment in respect of prior years	0	234
Total current tax	<u>0</u>	<u>(192)</u>
<i>Deferred tax:</i>		
Adjustment of deferred tax asset/liability	(5.234)	1.475
Adjustment of deferred tax asset/liability in respect of prior years	0	0
Total deferred tax	<u>(5.234)</u>	<u>1.475</u>
<b>Total income tax</b>	<b><u>(5.234)</u></b>	<b><u>1.283</u></b>
	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>Earnings before tax</b>	<b>(4.701)</b>	<b>(19.321)</b>
Income from equity method used towards subsidiaries	(21.535)	18.394
<b>Earnings before tax, parent company</b>	<b>(26.236)</b>	<b>(927)</b>
Calculated tax at Danish statutory rate of 22%	(5.772)	(204)
Adjustment in respect of prior years	0	234
Income / expenses not subject to tax	538	1.253
<b>Tax charge</b>	<b><u>(5.234)</u></b>	<b><u>1.283</u></b>
	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>8. Proposed distribution of profit/loss</b>		
Retained earnings	1.476	(20.604)
	<b><u>1.476</u></b>	<b><u>(20.604)</u></b>

## Notes to financial statements

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>9. Change in working capital</b>		
Increase/decrease in inventories	(11.671)	4.571
Increase/decrease in receivables	6.406	12.511
Increase/decrease in trade payables etc.	47.092	(33.122)
	<b>41.827</b>	<b>(16.040)</b>

### 10. Non cash transactions

Conversion of debt to equity	20.000	0
	<b>20.000</b>	<b>0</b>

### 11. Reconciliation of liabilities arising from financing activities

	<b>Long-term borrowings DKK'000</b>	<b>Short-term borrowings DKK'000</b>	<b>Total DKK'000</b>
<b>1 January 2018</b>	<b>51.531</b>	<b>102.618</b>	<b>154.149</b>
Cash flows	0	(52.731)	(52.731)
Loans raised	0	21.500	21.500
Non cash transactions	0	(20.000)	(20.000)
Foreign exchange movement	0	(636)	(636)
Reclassifications	(16.843)	16.843	0
<b>31 December 2018</b>	<b>34.688</b>	<b>67.594</b>	<b>102.282</b>
	<b>Long-term borrowings DKK'000</b>	<b>Short-term borrowings DKK'000</b>	<b>Total DKK'000</b>
<b>1 January 2017</b>	<b>43.306</b>	<b>112.292</b>	<b>155.598</b>
Cash flows	0	(32.255)	(32.255)
Loans raised	12.500	21.750	34.250
Foreign exchange movement	0	(3.444)	(3.444)
Reclassifications	(4.275)	4.275	0
<b>31 December 2017</b>	<b>51.531</b>	<b>102.618</b>	<b>154.149</b>

## Notes to financial statements

	Completed develop- ment projects DKK'000	Acquired licences DKK'000	Development projects in progress DKK'000
<b>12. Intangible assets</b>			
<b>2018</b>			
<b>Cost at beginning of year</b>	<b>19.371</b>	<b>13.224</b>	<b>15.859</b>
Transfers	14.447	0	(14.447)
Additions	0	2.268	9.993
Disposals	(5.694)	(2.127)	0
<b>Total cost at end of year</b>	<b>28.124</b>	<b>13.365</b>	<b>11.405</b>
<b>Amortisation at beginning of year</b>	<b>(9.467)</b>	<b>(8.810)</b>	<b>0</b>
Amortisation for the year	(3.193)	(1.791)	0
Reversal regarding disposals	5.443	1.890	0
<b>Total amortisation at end of year</b>	<b>(7.217)</b>	<b>(8.711)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>20.907</b>	<b>4.654</b>	<b>11.405</b>
<b>2017</b>			
<b>Cost at beginning of year</b>	<b>9.802</b>	<b>13.040</b>	<b>12.534</b>
Transfers	9.238	0	(9.238)
Additions	331	659	12.563
Disposals	0	(475)	0
<b>Total cost at end of year</b>	<b>19.371</b>	<b>13.224</b>	<b>15.859</b>
<b>Amortisation at beginning of year</b>	<b>(2.975)</b>	<b>(7.708)</b>	<b>0</b>
Impairment losses for the year	(4.537)	0	0
Amortisation for the year	(1.955)	(1.577)	0
Reversal regarding disposals	0	475	0
<b>Total amortisation at end of year</b>	<b>(9.467)</b>	<b>(8.810)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>9.904</b>	<b>4.414</b>	<b>15.859</b>

## Notes to financial statements

### 12. Intangible assets continuing

#### 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 12m is estimated to complete the development projects in progress.

An amount of DKK 1,146k is expensed in 2018 related to research activities.

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 financial statements

	<b>Land and buildings DKK'000</b>	<b>Plant and machinery DKK'000</b>	<b>Other fixtures and fittings, tools and equipment DKK'000</b>
<b>13. Property, plant and equipment</b>			
<b>2018</b>			
<b>Cost at beginning of year</b>	<b>74.075</b>	<b>77.678</b>	<b>9.014</b>
Additions	253	3.201	1.156
Disposals	0	(415)	(1.208)
Transfers	0	0	(73)
<b>Total cost at end of year</b>	<b>74.328</b>	<b>80.464</b>	<b>8.889</b>
<b>Depreciation at beginning of year</b>	<b>(20.814)</b>	<b>(68.110)</b>	<b>(5.999)</b>
Depreciation for the year	(3.470)	(1.948)	(1.223)
Reversal regarding disposals	0	415	973
Transfers	0	0	67
<b>Depreciation at end of year</b>	<b>(24.284)</b>	<b>(69.643)</b>	<b>(6.182)</b>
<b>Carrying amount at end of year</b>	<b>50.044</b>	<b>10.821</b>	<b>2.707</b>
<b>Of this right-of-use assets:</b>			
<b>Net carrying amount</b>			
31 December 2018	25.694	2.449	1.543
<b>Depreciation expense for the year</b>			
31 December 2018	2.854	959	1.301
		<b>2018</b>	<b>2017</b>
		<b>DKK'000</b>	<b>DKK'000</b>
<b>Amount recognised in profit and loss regarding leases</b>			
Depreciation		5.114	4.565
Interest		2.151	2.014
		<b>7.265</b>	<b>6.579</b>



## Notes to financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
<b>13. Property, plant and equipment continuing 2017</b>			
<b>Cost at beginning of year</b>	<b>42.632</b>	<b>78.642</b>	<b>6.332</b>
Adjustment according to IFRS	31.402	0	2.950
<b>Adjustment cost at beginning of year</b>	<b>74.034</b>	<b>78.642</b>	<b>9.282</b>
Additions	41	481	26
Disposals	0	(1.445)	(294)
<b>Total cost at end of year</b>	<b>74.075</b>	<b>77.678</b>	<b>9.014</b>
<b>Depreciation at beginning of year</b>	<b>(17.159)</b>	<b>(67.120)</b>	<b>(5.348)</b>
Adjustment according to IFRS	0	0	0
<b>Adjustment cost at beginning of year</b>	<b>(17.159)</b>	<b>(67.120)</b>	<b>(5.348)</b>
Depreciation for the year	(3.655)	(2.388)	(927)
Reversal regarding disposals	0	1.398	276
<b>Total depreciation at end of year</b>	<b>(20.814)</b>	<b>(68.110)</b>	<b>(5.999)</b>
<b>Carrying amount at end of year</b>	<b>53.261</b>	<b>9.568</b>	<b>3.015</b>
<b>Of this right-of-use assets:</b>			
<b>Net carrying amount</b>			
31 December 2017	28.457	1.802	2.845
<b>Depreciation expense for the year</b>			
31 December 2017	2.854	833	878

## Notes to financial statements

	<b>Leasehold improve- ments DKK'000</b>	<b>Property, plant and equipment in progress DKK'000</b>
<b>13. Property, plant and equipment continuing</b>		
<b>2018</b>		
<b>Cost at beginning of year</b>	<b>5.232</b>	<b>0</b>
Additions	46	0
Transfers	73	0
<b>Total cost at end of year</b>	<b>5.351</b>	<b>0</b>
<b>Depreciation at beginning of year</b>	<b>(1.928)</b>	<b>0</b>
Depreciation for the year	(542)	0
Transfers	(67)	0
<b>Depreciation at end of year</b>	<b>(2.537)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>2.814</b>	<b>0</b>
<b>2017</b>		
<b>Cost at beginning of year</b>	<b>4.796</b>	<b>8</b>
Additions	498	0
Disposals	(62)	(8)
<b>Total cost at end of year</b>	<b>5.232</b>	<b>0</b>
<b>Depreciation at beginning of year</b>	<b>(1.375)</b>	<b>0</b>
Depreciation for the year	(602)	0
Reversal regarding disposals	49	0
<b>Total depreciation at end of year</b>	<b>(1.928)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>3.304</b>	<b>0</b>

## Notes to financial statements

	Investments in group enterprises DKK'000	Other investments DKK'000	Deposits DKK'000
<b>14. Fixed asset investments</b>			
<b>2018</b>			
Cost beginning of year	48.974	184	1.887
Additions	180	0	0
Disposals	0	0	(76)
<b>Cost end of year</b>	<b>49.154</b>	<b>184</b>	<b>1.811</b>
Revaluations beginning of year	(8.004)	0	0
Adjustment according to IFRS	3.037	0	0
<b>Adjusted revaluations beginning of the year</b>	<b>(4.967)</b>	<b>0</b>	<b>0</b>
Exchange rate adjustments	(2.513)	0	0
Share of profit/loss for the year	(15.594)	0	0
Investments with negative equity deducted against receivables	7.059	0	0
Investments with negative equity recognised as provisions	(2.330)	0	0
Reversal regarding disposals	0	0	0
Other adjustments	(4)	0	0
<b>Revaluations end of year</b>	<b>(18.349)</b>	<b>0</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>30.805</b>	<b>184</b>	<b>1.811</b>

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.

## Notes to financial statements

	<b>Investments in group enterprises DKK'000</b>	<b>Other investments DKK'000</b>	<b>Deposits DKK'000</b>
<b>14. Fixed asset investments continuing</b>			
<b>2017</b>			
Cost beginning of year	41.312	184	2.254
Additions	7.685	0	0
Disposals	(23)	0	(367)
<b>Cost end of year</b>	<b>48.974</b>	<b>184</b>	<b>1.887</b>
Revaluations beginning of year	2.021	0	0
Adjustment according to IFRS	3.609	0	0
<b>Adjusted revaluations beginning of the year</b>	<b>5.630</b>	<b>0</b>	<b>0</b>
Exchange rate adjustments	2.492	0	0
Share of profit/loss for the year	(19.841)	0	0
Investments with negative equity deducted against receivables	7.491	0	0
Investments with negative equity recognised as provisions	(1.647)	0	0
Reversal regarding disposals	1.480	0	0
<b>Revaluations end of year</b>	<b>(4.395)</b>	<b>0</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>44.579</b>	<b>184</b>	<b>1.887</b>
		<b>2018 DKK'000</b>	<b>2017 DKK'000</b>
<b>15. Trade receivables</b>			
Trade receivables		16.051	11.546
Provisions for impairment of trade receivables		(634)	(634)
		<b>15.417</b>	<b>10.912</b>

In determining the recoverability of a trade receivable, the Company 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 financial statements

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>16. Contract assets</b>		
Contract assets	34.152	17.110
Provisions for impairment of contract assets	<u>0</u>	<u>0</u>
	<b><u>34.152</u></b>	<b><u>17.110</u></b>

No lifetime expected losses are expected, and therefore no provision for losses has been made. In 2019, Management has delivered all contract assets for 2018 and received payment without any incurred losses.

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
<b>17. Receivables from group enterprises</b>		
Receivables from group enterprises	112.784	104.515
Provisions for impairment of group receivables	<u>(26.758)</u>	<u>(57.349)</u>
	<b><u>86.026</u></b>	<b><u>47.166</u></b>

Management calculates provision based on 12-month expected losses. Management has identified objective indication of credit losses incurred on some group enterprises and therefore made provision for lifetime expected losses. Management has not made provisions for 12-month expected losses in 2018 and 2017. Management assesses the need for provisions for 12-month expected losses as well as lifetime expected losses based on budgets for each group enterprise.

In 2018, Management has reversed provision for receivables from group enterprises expensed in previous years of DKK 37,700k due to positive development in the group enterprises in USA and China in 2018 and future budgets for the entities.

## Notes to financial statements

### 18. Contributed capital

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

#### 31 December 2017

Share Class	Number of Shares (nominal DKK)	Share Capital
A Shares	1.020.000	1.020.000
B Shares	9.180.000	9.180.000
<b>Total</b>	<b>10.200.000</b>	<b>10.200.000</b>

#### 31 December 2018

Share Class	Number of Shares (nominal DKK)	Share Capital
A Shares	1.021.165	1.021.165
B Shares	8.765.000	8.765.000
C Shares	306.350	306.350
D Shares	119.136	119.136
<b>Total</b>	<b>10.211.651</b>	<b>10.211.651</b>

### 2018

Each class B preference share, which has a par value of DKK 1, carries a preferential right to distribution of proceeds to shareholders of an aggregate amount of DKK 104m with addition of an accumulating compound return of 12.5% annually from the date of the initial issuance of the Class B preference shares.

Upon the preferential rights of the Class B shares having been satisfied, Class A, C and D preference shares, which have a par value of DKK 1, carry a preferential right to dividend distribution of proceeds pro rata of an aggregate amount of DKK 85m with addition of an accumulating compound return of 15-20% annually from the date of the initial issuance of the Class B, C and D shares.

Upon the preferential rights of A, C and D preference shares having been satisfied, any additional proceeds from the entity shall be distributed solely and unrestricted to the Class B shares (Ordinary shares).

### 2017

Each class A preference share, which has a par value of DKK 1, carries a preferential right to distribution of proceeds to shareholders of an aggregate amount of DKK 60m with addition of an accumulating compound return of 15% annually from the date of the initial issuance of the Class B preference shares.

## Notes to financial statements

### 19. Deferred tax assets and deferred tax liabilities

2018 DKK	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
<b>Deferred tax end of year</b>	<b>6.639</b>	<b>1.063</b>	<b>866</b>	<b>(221)</b>	<b>(324)</b>	<b>391</b>	<b>8.414</b>
Charge to the income statement	995	(378)	1.923	(21)	(7.511)	(242)	(5.234)
<b>Deferred tax end of year</b>	<b>7.634</b>	<b>685</b>	<b>2.789</b>	<b>(242)</b>	<b>(7.835)</b>	<b>149</b>	<b>3.180</b>

#### Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	0
Deferred tax liability	3.180
<b>Deferred tax liabilities year end, net</b>	<b>3.180</b>

2017 DKK	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
<b>Deferred tax beginning of year</b>	<b>5.433</b>	<b>(82)</b>	<b>673</b>	<b>(541)</b>	<b>0</b>	<b>285</b>	<b>5.768</b>
Charge to the income statement	1.206	1.145	193	320	(324)	106	2.646
<b>Deferred tax end of year</b>	<b>6.639</b>	<b>1.063</b>	<b>866</b>	<b>(221)</b>	<b>(324)</b>	<b>391</b>	<b>8.414</b>

#### Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	0
Deferred tax liability	8.414
<b>Deferred tax liabilities year end, net</b>	<b>8.414</b>

### 20. Provisions for investments in group enterprises

Provisions for investments in group enterprises comprise negative equity in subsidiaries when these exceed receivables from such subsidiaries and when the Entity has an obligation to support such subsidiaries.

## Notes to financial statements

	<b>Instalments within 12 months 2018 DKK'000</b>	<b>Instalments between 12-60 months 2018 DKK'000</b>	<b>Outstanding after 60 months DKK'000</b>
<b>21. Liabilities other than provisions</b>			
<b>2018</b>			
Mortgage debts	801	3.230	3.063
Bank loans	37.500	0	0
Lease liabilities	4.666	28.395	0
	<b>42.967</b>	<b>31.625</b>	<b>3.063</b>
	<b>Instalments within 12 months 2017 DKK'000</b>	<b>Instalments between 12-60 months 2017 DKK'000</b>	<b>Outstanding after 60 months DKK'000</b>
<b>2017</b>			
Mortgage debts	797	3.213	3.860
Bank loans	21.750	12.500	0
Lease liabilities	3.488	31.958	0
	<b>26.035</b>	<b>47.671</b>	<b>3.860</b>

### 22. Prepayments received from customers

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

### 23. Contingent liabilities

A letter of support has been issued to some subsidiaries. At 31 December 2018, debts of these subsidiaries totalled DKK 46.968k exclusive of group balances.



## Notes to financial statements

### 24. 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 9,215k nominal.

Bank loans are secured by way of a company charge.

The carrying amount of mortgaged properties is DKK 24,314k.

### Joint taxation arrangement

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.

### 25. Subsidiaries

	<u>Registered in</u>	<u>Equity- interest %</u>
Hydratech Industries Fluid Power Ltd.	China	100,0
Hydratech Industries Fluid Power Inc.	USA	100,0
Hydratech Hong Kong Ltd.	Hong Kong	100,0
Hydratech Industries Fluid Power Asia Pacific Private Ltd.	Singapore	100,0
Hydratech Industries Wind Power India Pvt. Ltd.	India	100,0
Hydratech Industries Wind Power Ltd.	China	100,0
Hydratech Industries Czech Republic s.r.o.	Czech Rep.	100,0

## Notes to financial statements

### 26. Related parties and group relations

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

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. BWB Partners I K/S is the ultimate parent of Hydratech Industries A/S.

Transactions with parent entities.

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
Management fee	3.798	3.010
Financial receivables	18.482	13.130

Transactions with group enterprises.

	<b>2018</b> <b>DKK'000</b>	<b>2017</b> <b>DKK'000</b>
Management fee	5.167	9.526
Interests	1.007	879
Financial receivables	115.385	77.365
Revenue	21.951	23.098
Cost of sales	28.724	40.729

Besides the above listed transactions, there was a conversion of debt of DKK 20,000k and a capital injection of DKK 1,750k by the shareholders.

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.

## Notes to financial statements

### 27. 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, USD, CNY 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 Company is related to exchange risks of foreign subsidiaries, and the loans taken out to finance these investments.

The Company 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	1.4	1.5	3.5	2.6
Impact on equity from translation of debt and investments in subsidiaries	1.4	1.5	3.5	2.6

#### 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 Company's profit for the year ended 31 December 2018 would decrease by DKK 6,6m (2017: decrease by DKK 9,0m) 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 financial statements

### 27. Financial risks and financial instruments continuing

#### Liquidity risk

Hydratech Industries 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 that the cash flow on a weekly basis matches the planned cash needs. Hydratech Industries 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

	<b>&lt;6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Mortgage debts	411	410	3.283	3.077	7.181
Bank loans	1.243	63.370	-	-	64.612
Lease liabilities	3.616	3.532	22.353	12.777	42.278
Prepayments from costumers	860	37.250	-	-	38.110
Trade payables	95.159	-	-	-	95.159
Paybles to group companies	11.654	-	-	-	11.654
Other payables	22.396	16.596	-	-	38.991
<b>Total</b>	<b>135.338</b>	<b>121.157</b>	<b>25.637</b>	<b>15.854</b>	<b>297.985</b>

#### 2017

	<b>&lt;6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Mortgage debts	410	409	3.275	3.874	7.968
Bank loans	13.092	12.874	96.210	5.345	127.520
Lease liabilities	3.697	3.613	23.002	15.162	45.474
Prepayments from costumers	145	-	-	-	145
Trade payables	51.745	-	-	-	51.745
Paybles to group companies	27.442	-	-	-	27.442
Other payables	18.476	12.676	-	-	31.151
<b>Total</b>	<b>115.006</b>	<b>29.572</b>	<b>122.487</b>	<b>24.381</b>	<b>291.445</b>

#### 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. Hydratech Industries A/S' credit insures most of the trade receivables and receive prepayments in order to reduce the credit risk. Hydratech Industries A/S conducts individual assessment of customers' creditworthiness and credit lines are managed globally. Cash is held with banks with high credit ratings. Hydratech Industries A/S has entered factoring agreements.

## Notes to financial statements

### 27. 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 A/S has in 2018 received capital injection of 21.750 tDKK including conversion of debt.

### 28. Events after the reporting period

In 2019, Hydratech Industries A/S has announced close-down of the production in the Silkeborg location. Production will be handled by other group enterprises. No post-balance sheet events material to this Annual Report have been recognised or mentioned.

## Accounting policies

### 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.

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.

### 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.

### 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.

## Accounting policies

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 is translated using the exchange rates at the balance sheet date.

### Income statement

#### Revenue

Hydratech recognises 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 divisions and consequently Hydratech recognises 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 recognised 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.

#### 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.

## Accounting policies

### 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

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.

### Financial income 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, payables and exchange rate adjustments in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

### Financial expenses from group enterprises

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

### Other financial expenses

Other financial expenses comprise interest expenses, including net capital losses on payables and exchange rate adjustments 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 recognised 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 directly 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.

#### 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

## Accounting policies

Estimated useful lives and residual values are reassessed annually. Residual values of buildings amount to DKK 11,339k. Residual values of other assets amount to DKK 0k.

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

### Investments in group enterprises

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, depreciation 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.

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.

## Accounting policies

### 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.

### 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 recognises 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.

## Accounting policies

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.

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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