HydratechIndustries

AnnualReport2016

The Annual General Meeting adopted the annual report on 31/5 -2017

Chairman of the General Meeting

Rasmus Jacobsen

Name:

Hydratech Industries A/S • CVR 83 45 51 28 • Suensonsvej 14, DK-8600 Silkeborg, Denmark

Contents

Entity details

Entity
Hydratech Industries A/S
Suensonsvej 14
8600 Silkeborg

Central Business Registration No: 83455128
Founded: 01.05.1978
Registered in: Silkeborg
Financial year: 01.01.2016 - 31.12.2016

Website: www.hydratech-industries.com
E-mail: denmark@hydratech-industries.com

Board of Directors
John Staunsbjerg Dueholm, Chairman
Esben Bay Jørgensen
Søren Kringelholt Nielsen

Executive Board
Søren Kringelholt Nielsen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management on the annual report

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 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

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, 31.05.2017

Executive Board

Søren Kringelholt Nielsen

Board of Directors

John Staunsbjerg Dueholm
Chairman

Esben Bay Jørgensen

Søren Kringelholt Nielsen

Independent auditor's report

To the shareholders of Hydratech Industries A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Hydratech Industries A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements

Independent auditor's report

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 parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Entity's internal control.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary
Management is responsible for the management commentary.

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

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

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

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

Aarhus, 31.05.2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jacob Nørmark
statsautoriseret revisor

Management commentary

	2016 DKK'000	2015 DKK'000
Financial highlights		
Key figures		
Revenue	561.311	698.916
Gross profit/loss	156.078	235.349
Operating profit/loss	6.510	1.564
Net financials	(4.106)	(612)
Profit/loss for the year	(6.073)	(7.905)
Total assets	318.119	319.710
Investments in property, plant and equipment	2.566	11.932
Equity	28.040	44.954
Cash flows from (used in) operating activities	3.239	82.287
Cash flows from (used in) investing activities	(16.162)	(20.249)
Cash flows from (used in) financing activities	(4.691)	(85.451)
Ratios		
Gross margin (%)	27,8	33,7
Net margin (%)	(1,1)	(1,1)
Return on equity (%)	(16,6)	(17,6)
Equity ratio (%)	8,8	14,1

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

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

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

Management commentary

Primary activities
The Group's primary activities are to develop, manufacture, sell and service hydraulic components.

The Group consists of three divisions (Wind, Fluid and Service) and is headquartered in Denmark, with subsidiaries in the US, China, India, Singapore, Norway and Hong Kong. The Group serves as sub-supplier in the market segments of wind, oil, gas, mining, industry and marine with related service activities.

Development in activities and finances
After three years of positive growth, the Group's revenue went down from DKK 698m in 2015 to DKK 561m in 2016 because of the heavy curb put on investments in the Oil and Gas segments. Although revenue went down by DKK 137m, the pre-tax profit stands at DKK 2,4m, which is higher than last year. The positive development has continued in 2017 when Q1 saw revenue grow by two digits on the same period last year and operating profit go up by just over DKK 14m.

Revenue growth in 2017 is primarily a result of the Wind Division's focus on new customers in Asia and the Fluid Division's focus on new customers within mining, among other fields. This growth combined with the Company now seeing the full effect of the cost reductions initiated in 2016 have led to this heavy increase in earnings. So, revenue of the Wind Division continues to grow heavily, and revenue of the Fluid Division has stabilised concurrently with the stabilisation of oil prices.

When Hydratech Industries experienced a substantial decline in demand for their products for the Oil and Gas industry in the autumn of 2015 due to the global crisis in this industry, a drastic adjustment of the organisation was initiated which was also to prepare it for the increasing demand in the Wind market, the Company's other major market.

As a result of the global downturn in Oil and Gas, the Group completed a series of initiatives focusing on reducing costs and ensuring a strong focus on both wind and service division, which both saw strong growth in the same period. The initiatives involved a reduction of the number of employees at over 100 full-time positions, closure of offices in Germany and Norway, as well as a number of other cost reducing activities. The profit for 2016 is affected by one off costs of approximately DKK 20m to implement these actions, but despite this, a positive development in the Group's earnings has been realized. The Group's costs are reduced by more than 30% and are therefore strongly contributing to the positive development of earnings in the first quarter of 2017.

The process was completed before the summer of 2016, after which the Company has seen sound growth in both revenue and earnings. The effect of the initiatives launched to reduce costs and to sell to new markets now manifests itself in considerable progress for the Company.

At 31 December 2016, net interest-bearing debt stands at DKK 102m (2015: DKK 81m). No changes have been made to the Group's guidelines and procedures relating to the management of capital structure and administration thereof in 2016.

After the balance sheet date, agreements have been renegotiated with the Group's financial business partners to secure the necessary funding to maintain its activities and operations. Based on the agreements signed, the Group has ensured continued operations and performance of its financial obligations in the year ahead.

Management commentary

Outlook

The Group expects revenue of the Wind and Service Divisions to increase and that of the Fluid Division to stabilise as well as an overall performance for 2017 with increasing revenue and a much improved operating profit.

Fluid Division

The Group expects that it will take several years for the Oil and Gas market to again be on a par with 2014, but considers its position strengthened once the crisis is over.

Wind Division

The Group expects the positive development of the Wind Division to continue in 2017, with a steep increase in both revenue and earnings. This development is primarily based on a highly globalised wind turbine market, enhanced focus on quality at the Asian wind turbine manufacturers and the fact that, following a long development process, the Group signed contracts with new customers who, combined, will account for much of revenue.

Service Division

The Group expects the positive development of the Service Division to continue in 2017, with an increase in both revenue and earnings. The Service Division services the huge installed base of group products all over the world, and expectations are that a number of newly developed products for the Service market will grow too.

In the medium to long term, the Group's key markets are expected to develop positively due to the steadily increasing need for energy in the world, but the long-term price decrease of oil may impact the market development in the short term. Moreover, the heavy currency fluctuations may also impact on the expectations for revenue and financial performance for 2017.

Particular risks

The main operating risk of the Group 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, the Group 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, the Group has contracts with longer warranty coverage and extended coverage for serial claims if it can be proven that the Group's deliverables are defective.

Generally, the need for warranty provisions is reviewed on a regular basis, and specifically on a case-by-case basis to provide for warranty costs in subsequent years. At 31 December 2016, approximately DKK 2,5m has been provided for warranty cases.

Management commentary

Price risks

The Group's 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 Group may include possible increases in the prices of commodities in the prices of the finished products.

Currency risks

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

Currency adjustments of investments in subsidiaries that are independent entities are recognised directly in equity. As a main rule, related currency risks are not hedged, as the Group 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

The Group's loan financing is exposed to fluctuations in the interest-rate level.

Intellectual capital resources

The Group 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 the Group's staff within each of the segments that its products are sold to.

To meet the Group'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. The Group thus intends to remain an attractive place of work.

Environmental performance

With the most significant environmental impacts in mind, the Group intends to lower them to a minimum by ensuring optimum use of resources through the reduction of its energy consumption, waste streams and emissions to the environment, governed by what is possible technologically and financially.

The Company has obtained its environmental approval from the relevant government agency and is certified under ISO 14001:2004.

An environmental policy and related objectives have been developed in this respect to manage the environmental effort. The environmental policy is based on environmentally sound operations and is integrated as a natural element of the Group's objectives for product quality and production facilities.

Research and development activities

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

Management commentary

Also in the financial year 2016 did the Group participate in various development projects together with current and potential customers. These are projects that will help expand the Group's range of products.

Statutory report on corporate social responsibility

The Group has implemented policies 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 Group's processes.

As mentioned above, efforts are made to ensure a healthy working environment, for example, by focusing on the working environment in reporting, offering exercise programs to staff and access to healthy food.

With respect to the working environment, we can also point out that we arrange training sessions on a safe working environment. Also in this area, it is Management's opinion that efforts in 2016 have helped sustain a healthy and safe working environment for the Group's staff, and there have been no serious accidents in the Company in 2016.

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.

The Group 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.

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.

The Group has not developed its own policies for protecting human rights but respects international conventions and observes national law for this area.

Statutory report on the underrepresented gender

The Board of Directors and the Executive Board aim for equal opportunity for both genders at the Group's 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 in the Group:

- That both genders are represented on the Board of Directors by a share of at least 20% in 2017;
- That both genders are represented at management levels globally by a share of at least 20% in 2017.

At the balance sheet date, the Board of Directors consists of three men. There has not been any changes on the Board of Directors in 2016, and so we are not yet closer to meeting the target for 2017. 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 2016, the gender composition at the other management levels was 3 women and 20 men. Efforts will continue in 2017.

Statutory report on corporate governance

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

The Company's share capital is not divided into share classes. Hydratech Industries Holding A/S is the parent whereas Anpartsselskabet af 4. juli 2008 is the ulitimate parent to Hydratech Industries Holding A/S. Anpartsselskabet af 4. juli 2008 is owned by the private equity fund BWB Partners. This fund is represented on the Board of Directors by Esben Bay Jørgensen.

Employees

In 2016, the average headcount was 473 against 564 in 2015. At 31 December 2016, the Group had 434 employees against 551 at 31 December 2015.

The development in headcount can be illustrated as follows:

	Denmark	Rest of the world
Headcount, beginning of year	294	257
Net inflow/outflow	(59)	(58)
Headcount, end of year	235	199

Board of Directors

As in prior years, a separate Audit Committee has been set up. The Audit Committee refers to the Board of Directors.

The Audit Committee ensures that the Executive Board observes the objectives, strategies and business processes laid down by the Board of Directors. The Board of Directors has held seven meetings in 2016.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Consolidated income statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue	1	561.311	698.916
Cost of sales		(356.926)	(410.957)
Other external expenses	2	(48.307)	(52.610)
Gross profit/loss		**156.078**	**235.349**
Staff costs	3	(134.234)	(210.710)
Depreciation, amortisation and impairment losses		(15.334)	(23.075)
Operating profit/loss		**6.510**	**1.564**
Income from other fixed assets investments		0	(340)
Other financial income	4	7.509	6.579
Other financial expenses	5	(11.615)	(6.851)
Profit/loss before tax		**2.404**	**952**
Tax on profit/loss for the year	6	(8.477)	(8.857)
Profit/loss for the year	7	**(6.073)**	**(7.905)**

Consolidated balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Completed development projects		6.827	0
Acquired licences		5.804	7.156
Development projects in progress		12.534	12.412
Intangible assets	8	**25.165**	**19.568**
Land and buildings		25.473	26.030
Plant and machinery		15.529	20.644
Other fixtures and fittings, tools and equipment		1.991	2.272
Leasehold improvements		8.659	9.749
Property, plant and equipment in progress		9	155
Property, plant and equipment	9	**51.661**	**58.850**
Other investments		184	184
Deposits		2.254	2.408
Other receivables		0	413
Fixed asset investments	10	**2.438**	**3.005**
Fixed assets		**79.264**	**81.423**
Raw materials and consumables		74.017	67.497
Work in progress		29.588	34.702
Manufactured goods and goods for resale		25.790	16.202
Prepayments for goods		1.303	8.129
Inventories		**130.698**	**126.530**
Trade receivables		74.417	72.803
Receivables from group enterprises		0	45
Deferred tax		0	2.756
Other receivables		4.269	6.284
Income tax receivable		0	6.270
Prepayments		1.749	2.568
Receivables		**80.435**	**90.726**
Cash		**27.722**	**21.031**
Current assets		**238.855**	**238.287**
Assets		**318.119**	**319.710**

Consolidated balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital		10.100	10.100
Retained earnings		17.940	26.854
Proposed dividend		0	8.000
Equity		**28.040**	**44.954**
Deferred tax		4.688	2.969
Other provisions		2.460	3.689
Provisions		**7.148**	**6.658**
Mortgage debts		7.859	8.697
Finance lease liabilities		3.559	4.331
Other payables		248	79
Non-current liabilities other than provisions	11	**11.666**	**13.107**
Current portion of long-term liabilities other than provisions	11	2.022	2.198
Bank loans		111.240	86.935
Payables to other credit institutions		4.926	0
Prepayments received from customers		9.114	9.024
Trade payables		96.120	104.366
Payables to group enterprises		19.586	13.723
Income tax payable		1.325	2.565
Other payables		26.932	35.819
Deferred income		0	361
Current liabilities other than provisions		**271.265**	**254.991**
Liabilities other than provisions		**282.931**	**268.098**
Equity and liabilities		**318.119**	**319.710**
Unrecognised rental and lease commitments	13		
Mortgages and securities	14		
Subsidiaries	15		

Consolidated statement of changes in equity for 2016

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	10.100	26.854	8.000	44.954
Ordinary dividend paid	0	0	(8.000)	(8.000)
Exchange rate adjustments	0	(2.841)	0	(2.841)
Profit/loss for the year	0	(6.073)	0	(6.073)
Equity end of year	**10.100**	**17.940**	**0**	**28.040**

Consolidated cash flow statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Operating profit/loss		6.510	1.564
Amortisation, depreciation and impairment losses		15.334	23.075
Other provisions		(1.229)	403
Working capital changes	12	(14.298)	69.940
Cash flow from ordinary operating activities		**6.317**	**94.982**
Financial income received		7.509	6.479
Financial income paid		(11.615)	(6.851)
Income taxes refunded/(paid)		1.028	(12.323)
Cash flows from operating activities		**3.239**	**82.287**
Acquisition etc of intangible assets		(11.807)	(13.427)
Acquisition etc of property, plant and equipment		(2.566)	(11.932)
Sale of property, plant and equipment		615	292
Sale of fixed asset investments		567	0
Changes in equity and other adjustments		(2.971)	4.818
Cash flows from investing activities		**(16.162)**	**(20.249)**
Instalments on loans etc		(1.617)	(2.937)
Dividend paid		(8.000)	(80.000)
Payables to other credit institutions		4.926	0
Other cash flows from financing activities		0	(2.514)
Cash flows from financing activities		**(4.691)**	**(85.451)**
Increase/decrease in cash and cash equivalents		**(17.614)**	**(23.413)**
Cash and cash equivalents beginning of year		(65.904)	(42.491)
Cash and cash equivalents end of year		**(83.518)**	**(65.904)**
Cash and cash equivalents at year-end are composed of:			
Cash		27.722	21.031
Short-term debt to banks		(111.240)	(86.935)
Cash and cash equivalents end of year		**(83.518)**	**(65.904)**

Notes to consolidated financial statements

	2016 DKK'000	2015 DKK'000
1. Revenue		
Denmark	373.268	209.559
Foreign	188.043	489.357
	561.311	**698.916**

For competitive reasons, no information on the breakdown of revenue by activity has been provided.

	2016 DKK'000	2015 DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	1.561	1.355
Other assurance engagements	0	33
Tax services	115	41
Other services	580	132
	2.256	**1.561**

	2016 DKK'000	2015 DKK'000
3. Staff costs		
Wages and salaries	105.332	178.448
Pension costs	10.066	13.419
Other social security costs	7.237	13.783
Other staff costs	11.599	5.060
	134.234	**210.710**
Average number of employees	**473**	**564**

Referring to section 98(b3) of the Danish Financial Statements Act, no information has been provided on management remuneration.

	2016 DKK'000	2015 DKK'000
4. Other financial income		
Financial income arising from group enterprises	419	434
Other financial income	7.090	6.145
	7.509	**6.579**

Notes to consolidated financial statements

5. Other financial expenses	2016 DKK'000	2015 DKK'000
Financial expenses from group enterprises	538	278
Other financial expenses	11.077	6.573
	11.615	**6.851**

6. Tax on profit/loss for the year	2016 DKK'000	2015 DKK'000
Tax on current year taxable income	4.730	1
Change in deferred tax for the year	3.765	8.856
Adjustment concerning previous years	(18)	0
	8.477	**8.857**

7. Proposed distribution of profit/loss	2016 DKK'000	2015 DKK'000
Ordinary dividend for the financial year	0	8.000
Retained earnings	(6.073)	(15.905)
	(6.073)	**(7.905)**

8. Intangible assets	Completed development projects DKK'000	Acquired licences DKK'000	Development projects in progress DKK'000
Cost beginning of year	0	15.943	12.412
Exchange rate adjustments	0	(18)	0
Transfers	8.003	0	(8.003)
Additions	1.799	328	9.680
Disposals	0	0	(1.555)
Cost end of year	**9.802**	**16.253**	**12.534**
Amortisation and impairment losses beginning of year	0	(8.787)	0
Exchange rate adjustments	0	23	0
Impairment losses for the year	(2.038)	0	(1.555)
Amortisation for the year	(937)	(1.685)	0
Reversal regarding disposals	0	0	1.555
Amortisation and impairment losses end of year	**(2.975)**	**(10.449)**	**0**
Carrying amount end of year	**6.827**	**5.804**	**12.534**

Notes to consolidated financial statements

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 31.12.2016 amounts to DKK 12.534k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 8,5m is expected to be needed to complete the development projects in progress.

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

Management has carried out an impairment test in 2016 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 2017-2020 approved by Management and a discount rate before tax of 10%.

Completed development projects

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

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve-ments DKK'000
9. Property, plant and equipment				
Cost beginning of year	42.569	139.855	16.149	17.279
Exchange rate adjustments	0	(911)	(218)	(15)
Additions	63	635	1.058	810
Disposals	0	(3.421)	(1.612)	0
Cost end of year	**42.632**	**136.158**	**15.377**	**18.074**
Depreciation and impairment losses beginning of the year	(16.539)	(119.211)	(13.877)	(7.530)
Exchange rate adjustments	0	875	228	166
Depreciation for the year	(620)	(4.910)	(698)	(2.051)
Reversal regarding disposals	0	2.617	961	0
Depreciation and impairment losses end of the year	**(17.159)**	**(120.629)**	**(13.386)**	**(9.415)**
Carrying amount end of year	**25.473**	**15.529**	**1.991**	**8.659**
Recognised assets not owned by entity	**-**	**2.632**	**612**	**-**

Notes to consolidated financial statements

	Property, plant and equipment in progress DKK'000
9. Property, plant and equipment	
Cost beginning of year	155
Exchange rate adjustments	0
Additions	0
Disposals	(146)
Cost end of year	**9**
Depreciation and impairment losses beginning of the year	0
Exchange rate adjustments	0
Depreciation for the year	0
Depreciation and impairment losses end of the year	0
Depreciation and impairment losses end of the year	**0**
Carrying amount end of year	**9**
Recognised assets not owned by entity	-

	Other investments DKK'000	Deposits DKK'000	Other receivables DKK'000
10. Fixed asset investments			
Cost beginning of year	500	2.408	413
Disposals	0	(154)	(413)
Cost end of year	**500**	**2.254**	**0**
Impairment losses beginning of year	(316)	0	0
Impairment losses end of year	**(316)**	**0**	**0**
Carrying amount end of year	**184**	**2.254**	**0**

Notes to consolidated financial statements

11. Liabilities other than provisions	Instalments within 12 months 2016 DKK'000	Instalments within 12 months 2015 DKK'000	Instalments beyond 12 months 2016 DKK'000	Outstanding after 5 years DKK'000
Mortgage debts	806	809	7.859	4.635
Finance lease liabilities	1.216	1.389	3.559	0
Other payables	0	0	248	0
	2.022	**2.198**	**11.666**	**4.635**

12. Change in working capital	2016 DKK'000	2015 DKK'000
Increase/decrease in inventories	(4.168)	23.528
Increase/decrease in receivables	1.265	31.632
Increase/decrease in trade payables etc	(11.395)	14.780
	(14.298)	**69.940**

13. Unrecognised rental and lease commitments	2016 DKK'000	2015 DKK'000
Hereof liabilities under rental or lease agreements until maturity in total	**56.763**	**72.869**

14. 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 10.595k nominal.

The carrying amount of mortgaged properties is DKK 25.473k.

Certain plant and machinery as well as other fixtures, etc have been financed by means of finance leases. The carrying amount of assets held under finance leases is DKK 3.244k.

Notes to consolidated financial statements

	Registered in	Equity interest %
15. Subsidiaries		
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 Fluid Power Norway AS	Norway	100,0
Hydratech Industries Wind Power Ltd.	China	100,0
Hydratech Industries Wind Power India Pvt. Ltd.	India	100,0

Parent income statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue		455.428	573.899
Cost of sales		(308.355)	(368.729)
Other external expenses		(25.082)	(25.140)
Gross profit/loss		**121.991**	**180.030**
Staff costs	1	(83.726)	(149.999)
Depreciation, amortisation and impairment losses		(10.292)	(8.626)
Operating profit/loss		**27.973**	**21.405**
Income from investments in group enterprises		(23.826)	(20.583)
Other financial income		4.183	4.350
Other financial expenses		(9.612)	(6.357)
Profit/loss before tax		**(1.282)**	**(1.185)**
Tax on profit/loss for the year	2	(4.791)	(4.677)
Profit/loss for the year	3	**(6.073)**	**(5.862)**

Parent balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Completed development projects		6.827	0
Acquired licences		5.333	6.563
Development projects in progress		12.534	12.412
Intangible assets	4	**24.694**	**18.975**
Land and buildings		25.473	26.030
Plant and machinery		11.523	14.006
Other fixtures and fittings, tools and equipment		984	693
Leasehold improvements		3.421	3.666
Property, plant and equipment in progress		9	120
Property, plant and equipment	5	**41.410**	**44.515**
Investments in group enterprises		43.333	44.331
Other investments		184	184
Deposits		2.254	2.408
Other receivables		0	413
Fixed asset investments	6	**45.771**	**47.336**
Fixed assets		**111.875**	**110.826**
Raw materials and consumables		46.874	48.167
Work in progress		17.643	19.436
Manufactured goods and goods for resale		14.141	7.450
Prepayments for goods		509	7.186
Inventories		**79.167**	**82.239**
Trade receivables		30.998	42.542
Receivables from group enterprises		58.356	34.517
Other receivables		433	697
Prepayments	7	1.295	2.211
Receivables		**91.082**	**79.967**
Cash		**25.063**	**3.609**
Current assets		**195.312**	**165.815**
Assets		**307.187**	**276.641**

Parent balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital		10.100	10.100
Reserve for development expenditure		6.547	0
Retained earnings		11.393	26.854
Proposed dividend		0	8.000
Equity		**28.040**	**44.954**
Deferred tax	8	5.767	2.969
Other provisions	9	2.460	3.689
Provisions for investments in group enterprises	10	3.978	0
Provisions		**12.205**	**6.658**
Mortgage debts		7.859	8.697
Finance lease liabilities		3.390	4.051
Non-current liabilities other than provisions	11	**11.249**	**12.748**
Current portion of long-term liabilities other than provisions	11	1.951	2.164
Bank loans		108.046	72.502
Payables to other credit institutions		4.926	0
Prepayments received from customers		3.640	3.336
Trade payables		55.230	67.208
Payables to group enterprises		57.729	36.255
Joint taxation contribution payable		2.702	2.561
Other payables		21.469	28.255
Current liabilities other than provisions		**255.693**	**212.281**
Liabilities other than provisions		**266.942**	**225.029**
Equity and liabilities		**307.187**	**276.641**
Unrecognised rental and lease commitments	12		
Contingent liabilities	13		
Mortgages and securities	14		
Related parties with controlling interest	15		

Parent statement of changes in equity for 2016

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000
Equity beginning of year	10.000	0	123	8.000
Effect of mergers and business combinations	100	0	26.731	0
Ordinary dividend paid	0	0	0	(8.000)
Exchange rate adjustments	0	0	(2.841)	0
Transfer to reserves	0	6.547	(6.547)	0
Profit/loss for the year	0	0	(6.073)	0
Equity end of year	**10.100**	**6.547**	**11.393**	**0**

	Total DKK'000
Equity beginning of year	18.123
Effect of mergers and business combinations	26.831
Ordinary dividend paid	(8.000)
Exchange rate adjustments	(2.841)
Transfer to reserves	0
Profit/loss for the year	(6.073)
Equity end of year	**28.040**

The Entity has merged with its former affiliated company, Hydratech Industries Fluid Power A/S. The merger was performed using the uniting-of-interests method.

As part of the merger, the Entity's capital was increased by DKK 100k nominal, whereby capital has been increased by a total of DKK 26.831k.

Notes to parent financial statements

1. Staff costs	2016 DKK'000	2015 DKK'000
Wages and salaries	69.202	130.923
Pension costs	9.390	12.953
Other social security costs	2.514	3.091
Other staff costs	2.620	3.032
	83.726	**149.999**
Average number of employees	**260**	**300**

Referring to section 98(b3) of the Danish Financial Statements Act, no information has been provided on management remuneration.

2. Tax on profit/loss for the year	2016 DKK'000	2015 DKK'000
Tax on current year taxable income	2.702	2.584
Change in deferred tax for the year	2.107	2.093
Adjustment concerning previous years	(18)	0
	4.791	**4.677**

3. Proposed distribution of profit/loss	2016 DKK'000	2015 DKK'000
Ordinary dividend for the financial year	0	8.000
Retained earnings	(6.073)	(13.862)
	(6.073)	**(5.862)**

Notes to parent financial statements

4. Intangible assets	Completed develop-ment projects DKK'000	Acquired licences DKK'000	Develop-ment projects in progress DKK'000
Cost beginning of year	0	12.762	12.412
Transfers	8.003	0	(8.003)
Additions	1.799	278	9.680
Disposals	0	0	(1.555)
Cost end of year	**9.802**	**13.040**	**12.534**
Amortisation and impairment losses beginning of year	0	(6.199)	0
Impairment losses for the year	(2.038)	0	(1.555)
Amortisation for the year	(937)	(1.508)	0
Reversal regarding disposals	0	0	1.555
Amortisation and impairment losses end of year	**(2.975)**	**(7.707)**	**0**
Carrying amount end of year	**6.827**	**5.333**	**12.534**

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 31.12.2016 amounts to DKK 12.534k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 8,5m is expected to be needed to complete the development projects in progress.

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

Management has carried out an impairment test in 2016 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 2017-2020 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

Notes to parent financial statements

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.

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improvements DKK'000
5. Property, plant and equipment				
Cost beginning of year	42.569	78.664	5.531	4.525
Additions	63	497	801	271
Disposals	0	(519)	0	0
Cost end of year	**42.632**	**78.642**	**6.332**	**4.796**
Depreciation and impairment losses beginning of the year	(16.539)	(64.658)	(4.838)	(859)
Depreciation for the year	(620)	(2.643)	(510)	(516)
Reversal regarding disposals	0	182	0	0
Depreciation and impairment losses end of the year	**(17.159)**	**(67.119)**	**(5.348)**	**(1.375)**
Carrying amount end of year	**25.473**	**11.523**	**984**	**3.421**
Recognised assets not owned by entity	**-**	**2.632**	**612**	**-**

Notes to parent financial statements

	Property, plant and equipment in progress DKK'000
5. Property, plant and equipment	
Cost beginning of year	120
Additions	0
Disposals	(111)
Cost end of year	**9**
Depreciation and impairment losses beginning of the year	0
Depreciation for the year	0
Depreciation and impairment losses end of the year	0
Depreciation and impairment losses end of the year	**0**
Carrying amount end of year	**9**
Recognised assets not owned by entity	-

	Investments in group enterprises DKK'000	Other investments DKK'000	Deposits DKK'000	Other receivables DKK'000
6. Fixed asset investments				
Cost beginning of year	38.275	184	2.408	413
Additions	3.037	0	0	0
Disposals	0	0	(154)	(413)
Cost end of year	**41.312**	**184**	**2.254**	**0**
Revaluations beginning of year	6.056	0	0	0
Exchange rate adjustments	(2.841)	0	0	0
Share of profit/loss for the year	(21.618)	0	0	0
Adjustment of intra-group profits	(2.207)	0	0	0
Investments with negative equity depreciated over receivables	22.299	0	0	0
Investments with negative equity transferred to provisions	332	0	0	0
Revaluations end of year	**2.021**	**0**	**0**	**0**
Carrying amount end of year	**43.333**	**184**	**2.254**	**0**

Notes to parent financial statements

7. Prepayments

Prepayments comprise prepaid costs, including insurance, subscriptions etc.

8. Deferred tax

Deferred tax is incumbent on intangible assets, property, plant and equipment, inventories and deferred income and provisions.

9. Other provisions

Other provisions comprise provisions for warranty commitments under orders delivered.

10. 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.

	Instalments within 12 months 2016 DKK'000	Instalments within 12 months 2015 DKK'000	Instalments beyond 12 months 2016 DKK'000	Outstanding after 5 years DKK'000
11. Liabilities other than provisions				
Mortgage debts	806	809	7.859	4.635
Finance lease liabilities	1.145	1.355	3.390	0
	1.951	**2.164**	**11.249**	**4.635**

	2016 DKK'000	2015 DKK'000
12. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	**41.303**	**51.215**

13. Contingent liabilities

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

The Entity has provided a guarantee for subsidiaries' and Hydratech Industries Holding A/S' debts to Skandinaviska Enskilda Banken AB (SEB). The entities' debts to SEB amount to DKK 77.862k.

Notes to parent financial statements

A letter of support has been issued to some subsidiaries. At 31 December 2016, debts of these subsidiaries total DKK 11.944k exclusive of group balances. Provisions have been made at 31 December 2016 for the negative equity of these subsidiaries.

14. 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 10.595k nominal.

The carrying amount of mortgaged properties is DKK 25.473k.

Certain plant and machinery as well as other fixtures, etc have been financed by means of finance leases. The carrying amount of assets held under finance leases is DKK 3.244k.

Investments in the subsidiary Hydratech Industries Fluid Power, Inc, USA, have been provided as security for the Group's balances with SEB. The carrying amount of investments charged is negative.

15. Related parties with controlling interest

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

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (big).

Changes in accounting policies

The Entity has implemented Act no. 738 of 1 June 2015 effective from 1 January 2016. This has caused the following changes in recognition and measurement. Except for the changes below to the accounting policies, the accounting policies applied to these financial statements are consistent with those applied last year, however with a few reclassifications.

Reassessment of expected useful lives and residual values

Expected useful lives and residual values of items of property, plant and equipment are to be reassessed on an annual basis.

This change in accounting policies is made pursuant to section 4 of the Danish Transitional Executive Order solely with prospective effect as a change to accounting estimates and has no effect on equity.

Except for the change above to the accounting policies, the accounting policies applied to these financial statements are consistent with those applied last year, however with a few reclassifications.

Reserve for development costs

In future, an amount equal to the recognised development costs will be tied up in a special reserve under equity named 'Reserve for development costs'. This reserve cannot be used for dividend or to cover losses. If the recognised development costs are sold or in any other way are excluded from the Entity's operations, the reserve will be reduced or dissolved. This will take place by a direct transfer to the distributable reserves of equity. If the recognised development costs are written down, a share of the reserve for development costs must be reversed. The reversed share is equal to the write-down of development costs. The reserve for development costs is also reduced by the depreciation and amortisation made. In this way, the reserve will not exceed the amount of development costs recognised in the balance sheet.

The change has no effect on the income statement or the balance sheet for 2016 or the comparative figures.

Changes in accounting estimates

In the financial year, the Group has changed accounting estimates due to the following:

- Scrap values of land and buildings have changed;
- Depreciation periods for buildings have been changed from 20 years to 25-30 years;
- Depreciation periods for plant and machinery have been changed from 3-10 years to 3-15 years;
- Depreciation periods for other fixtures and fittings, tools and equipment have been changed from 3-5 years to 3-10 years

These changes in accounting estimates have had a positive effect of DKK 2.745k on this year's profit in the consolidated financial statements and an equivalent effect on the profit in the parent financial statements.

Accounting policies

The change has also resulted in an increase in the balance sheet total by DKK 3.491k in both the consolidated financial statements and the parent financial statements, and the effect on equity in both the consolidated financial statements and the parent financial statements is DKK 2.745k.

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 Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity 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 Entity, and the value of the liability can be measured reliably.

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

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

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

Consolidated financial statements

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

Basis of consolidation

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

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

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

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in

Accounting policies

the income statement when delivery is made to the buyer. 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 the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

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

Depreciation, amortisation and impairment losses
Amortisation, depreciation and impairment losses 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.

Income from other fixed asset investments
Income from other fixed asset investments comprises gains in the form of interest, dividends, etc on fixed asset investments which are not investments in group enterprises or associates.

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

Other financial income
Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions 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.

Accounting policies

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

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

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 and indirectly 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.

Accounting policies

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

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

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.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Other investments
Other investments comprise listed securities which are measured at fair value (market price) at the balance sheet date.

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

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

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

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

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.

Dividend
Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly in equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

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.

Finance lease liabilities
Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Accounting policies

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

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.