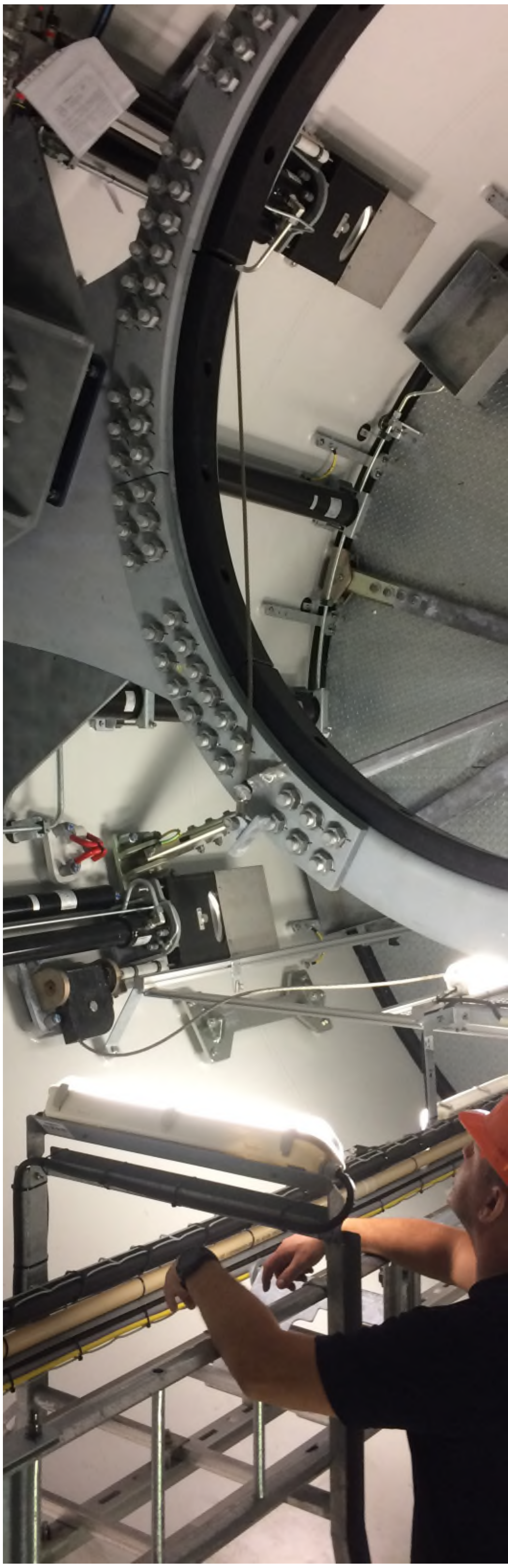
HydratechIndustries



AnnualReport2017

The Annual General Meeting adopted the annual report on

Chairman of the General Meeting

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: 01.01.2017 - 31.12.2017

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 01.01.2017 - 31.12.2017.

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 31.12.2017 and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017.

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, 18.06.2018

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 01.01.2017 - 31.12.2017, 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 31.12.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2017 - 31.12.2017 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, 18.06.2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

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

Kasper Vestergaard Jessen
State Authorised Public Accountant
Identification number (MNE) mne42784

Management commentary

	2017 DKK'000	2016 DKK'000	2015 DKK'000
Financial highlights			
Key figures			
Revenue	531.003	561.311	698.916
Gross profit/loss	130.933	156.078	235.349
Operating profit/loss	1.687	6.510	1.564
Net financials	(18.467)	(4.106)	(612)
Profit/loss for the year	(19.248)	(6.073)	(7.905)
Total assets	290.289	318.119	319.710
Investments in property, plant and equipment	1.959	11.932	0
Equity	20.034	28.040	44.954
Ratios			
Gross margin (%)	24,7	27,8	33,7
Net margin (%)	(3,6)	(1,1)	(1,1)
Return on equity (%)	(80,1)	(16,6)	(17,6)
Equity ratio (%)	6,9	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, 2016 and 2017.

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

Capital injection increasing equity ratio to 22%

After the balance sheet date an injection of 40 mill. DKK in cash was made by the shareholders and the investment partners. The shareholders injected 40 mill. DKK which increases the equity ratio to 22%.

If the capital increase had been completed before the balance sheet date, the equity and solidity would have comprised as below:

	31/12 2017	After injection
Equity	20 MDKK	+ 60 MDKK
Solidity	7,2%	+ 22%

The cash injection is a positive recognition from our shareholders and investment partners of the great market opportunities in the wind power markets. Opportunities we are in an excellent position to exploit as a group. Especially two key must-win-battles related to these opportunities will be supported:

A New factory in Czech Republic

Establishment of a new factory in Czech Republic to support the increasing demand for the groups products within the Wind division and to ensure the group can offer competitive prices.

Ramp up of China

The group is continuing to invest in the growing Chinese market. In 2017 the wind production facility has been expanded to support the high growth in demand for the groups products in China.

Based on the signed agreements, the Group has ensured continued operations and performance of its financial obligations in the year ahead.

Financial development in 2017

The Group's revenue went down from DKK 561m in 2016 to DKK 531m in 2017 mainly because of the heavy curb put on investments in the Oil and Gas segments. The negative effect from the revenue is partly offset by the Company now seeing the full effect of the cost reductions initiated in 2016. The positive development in the wind segment continued in 2017, and was mainly driven by several new larger customers. Especially the wind activities in China delivered increasingly high growth throughout 2017.

Management commentary

Outlook

The Group expects the revenue in the Wind and Service Divisions to increase and revenue in the Fluid Division to stabilize. The overall performance for 2018 will have an increasing revenue and an improved operating profit.

Fluid Division

The Group expects that it will take several years for the Oil and Gas market to 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 2018, with a increase in both revenue and earnings. This development is primarily based on a highly globalized 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 the revenue.

Service Division

The Group expects a positive development of the Service Division in 2018, with an increase in both revenue and earnings. The Service Division services the huge installed base of the group products all over the world, and expectations are that a number of newly developed products for the Service market will contribute to the revenue development.

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.

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.

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 2017 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 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 Group's processes.

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 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 2017 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 2017.

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 respects international conventions and observes national law for protecting human rights and has implemented this as a part of the code of conduct.

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 back-ground, 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

Management commentary

in the appointment of managers to ensure that the biggest management talents are hired, regardless of gender.

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

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

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 2017, and so we are not yet closer to meeting the target. 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 2017, the gender composition at the other management levels was 5 women and 29 men. Efforts will continue in 2018.

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 ultimate 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.

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 2017

	Notes	2017 DKK'000	2016 DKK'000
Revenue	1	531.003	561.311
Cost of sales		(350.342)	(356.926)
Other external expenses		(49.728)	(48.307)
Gross profit/loss		**130.933**	**156.078**
Staff costs	2	(114.756)	(134.234)
Depreciation, amortisation and impairment losses		(14.490)	(15.334)
Operating profit/loss		**1.687**	**6.510**
Other financial income	3	5.582	6.548
Other financial expenses	4	(24.049)	(10.654)
Profit/loss before tax		**(16.780)**	**2.404**
Tax on profit/loss for the year	5	(2.468)	(8.477)
Profit/loss for the year	6	**(19.248)**	**(6.073)**

Consolidated balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Completed development projects		9.904	6.827
Acquired licences		5.053	5.804
Development projects in progress		15.859	12.534
Intangible assets	7	**30.816**	**25.165**
Land and buildings		24.804	25.473
Plant and machinery		11.889	15.529
Other fixtures and fittings, tools and equipment		1.080	1.991
Leasehold improvements		7.382	8.659
Property, plant and equipment in progress		0	9
Property, plant and equipment	8	**45.155**	**51.661**
Other investments		184	184
Deposits		1.887	2.254
Fixed asset investments	9	**2.071**	**2.438**
Fixed assets		**78.042**	**79.264**
Raw materials and consumables		79.507	74.017
Work in progress		13.147	29.588
Manufactured goods and goods for resale		31.927	25.790
Prepayments for goods		1.052	1.303
Inventories		**125.633**	**130.698**
Trade receivables		41.175	74.417
Receivables from group enterprises		13.171	0
Deferred tax	10	482	0
Other receivables		6.871	4.269
Income tax receivable		426	0
Prepayments		2.324	1.749
Receivables		**64.449**	**80.435**
Cash		**22.165**	**27.722**
Current assets		**212.247**	**238.855**
Assets		**290.289**	**318.119**

Consolidated balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Contributed capital		10.200	10.100
Retained earnings		9.834	17.940
Equity		**20.034**	**28.040**
Deferred tax	10	7.548	4.688
Other provisions		1.000	2.460
Provisions		**8.548**	**7.148**
Mortgage debts		7.073	7.859
Bank loans		12.500	0
Finance lease liabilities		2.197	3.559
Other payables		305	248
Non-current liabilities other than provisions	11	**22.075**	**11.666**
Current portion of long-term liabilities other than provisions	11	23.740	2.022
Bank loans		79.869	111.240
Payables to other credit institutions		0	4.926
Prepayments received from customers		5.206	9.114
Trade payables		91.427	96.120
Payables to group enterprises		949	19.586
Payables to shareholders and management		1.246	0
Income tax payable		1.322	1.325
Other payables		35.873	26.932
Current liabilities other than provisions		**239.632**	**271.265**
Liabilities other than provisions		**261.707**	**282.931**
Equity and liabilities		**290.289**	**318.119**
Unrecognised rental and lease commitments	13		
Mortgages and securities	14		
Subsidiaries	15		

Consolidated statement of changes in equity for 2017

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	10.100	17.940	28.040
Increase of capital	100	8.650	8.750
Exchange rate adjustments	0	2.492	2.492
Profit/loss for the year	0	(19.248)	(19.248)
Equity end of year	**10.200**	**9.834**	**20.034**

Consolidated cash flow statement for 2017

	Notes	2017 DKK'000	2016 DKK'000
Operating profit/loss		1.687	6.510
Amortisation, depreciation and impairment losses		14.490	15.334
Other provisions		(1.460)	(1.229)
Working capital changes	12	4.916	(14.298)
Cash flow from ordinary operating activities		**19.633**	**6.317**
Financial income received		0	419
Financial income paid		(11.708)	(7.436)
Income taxes refunded/(paid)		(519)	1.028
Cash flows from operating activities		**7.406**	**328**
Acquisition etc of intangible assets		(13.735)	(11.807)
Acquisition etc of property, plant and equipment		(1.959)	(2.566)
Sale of property, plant and equipment		582	615
Sale of fixed asset investments		367	567
Changes in equity and other adjustments		3.961	(2.971)
Cash flows from investing activities		**(10.784)**	**(16.162)**
Loans raised		34.250	0
Instalments on loans etc		(2.123)	(1.617)
Dividend paid		0	(8.000)
Cash increase of capital		8.750	0
Payables to other credit institutions		(4.926)	4.926
Cash flows from financing activities		**35.951**	**(4.691)**
Increase/decrease in cash and cash equivalents		**32.573**	**(20.525)**
Cash and cash equivalents beginning of year		(83.518)	(65.904)
Currency translation adjustments of cash and cash equivalents		(6.759)	2.911
Cash and cash equivalents end of year		**(57.704)**	**(83.518)**
Cash and cash equivalents at year-end are composed of:			
Cash		22.165	27.722
Short-term debt to banks		(79.869)	(111.240)
Cash and cash equivalents end of year		**(57.704)**	**(83.518)**

Notes to consolidated financial statements

	2017 DKK'000	2016 DKK'000
1. Revenue		
Denmark	241.831	373.268
Other Countries	289.172	188.043
	531.003	**561.311**

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

	2017 DKK'000	2016 DKK'000
2. Staff costs		
Wages and salaries	92.762	105.332
Pension costs	9.850	10.066
Other social security costs	6.170	7.237
Other staff costs	5.974	11.599
	114.756	**134.234**
Average number of employees	**436**	**473**

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

	2017 DKK'000	2016 DKK'000
3. Other financial income		
Financial income arising from group enterprises	0	419
Exchange rate adjustments	5.582	6.129
	5.582	**6.548**

	2017 DKK'000	2016 DKK'000
4. Other financial expenses		
Financial expenses from group enterprises	0	538
Exchange rate adjustments	12.341	3.218
Other financial expenses	11.708	6.898
	24.049	**10.654**

Notes to consolidated financial statements

	2017 DKK'000	2016 DKK'000
5. Tax on profit/loss for the year		
Tax on current year taxable income	(411)	4.730
Change in deferred tax for the year	2.315	3.765
Adjustment concerning previous years	564	(18)
	2.468	**8.477**

	2017 DKK'000	2016 DKK'000
6. Proposed distribution of profit/loss		
Retained earnings	(19.248)	(6.073)
	(19.248)	**(6.073)**

	Completed develop-ment projects DKK'000	Acquired licences DKK'000	Develop-ment projects in progress DKK'000
7. Intangible assets			
Cost beginning of year	9.802	16.253	12.534
Exchange rate adjustments	0	(263)	0
Transfers	9.238	0	(9.238)
Additions	331	841	12.563
Disposals	0	(475)	0
Cost end of year	**19.371**	**16.356**	**15.859**
Amortisation and impairment losses beginning of year	(2.975)	(10.449)	0
Exchange rate adjustments	0	237	0
Impairment losses for the year	(4.537)	0	0
Amortisation for the year	(1.955)	(1.566)	0
Reversal regarding disposals	0	475	0
Amortisation and impairment losses end of year	**(9.467)**	**(11.303)**	**0**
Carrying amount end of year	**9.904**	**5.053**	**15.859**

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.

Notes to consolidated financial statements

The carrying amount at 31.12.2017 amounts to DKK 15.859k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 3,3m 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 2017 of the carrying amount of development projects in progress. It is assessed that the recoverable amount in the form of value in use exceeds the carrying amount. The value in use is determined on the basis of the expected cash flows based on the budget years 2018-2022 approved by Management and a discount rate before tax of 10%.

Completed development projects

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

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve-ments DKK'000
8. Property, plant and equipment				
Cost beginning of year	42.632	136.158	15.377	18.074
Exchange rate adjustments	0	(4.616)	(666)	(1.086)
Additions	41	855	498	565
Disposals	0	(4.094)	(804)	(141)
Cost end of year	**42.673**	**128.303**	**14.405**	**17.412**
Depreciation and impairment losses beginning of the year	(17.159)	(120.629)	(13.386)	(9.415)
Exchange rate adjustments	0	3.853	450	622
Depreciation for the year	(710)	(3.469)	(972)	(1.280)
Reversal regarding disposals	0	3.831	583	43
Depreciation and impairment losses end of the year	**(17.869)**	**(116.414)**	**(13.325)**	**(10.030)**
Carrying amount end of year	**24.804**	**11.889**	**1.080**	**7.382**
Recognised assets not owned by entity	**-**	**1.802**	**423**	**-**

Notes to consolidated financial statements

	Property, plant and equipment in progress DKK'000
8. Property, plant and equipment	
Cost beginning of year	9
Exchange rate adjustments	0
Additions	0
Disposals	(9)
Cost end of year	**0**
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	**0**
Recognised assets not owned by entity	-

	Other investments DKK'000	Deposits DKK'000
9. Fixed asset investments		
Cost beginning of year	500	2.254
Disposals	0	(367)
Cost end of year	**500**	**1.887**
Impairment losses beginning of year	(316)	0
Impairment losses end of year	**(316)**	**0**
Carrying amount end of year	**184**	**1.887**

	2017 DKK'000
10. Deferred tax	
Changes during the year	
Beginning of year	4.688
Recognised in the income statement	2.378
End of year	**7.066**

Notes to consolidated financial statements

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

	Instalments within 12 months 2017 DKK'000	Instalments within 12 months 2016 DKK'000	Instalments beyond 12 months 2017 DKK'000	Outstanding after 5 years DKK'000
11. Liabilities other than provisions				
Mortgage debts	797	806	7.073	3.860
Bank loans	21.750	0	12.500	0
Finance lease liabilities	1.193	1.216	2.197	0
Other payables	0	0	305	0
	23.740	**2.022**	**22.075**	**3.860**

	2017 DKK'000	2016 DKK'000
12. Change in working capital		
Increase/decrease in inventories	5.065	(4.168)
Increase/decrease in receivables	16.902	1.265
Increase/decrease in trade payables etc	(17.051)	(11.395)
	4.916	**(14.298)**

	2017 DKK'000	2016 DKK'000
13. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	**57.645**	**56.763**

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 9.568k nominal.

The carrying amount of mortgaged properties is DKK 24.804k.

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 2.225k.

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 Wind Power India Pvt. Ltd.	India	100,0
Hydratech Industries Wind Power Ltd.	China	100,0

Parent income statement for 2017

	Notes	2017 DKK'000	2016 DKK'000
Revenue		422.163	455.428
Cost of sales		(296.515)	(313.871)
Other external expenses		(21.832)	(19.566)
Gross profit/loss		**103.816**	**121.991**
Staff costs	1	(79.074)	(83.726)
Depreciation, amortisation and impairment losses		(12.232)	(10.292)
Operating profit/loss		**12.510**	**27.973**
Income from investments in group enterprises		(19.841)	(23.826)
Other financial income		5.837	4.183
Other financial expenses		(16.165)	(9.612)
Profit/loss before tax		**(17.659)**	**(1.282)**
Tax on profit/loss for the year	2	(1.589)	(4.791)
Profit/loss for the year	3	**(19.248)**	**(6.073)**

Parent income statement for 2017

	Notes	2017 DKK'000	2016 DKK'000
Completed development projects		9.904	6.827
Acquired licences		4.414	5.332
Development projects in progress		15.859	12.534
Intangible assets	4	**30.177**	**24.693**
Land and buildings		24.804	25.473
Plant and machinery		9.568	11.522
Other fixtures and fittings, tools and equipment		593	984
Leasehold improvements		3.304	3.421
Property, plant and equipment in progress		0	8
Property, plant and equipment	5	**38.269**	**41.408**
Investments in group enterprises		40.970	43.333
Other investments		184	184
Deposits		1.887	2.254
Fixed asset investments	6	**43.041**	**45.771**
Fixed assets		**111.487**	**111.872**
Raw materials and consumables		51.278	51.353
Work in progress		7.304	13.165
Manufactured goods and goods for resale		16.015	14.141
Prepayments for goods		0	509
Inventories		**74.597**	**79.168**
Trade receivables		10.912	30.998
Receivables from group enterprises		47.166	58.356
Other receivables		2.059	433
Income tax receivable		426	0
Prepayments	7	1.778	1.295
Receivables		**62.341**	**91.082**
Cash		**16.309**	**25.063**
Current assets		**153.247**	**195.313**
Assets		**264.734**	**307.185**

Parent balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Contributed capital		10.200	10.100
Reserve for development expenditure		17.835	6.547
Retained earnings		(8.001)	11.393
Equity		**20.034**	**28.040**
Deferred tax	8	7.548	5.767
Other provisions	9	1.000	2.460
Provisions for investments in group enterprises	10	2.330	3.978
Provisions		**10.878**	**12.205**
Mortgage debts		7.073	7.859
Bank loans		12.500	0
Finance lease liabilities		2.197	3.390
Non-current liabilities other than provisions	11	**21.770**	**11.249**
Current portion of long-term liabilities other than provisions	11	23.740	1.951
Bank loans		76.583	108.046
Payables to other credit institutions		0	4.926
Prepayments received from customers		145	3.640
Trade payables		51.745	55.229
Payables to group enterprises		27.442	57.729
Payables to shareholders and management		1.246	0
Joint taxation contribution payable		0	2.702
Other payables		31.151	21.468
Current liabilities other than provisions		**212.052**	**255.691**
Liabilities other than provisions		**233.822**	**266.940**
Equity and liabilities		**264.734**	**307.185**
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 2017

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	10.100	6.547	11.393	28.040
Increase of capital	100	0	8.650	8.750
Exchange rate adjustments	0	0	2.492	2.492
Transfer to reserves	0	11.288	(11.288)	0
Profit/loss for the year	0	0	(19.248)	(19.248)
Equity end of year	**10.200**	**17.835**	**(8.001)**	**20.034**

The Entity's capital was increased by DKK 100k nominal, whereby capital has been increased by a total of DKK 8.750k.

Notes to parent financial statements

	2017 DKK'000	2016 DKK'000
1. Staff costs		
Wages and salaries	64.098	69.203
Pension costs	9.632	9.390
Other social security costs	2.813	2.514
Other staff costs	2.531	2.619
	79.074	**83.726**
Average number of employees	**231**	**260**

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

	2017 DKK'000	2016 DKK'000
2. Tax on profit/loss for the year		
Tax on current year taxable income	(426)	2.702
Change in deferred tax for the year	1.781	2.107
Adjustment concerning previous years	234	(18)
	1.589	**4.791**

	2017 DKK'000	2016 DKK'000
3. Proposed distribution of profit/loss		
Retained earnings	(19.248)	(6.073)
	(19.248)	**(6.073)**

Notes to parent financial statements

	Completed develop-ment projects DKK'000	Acquired licences DKK'000	Develop-ment projects in progress DKK'000
4. Intangible assets			
Cost beginning of year	9.802	13.040	12.534
Transfers	9.238	0	(9.238)
Additions	331	659	12.563
Disposals	0	(475)	0
Cost end of year	**19.371**	**13.224**	**15.859**
Amortisation and impairment losses beginning of year	(2.975)	(7.708)	0
Impairment losses for the year	(4.537)	0	0
Amortisation for the year	(1.955)	(1.577)	0
Reversal regarding disposals	0	475	0
Amortisation and impairment losses end of year	**(9.467)**	**(8.810)**	**0**
Carrying amount end of year	**9.904**	**4.414**	**15.859**

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 31.12.2017 amounts to DKK 15.859k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 3,3m 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 2017 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

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	42.632	78.642	6.332	4.796
Additions	41	481	26	498
Disposals	0	(1.445)	(294)	(62)
Cost end of year	**42.673**	**77.678**	**6.064**	**5.232**
Depreciation and impairment losses beginning of the year	(17.159)	(67.120)	(5.348)	(1.375)
Depreciation for the year	(710)	(2.388)	(399)	(602)
Reversal regarding disposals	0	1.398	276	49
Depreciation and impairment losses end of the year	**(17.869)**	**(68.110)**	**(5.471)**	**(1.928)**
Carrying amount end of year	**24.804**	**9.568**	**593**	**3.304**
Recognised assets not owned by entity	**-**	**1.802**	**423**	**-**

Notes to parent financial statements

	Property, plant and equipment in progress DKK'000
5. Property, plant and equipment	
Cost beginning of year	8
Additions	0
Disposals	(8)
Cost end of year	**0**
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	**0**
Recognised assets not owned by entity	**-**

	Investments in group enterprises DKK'000	Other investments DKK'000	Deposits DKK'000
6. Fixed asset investments			
Cost beginning of year	41.312	184	2.254
Additions	7.685	0	0
Disposals	(23)	0	(367)
Cost end of year	**48.974**	**184**	**1.887**
Revaluations beginning of year	2.021	0	0
Exchange rate adjustments	2.492	0	0
Share of profit/loss for the year	(20.839)	0	0
Adjustment of intra-group profits	998	0	0
Investments with negative equity depreciated over receivables	7.491	0	0
Investments with negative equity transferred to provisions	(1.647)	0	0
Reversal regarding disposals	1.480	0	0
Revaluations end of year	**(8.004)**	**0**	**0**
Carrying amount end of year	**40.970**	**184**	**1.887**

Notes to parent financial statements

7. Prepayments

Prepayments comprise prepaid costs, including insurance, subscriptions etc.

	2017 DKK'000
8. Deferred tax	
Changes during the year	
Beginning of year	5.767
Recognised in the income statement	1.781
End of year	**7.548**

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 2017 DKK'000	Instalments within 12 months 2016 DKK'000	Instalments beyond 12 months 2017 DKK'000	Outstanding after 5 years DKK'000
11. Liabilities other than provisions				
Mortgage debts	797	806	7.073	3.860
Bank loans	21.750	0	12.500	0
Finance lease liabilities	1.193	1.145	2.197	0
	23.740	**1.951**	**21.770**	**3.860**

	2017 DKK'000	2016 DKK'000
12. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	**39.780**	**41.303**

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

Notes to parent financial statements

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 20.039k.

A letter of support has been issued to some subsidiaries. At 31 December 2017, debts of these subsidiaries total DKK 11.913k exclusive of group balances. Provisions have been made at 31 December 2017 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 9.568k nominal.

The carrying amount of mortgaged properties is DKK 24.804k.

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 2.225k.

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 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.

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).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year except for a few reclassifications.

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.

Accounting policies

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 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.

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.

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 the Parent 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 obligtation.

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

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.

Accounting policies

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

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

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.

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

Accounting policies

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.

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.

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.