

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

Annual report 2020

The Annual General Meeting adopted the annual report on 14.07.2021

Chairman of the General Meeting

Name: Rasmus Sandorff Jacobsen

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Entity details

Entity

Hydratech Industries A/S
Suensonsvej 14
8600 Silkeborg

Central Business Registration No: 83455128
Registered in: Silkeborg
Financial year: 01.01.2020 - 31.12.2020
Website: www.hydratech-industries.com

Executive Board

Knud Andersen
Rasmus Sandorff Jacobsen

Board of Directors

John Staunbjerg Dueholm, Chairman
Jacob Østergaard Bergenholtz
Knud Andersen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Hydratech Industries A/S for the financial year 1 January 2020 - 31 December 2020.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31 December 2020 and of the results of their operations and cash flows for the financial year 1 January 2020 - 31 December 2020.

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, 12.07.2021

Executive Board

Knud Andersen

Rasmus Sandorff Jacobsen

Board of Directors

John Staunbjerg Dueholm
Chairman

Jacob Østergaard Bergenholtz

Knud Andersen

Independent auditor's report

To the shareholders of Hydratech Industries A/S

Opinion

We have audited the financial statements of Hydratech Industries A/S for the financial year 1 January 2020 - 31 December 2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position at 31 December 2020, and of the results of their operations and cash flows for the financial year 1 January 2020 - 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

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

Emphasis of Matter

The group has recognized receivables from group enterprises of DKK 114,7 million as at 31 December 2020. Management have prepared a cash flow estimate for the entities based on a 4 year forecast horizon.

The recorded receivables are sensitive to changes in the assumptions applied including forecast and budgets applied. If the used assumptions differs significantly from expectations, it may prove necessary to record a not insignificant write-down of receivables.

We draw attention to note 17 of the financial statements, which describes assumptions used in the valuation.

Our opinion is not modified in respect of this matter.

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Independent auditor's report

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

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

Aarhus, 12.07.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

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

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

Management commentary

	IFRS 2020 DKK'000	IFRS 2019 DKK'000	IFRS 2018 DKK'000	IFRS 2017 DKK'000	DK GAAP 2016 DKK'000
Financial highlights					
Key figures					
Revenue	326.243	464.936	385.006	413.033	455.428
Gross profit/loss	43.283	39.213	60.660	104.112	121.991
Operating profit/loss	(36.846)	(49.126)	(12.709)	11.955	27.973
Net financials	(16.686)	(11.089)	(12.584)	(12.342)	(5.429)
Profit/loss for the year	(47.599)	(61.118)	1.476	(20.604)	(6.073)
Total assets	275.110	303.065	336.720	303.157	307.185
Investments in property, plant and equipment	4.383	2.494	4.656	1.046	1.632
Equity	(30.766)	7.319	46.244	25.535	28.040
Ratios					
Gross margin (%)	13,3	8,4	15,8	25,2	26,8
Net margin (%)	(14,6)	(13,1)	0,4	(5,0)	(1,3)
Return on equity (%)	(406,0)	(228,2)	4,1	(76,9)	(16,6)
Equity ratio (%)	(11,2)	2,4	13,7	8,4	9,1

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2020" issued by the CFA Society Denmark.

The figures stated for 2017, 2018, 2019 and 2020 have been prepared in accordance with IFRS. 2016 has been prepared in accordance with the Danish Financial Statements Act.

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

Management commentary

Primary activities

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

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

Development in activities and finances

The financial year was characterised by a satisfying activity level in the Wind divisions whereas the Fluid divisions continued to see challenges driven by the drop in oil prices due to Covid-19. The Covid-19 pandemic lasting throughout the entire 2020 has posed challenges in respect of restrictions and temporary closing of factories and made it difficult to travel in relation to service. The situation has led to additional costs, which have been absorbed in the operating expenses.

During 2020 the Company's Wind divisions in both the Czech Republic and in China have experienced significant growth and in particular the development in China was very satisfying.

The general price pressure in the wind industry continues. This also impacts Hydratech Industries A/S, but a new strategy plan in 2020 and a continued management focus on cost out and efficiency have made Hydratech able to increase the margins.

Financial development in 2020

Revenue

Revenue in 2020 was DKK 326m against DKK 465m in 2019. The Fluid and Service divisions held a stable level while the Wind division experienced a drop in revenue. Revenue dropped as the Company's subsidiaries invoiced a bigger share of the revenue directly to the end customer.

Gross margin

The gross margin increased from 8.4% to 13.3 % from 2019 to 2020, due to improved efficiency after setting up the new factory in the Czech Republic.

Income from investment in group enterprises

The subsidiaries realised a profit of DKK 1m in 2020. The performance was negatively impacted by the Covid-19 pandemic, especially in the US market.

Equity

Equity has been increased by DKK 25m in July 2021 as a cash injection of DKK 25M has been made.

Outlook

Revenue

Hydratech Industries A/S expects the revenue in all three divisions to continue on a stable level in 2021.

Management commentary

Outlook, continuing

Fluid Division

The oil prices have again seen an increase to a level, where investments are viable and Hydratech Industries A/S currently experiences an increase in requests for quotations in the Fluid business. Management thus expects a pick up in activity level in H2 of 2021. During H2 of 2020 a cost reduction programme was implemented in the Fluid business. Thus improvement in operating results are expected in 2021 compared to last year. The division's activity level is still reduced by the Covid-19 travel restrictions.

Wind Division

Hydratech Industries A/S expects a flat development in revenue in the Wind Division fully in line with all market estimates, where pickup is expected again in 2022.

Hydratech Industries A/S is now well positioned to produce regionally where our customers are located and in this way able to reduce global transportation to a minimum. This will both offset the high transportation cost, reduce lead time, increase flexibility and play into our customers ESG agenda.

Over the year 2020 Hydratech Industries A/S has experienced a positive development in the margins, quality and on time delivery. It is management's assessment that Hydratech Industries A/S stands in a good position for the future.

Service Division

Hydratech Industries A/S expects the positive development from 2020 to continue in 2021. It is supported by a huge and still increasing installed base and the aging profile of the installed base. Combined with customers acquiring Hydratech Industries replacement products for the products originally installed as well as more new partnumbers are included in the agreements with customers.

Gross margin

The gross margin in 2020 developed positively as a consequence of the more cost effective set up and the constant focus on cost out. Improving the gross margin has been the key priority in 2020 and will continue to be the key priority in 2021.

The gross margin is expected to be stable in 2021 because:

- The new factory in the Czech Republic is fully up and running and efficiency is still increasing.
- Significant cost out programs have been executed in our Chinese factory
- A new worldwide cost out program focusing on the Company's core products was kicked off in H2 of 2020 and is expected to yield improvements in 2021.
- During Q4/2020 and into Q1/2021 huge material price increases have been recognised. The Company expects to be able to mitigate this through efficiency programs, engineering and production optimisations, change of suppliers to more competitive suppliers and internal cost efficiency programs.

The initiatives above are expected to contribute to a stable gross margin and an improved competitiveness towards the customers.

Management commentary

Income from investment in group enterprises

In 2021 revenue in the subsidiaries is expected to decrease but an increased profitability in 2020 and 2021 is expected to offset the impact.

The income from investment in group enterprises is expected to be stable in 2021.

Particular risks

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

Hydratech Industries A/S experienced a close down in its Chinese and Indian operation due to Covid-19 in the first half of 2020. Management emphasise that even though we managed to keep the supply chain operating through 2020, it has been a big challenge and posed a significant risk. With the development of Covid-19 worldwide there is still a risk for temporary operational stops due to Covid-19 either at Hydratech Industries factories or at our suppliers.

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

Warranty commitments

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

Price risks

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

Currency risks

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

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

Interest-rate risks

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

Management commentary

Funding risk

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

Credit risk

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

Financial reporting

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

Compliance with regulations

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

Intellectual capital resources

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

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

Management commentary

Research and development activities

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

Also, in the financial year 2020 Hydratech Industries A/S has participated in several development projects together with current customers. These are projects that will help expand the range of products.

Statutory report on corporate social responsibility

For description of the business model please see paragraph "primary activities" above.

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

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

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

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

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

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

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

With respect to the working environment, we arrange training sessions on a safe working environment. Also in this area, the efforts in 2020 have helped sustain a healthy and safe working environment for the staff, and there have been no serious accidents in 2020. We will continue to sustain these efforts in the coming year.

Management commentary

Statutory report on corporate social responsibility, continuing

We are committed to be responsible for the environmental impact of our products, processes, and services. We control our activities to comply to the local legislative requirements and to the protection of the environment. We have entered a commitment with our main customers to reduce the environmental footprint from our production. In 2020 we have focused on utilising our operational footprint and produce on the factory closest to the customer in order to reduce the carbon emission. In 2021 we will continue to identify areas we can improve to reduce our environmental footprint.

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

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

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

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

Hydratech Industries A/S respects international conventions and observes national law for protecting human rights, and preventing corruption and has implemented this as part of the code of conduct. All employees are educated in the code of conduct and formal procedures are setup to secure that both employees and business partners are compliant with the code of conduct. As a result of the clear rules in our code of conduct and the training and communication provided, we believe that we have maintained a high level of business integrity and ethics in our companies in 2020 and will continue to make the same efforts in the coming year.

Statutory report on the underrepresented gender

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

Management commentary

Statutory report on the underrepresented gender, continuing

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. The employment process is designed to ensure that men and women have equal opportunities to apply for a management position. Vacancies are advertised and women are among the candidates if possible. At least two executives are involved in the appointment of managers to ensure that the biggest management talents are hired, regardless of gender.

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

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

At the balance sheet date, the Executive Board consists of two men. There have not been any changes in 2020. We are not yet closer to meeting the target but the aim is to meet the target before 2025. When nominating candidates for the Board of Directors and Executive Board, the Board pursues the objective of adding more women to the Board. However, this must not affect the other recruiting criteria.

At year-end 2020, the gender composition at the other management levels was 1 woman and 10 men. The efforts will continue in 2021.

Statutory report on corporate governance

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

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

Events after the balance sheet date

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

Equity has been increased by DKK 25m in July 2021 as a cash injection of DKK 25M has been made.

Income statement for 2020

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Revenue	2	326.243	464.936
Cost of sales		(278.988)	(405.154)
Other operating income		19.536	2.990
Other external expenses		(23.508)	(23.559)
Gross profit/loss		43.283	39.213
Staff costs	3	(63.858)	(65.414)
Depreciation and amortisation	4	(16.271)	(22.925)
Operating profit/loss		(36.846)	(49.126)
Income from investments in group enterprises		5.933	(15.272)
Other financial income	5	14.750	6.531
Other financial expenses	6	(31.436)	(17.620)
Profit/loss before tax		(47.599)	(75.487)
Tax on profit/loss for the year	7	0	14.369
Profit/loss	8	(47.599)	(61.118)

Statement of comprehensive income

Profit/loss for the year	(47.599)	(61.118)
Other comprehensive income		
Items that can be reclassified to the income statement when certain conditions are met:		
Exchange differences, foreign entities	(486)	(807)
Total comprehensive income	(48.085)	(61.925)

Cash flow statement for 2020

	<u>Notes</u>	2020 DKK'000	2019 DKK'000
Operating profit/loss		(36.846)	(49.126)
Amortisation and depreciation		16.271	22.925
Other provisions		1.077	(582)
Working capital changes	9	(9.829)	2.528
Cash flow from ordinary operating activities		(29.327)	(24.255)
Financial income received		854	926
Financial income paid		(18.661)	(12.196)
Income taxes refunded/(paid)		1.321	1.373
Cash flows from operating activities		(45.813)	(34.152)
Acquisition etc of intangible assets		(3.843)	(8.887)
Acquisition etc of plant and machinery		(2.220)	(2.494)
Sale of property, plant and equipment		0	2.002
Acquisition of enterprises		0	(1.499)
Acquisition etc of fixed asset investments		(39)	(112)
Cash flows from investing activities		(6.102)	(10.990)
Loans raised		87.760	0
Increase of bank loans		0	38.165
Bank loans		(32.704)	0
Mortgage debt		(10.194)	(3.313)
Leasing debt		(2.944)	(2.732)
Cash increase of capital		10.000	13.000
Cash flows from financing activities		51.918	45.120
Increase/decrease in cash and cash equivalents		3	(22)
Cash and cash equivalents beginning of year		61	83
Currency translation adjustments of cash and cash equivalents		0	0
Cash and cash equivalents end of year		64	61
Cash and cash equivalents at year-end are composed of:			
Cash		64	61
Cash and cash equivalents end of year		64	61
Non cash transactions	10		
Reconciliation of liabilities from financial activities	11		

Balance sheet at 31.12.2020

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Completed development projects		23.597	15.028
Acquired licences		1.083	2.607
Development projects in progress		118	12.758
Intangible assets	12	<u>24.798</u>	<u>30.393</u>
Land and buildings		43.050	46.519
Plant and machinery		7.961	9.055
Other fixtures and fittings, tools and equipment		2.656	1.546
Leasehold improvements		1.840	2.292
Property, plant and equipment in progress		270	0
Property, plant and equipment	13	<u>55.777</u>	<u>59.412</u>
Investments in group enterprises		14.786	9.345
Other investments		159	184
Deposits		1.962	1.923
Deferred tax	19	7.916	8.389
Fixed asset investments	14	<u>24.823</u>	<u>19.841</u>
Non-current assets		<u>105.398</u>	<u>109.646</u>
Raw materials and consumables		24.504	31.541
Work in progress		0	1.504
Inventories		<u>24.504</u>	<u>33.045</u>
Trade receivables	15	9.544	9.353
Contract assets	16	14.195	24.111
Receivables from group enterprises	17	114.693	117.514
Other receivables		4.570	5.561
Prepayments		1.613	2.397
Income tax receivable		529	1.377
Receivables		<u>145.144</u>	<u>160.313</u>
Cash		<u>64</u>	<u>61</u>
Current assets		<u>169.712</u>	<u>193.419</u>
Assets		<u>275.110</u>	<u>303.065</u>

Balance sheet at 31.12.2020

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Contributed capital	18	10.228	10.219
Reserve for development expenditure		18.324	20.858
Retained earnings		(55.601)	(20.527)
Foreign currency translation adjustments		(3.717)	(3.231)
Equity		(30.766)	7.319
Other provisions		605	1.682
Mortgage debts	20	4.656	5.487
Lease liabilities	20	22.111	23.539
Bank loans	20	84.000	0
Other payables	20	22.240	0
Non-current liabilities		133.612	30.708
Current portion of long-term liabilities	20	34.193	40.020
Bank loans	20	30.088	62.792
Prepayments received from customers	21	17.910	8.404
Trade payables		31.434	81.342
Payables to group enterprises		13.993	19.874
Other payables		44.646	52.606
Current liabilities		172.264	265.038
Liabilities		305.876	295.746
Equity and liabilities		275.110	303.065
Contingent liabilities	22		
Mortgages and securities	23		
Subsidiaries	24		
Related parties and group relations	25		
Financial risks and financial instruments	26		
Events after the reporting period	27		

Statement of shareholders' equity

DKK'000	Share capital	Retained earnings	Foreign currency translation adjustment	Reserve for develop- ment expen- diture	Total
2020					
Shareholders' equity at beginning of year	10.219	(20.527)	(3.231)	20.858	7.319
Profit for the year	0	(47.599)	0	0	(47.599)
Other comprehensive income	0	0	(486)	0	(486)
Other adjustments	0	0	0	0	0
Total comprehensive income	0	(47.599)	(486)	0	(48.085)
Increase of capital	8	(8)	0	0	0
Increase of capital	1	9.999	0	0	10.000
Transactions with owners	9	9.991	0	0	10.000
Transfer to reserves	0	2.534	0	(2.534)	0
Transfers	0	2.534	0	(2.534)	0
Shareholders' equity at end of year	10.228	(55.601)	(3.717)	18.324	(30.766)
2019					
Shareholders' equity at beginning of year	10.212	15.199	(2.424)	23.257	46.244
Profit for the year	0	(61.118)	0	0	(61.118)
Other comprehensive income	0	0	(807)	0	(807)
Other adjustments	0	0	0	0	0
Total comprehensive income	0	(61.118)	(807)	0	(61.925)
Increase of capital	7	12.993	0	0	13.000
Debt conversion	0	10.000	0	0	10.000
Transactions with owners	7	22.993	0	0	23.000
Transfer to reserves	0	2.399	0	(2.399)	0
Transfers	0	2.399	0	(2.399)	0
Shareholders' equity at end of year	10.219	(20.527)	(3.231)	20.858	7.319

The capital was in 2019 increased by DKK 7k nominal, whereby equity has been increased by a total of DKK 13.000k. Furthermore the capital was in 2019 increased by a debt conversion of DKK 10.000k by the shareholders.

The capital was in 2020 increased by DKK 9k nominal, whereby equity has been increased by a total of DKK 10.000k.

Number of shares is 10.227.510 with the nominal value of DKK 10.227.510.

No dividend was declared in 2020.

Notes to financial statements

1. Basis of preparation

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

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

1.1 New and revised IFRSs in issue but not yet effective

At the time of publication of the 2020 financial statements of Hydratech Industries A/S, there are a number of new or changed standards and interpretations.

The implementation has not had a significant impact on recognition, measurement or disclosures in the Annual Report 2020 and is not expected to have significant impact on the financial reporting for future periods.

1.2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

Key sources of estimation uncertainty

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

Notes to financial statements

1.2 Critical accounting judgements and key sources of estimation uncertainty continuing

Investments in group enterprises and group receivables

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

As of 31 December 2020, Hydratech A/S has group receivables of DKK 128m of which DKK 13m is provided for loss. The carrying amount at 31 December 2020 amounts to DKK 115m.

The estimation uncertainty is related to the realization of future expected efficiencies and the conclusion of expected contracts in subsidiaries.

Deferred tax assets

Determining whether deferred tax assets is impaired requires an estimation of the value in use of the profit-generating units to which deferred tax assets has been allocated. The value in use calculation requires the directors to estimate the future profits expected to arise from the profit-generating unit. Where the actual future profits are less than expected, a material impairment loss may arise. The key assumptions used in the impairments tests of deferred tax assets are disclosed in note 19.

The estimation uncertainty is related to the fact, that future expected efficiencies in the Company will be realized and thereby create positive taxable profit.

Notes to financial statements

	2020 DKK'000	2019 DKK'000
2. Net sales		
Europe	224.788	357.341
Asia	38.466	36.097
North America	54.203	61.217
Other regions	8.786	10.281
	326.243	464.936
Wind	195.492	319.345
Fluid	16.992	38.044
Service	113.759	107.547
	326.243	464.936

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

Change in contracts assets regarding revenue recognised from contracts with customers recognised over time amounts to DKK 9,9m as of 31 December 2020 (2019: DKK -10,1m). Contract assets amount to DKK 14,2m as of 31 December 2019 (2019: DKK 24,1m). All unsatisfied performance obligations at year-end are part of contracts with customers that have an original expected duration of one year or less, and consequently, the aggregate amount of the transaction prices allocated to unsatisfied performance obligations is not disclosed.

Revenue is recognised over time to the extent that each of the vendors' performance obligations are satisfied. Hydratech evaluates the stage of completion on revenue recognised over time based on the input method. Contract assets as of 31 December 2020 are completed in 2021.

	2020 DKK'000	2019 DKK'000
3. Staff costs		
Wages and salaries	50.762	48.865
Pension costs	10.700	13.012
Other social security costs	2.396	3.537
	63.858	65.414
Average number of employees	183	228

Notes to financial statements

3. Staff costs continuing	Top ma- nagement DKK'000	Other top manage- ment DKK'000	Total DKK'000
2020			
Remuneration and salary	3.875	10.115	13.990
Pension, company contributions	0	923	923
Benefits (car, housing, phone etc.)	81	819	900
Cost at end of year	3.956	11.857	15.813
2019			
Remuneration and salary	1.367	6.378	7.745
Pension, company contributions	0	535	535
Benefits (car, housing, phone etc.)	231	1.010	1.241
Cost at end of year	1.598	7.923	9.521

The Board of Directors do not receive any remuneration, pension or other benefits.

The Executive Board and a number of members of other top management are comprised by special bonus arrangements in the parent company Hydratech Industries Holding A/S, which become effective at the sale of Hydratech Industries Holding A/S if certain enterprise values are met. The bonus arrangements are maximised at DKK 14m.

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

Notes to financial statements

	2020 DKK'000	2019 DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	8.262	9.330
Depreciation of property, plant and equipment	6.808	7.535
Profit/loss from sale of intangible assets and property, plant and equipment	128	(70)
Depreciation and amortisation losses	15.198	16.795
Impairment losses of intangible assets	1.073	6.130
	16.271	22.925
Hereof depreciation of right-of-use assets	4.234	4.388

Hydratech leases several assets including buildings, plants and other fixtures, tools and equipment.

	2020 DKK'000	2019 DKK'000
5. Financial income		
Financial income, group enterprises	853	1.048
Exchange rate adjustments	13.896	5.480
Other financial income	1	3
	14.750	6.531
6. Financial expenses		
Financial expenses, group enterprises	0	12
Exchange rate adjustments	12.775	5.424
Interest expenses on lease liabilities	1.741	1.931
Financial expenses to external lenders	16.920	10.253
	31.436	17.620

Notes to financial statements

	2020 DKK'000	2019 DKK'000
7. Income tax		
<i>Current tax:</i>		
Current tax on profit for the year	(473)	(1.377)
Adjustment in respect of prior years	0	0
Joint taxation refund	0	(1.423)
Total current tax	<u>(473)</u>	<u>(2.800)</u>
<i>Deferred tax:</i>		
Adjustment of deferred tax asset/liability	473	(10.798)
Adjustment of deferred tax asset/liability in respect of prior years	0	(771)
Total deferred tax	<u>473</u>	<u>(11.569)</u>
Total income tax	<u>0</u>	<u>(14.369)</u>
	2020 DKK'000	2019 DKK'000
Earnings before tax	(47.599)	(75.487)
Income from equity method used towards subsidiaries	(5.933)	15.272
Earnings before tax, parent company	<u>(53.532)</u>	<u>(60.215)</u>
Calculated tax at Danish statutory rate of 22%	(11.777)	(13.247)
Adjustment in respect of prior years	0	(771)
Income / expenses not subject to tax	460	1.072
Not recognized tax asset	11.317	0
Joint taxation refund	0	(1.423)
Tax charge	<u>0</u>	<u>(14.369)</u>
	2020 DKK'000	2019 DKK'000
8. Proposed distribution of profit/loss		
Retained earnings	(47.599)	(61.118)
	<u>(47.599)</u>	<u>(61.118)</u>

Notes to financial statements

	2020 DKK'000	2019 DKK'000
9. Change in working capital		
Increase/decrease in inventories	8.541	25.526
Increase/decrease in receivables	13.633	(1.311)
Increase/decrease in trade payables etc.	(32.003)	(21.687)
	(9.829)	2.528
10. Non cash transactions		
Conversion of debt to equity	0	10.000
Lease liabilities	2.163	0
	2.163	10.000

In November 2019 Hydratech Industries A/S received a cash loan of DKK 10m from Anpartsselskabet af 4. juli 2008. Anpartsselskabet af 4. juli 2008 converted the loan of DKK 10m to equity.

11. Reconciliation of liabilities arising from financing activities

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2020	29.026	102.812	131.838
Cash flows	0	(45.842)	(45.842)
Loans raised	87.760	0	87.760
Amortization of lease liabilities	0	(2.943)	(2.943)
Reclassifications	(6.019)	6.019	0
Other	22.240	4.235	26.475
31 December 2020	133.007	64.281	197.288
	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Total DKK'000
1 January 2019	34.688	67.594	102.282
Cash flows	0	32.120	32.120
Loans raised	0	10.000	0
Non cash transactions	0	(10.000)	0
Amortization of lease liabilities	0	(2.564)	(2.564)
Reclassifications	(5.662)	5.662	0
31 December 2019	29.026	102.812	131.838

Notes to financial statements

	Completed develop- ment projects DKK'000	Acquired licences DKK'000	Development projects in progress DKK'000
12. Intangible assets			
2020			
Cost at beginning of year	34.991	13.543	13.247
Transfers	12.641	0	(12.641)
Additions	3.438	404	1
Disposals	(103)	0	0
Total cost at end of year	50.967	13.947	607
Amortisation and impairment losses			
at beginning of year	(19.963)	(10.936)	(489)
Amortisation for the year	(6.334)	(1.928)	0
Impairment losses for the year	(1.073)	0	0
Total amortisation and impairment losses at end of year	(27.370)	(12.864)	(489)
Carrying amount at end of year	23.597	1.083	118
Management have cancelled and consequently impaired completed development projects with a total of 1.073k			
2019			
Cost at beginning of year	28.124	13.365	11.405
Transfers	6.867	0	(6.867)
Additions	0	178	8.709
Total cost at end of year	34.991	13.543	13.247
Amortisation and impairment losses			
at beginning of year	(7.217)	(8.711)	0
Amortisation for the year	(7.105)	(2.225)	0
Impairment losses for the year	(5.641)	0	(489)
Total amortisation and impairment losses at end of year	(19.963)	(10.936)	(489)
Carrying amount at end of year	15.028	2.607	12.758

Notes to financial statements

12. Intangible assets continuing

Development projects in progress

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

The carrying amount at 31.12.2020 amounts to DKK 118k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 0m is estimated to complete the development projects in progress.

An amount of DKK 613k is expensed in 2020 related to research activities.

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. Management has in 2020 impaired completed development projects for a total of DKK 1.073k.

Notes to financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
13. Property, plant and equipment			
2020			
Cost at beginning of year	74.328	77.840	8.922
Additions	168	1.782	2.163
Disposals	0	(2.484)	(1.900)
Total cost at end of year	74.496	77.138	9.185
Depreciation at beginning of year	(27.809)	(68.785)	(7.376)
Depreciation for the year	(3.637)	(1.666)	(1.053)
Reversal regarding disposals	0	1.274	1.900
Depreciation at end of year	(31.446)	(69.177)	(6.529)
Carrying amount at end of year	43.050	7.961	2.656
Of this right-of-use assets:			
Net carrying amount			
31 December 2020	19.983	715	2.775
Depreciation expense for the year			
31 December 2020	2.855	353	1.025
Additions for the year			
31 December 2020	0	0	2.163
		2020 DKK'000	2019 DKK'000
Amount recognised in profit and loss regarding leases			
Depreciation		4.234	4.388
Interest		1.741	1.931
		5.975	6.319

Total cash flows related to leasing amounts to DKK 4.685k for the year.

Notes to financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
13. Property, plant and equipment			
2019			
Cost at beginning of year	74.328	80.464	8.889
Additions	0	2.444	50
Disposals	0	(5.068)	(17)
Total cost at end of year	74.328	77.840	8.922
Depreciation at beginning of year	(24.284)	(69.643)	(6.182)
Depreciation for the year	(3.525)	(2.275)	(1.210)
Reversal regarding disposals	0	3.133	16
Depreciation at end of year	(27.809)	(68.785)	(7.376)
Carrying amount at end of year	46.519	9.055	1.546
Of this right-of-use assets:			
Net carrying amount			
31 December 2019	22.838	1.919	1.637
Depreciation expense for the year			
31 December 2019	2.855	1.279	945

Total cash flows related to leasing amounts to DKK 4.495k for the year.

Notes to financial statements

	Leasehold improve- ments DKK'000	Property, plant and equipment in progress DKK'000
13. Property, plant and equipment continuing 2020		
Cost at beginning of year	5.306	0
Additions	0	270
Disposals	(28)	0
Total cost at end of year	5.278	270
Depreciation at beginning of year	(3.014)	0
Depreciation for the year	(452)	0
Reversal regarding disposals	28	0
Depreciation at end of year	(3.438)	0
Carrying amount at end of year	1.840	270
13. Property, plant and equipment continuing 2019		
Cost at beginning of year	5.351	0
Additions	0	0
Disposals	(45)	0
Total cost at end of year	5.306	0
Depreciation at beginning of year	(2.537)	0
Depreciation for the year	(522)	0
Reversal regarding disposals	45	0
Depreciation at end of year	(3.014)	0
Carrying amount at end of year	2.292	0

Notes to financial statements

	Investments in group enterprises DKK'000	Other investments DKK'000	Deposits DKK'000
14. Fixed asset investments			
2020			
Cost beginning of year	50.561	184	1.923
Additions	0	0	39
Disposals	0	0	0
Cost end of year	50.561	184	1.962
Revaluations beginning of the year	(41.216)	0	0
Exchange rate adjustments	(486)	0	0
Share of profit/loss for the year	5.011	0	0
Reversal of investments with negative equity deducted against receivables	0	0	0
Investments with negative equity recognised as provisions	0	0	0
Reversal regarding disposals	0	0	0
Other adjustments	916	(25)	0
Revaluations end of year	(35.775)	(25)	0
Carrying amount end of year	14.786	159	1.962

In 2020, Management has made a reversal of DKK 0 (2019: DKK 7,084k) regarding provision for loss on receivables from group enterprises made in prior years. Group enterprises with negative equity value which have not been expensed amounts to DKK 40,428k (2019: DKK 47,186k) as of 31 December 2020.

Notes to financial statements

	Investments in group enterprises DKK'000	Other investments DKK'000	Deposits DKK'000
14. Fixed asset investments continuing			
2019			
Cost beginning of year	49.154	184	1.811
Additions	1.499	0	112
Disposals	(92)	0	0
Cost end of year	50.561	184	1.923
Revaluations beginning of the year	(18.349)	0	0
Exchange rate adjustments	(807)	0	0
Share of profit/loss for the year	(14.857)	0	0
Reversal of investments with negative equity deducted against receivables	(13.574)	0	0
Investments with negative equity recognised as provisions	0	0	0
Reversal regarding disposals	6.582	0	0
Other adjustments	(211)	0	0
Revaluations end of year	(41.216)	0	0
Carrying amount end of year	9.345	184	1.923

	2020 DKK'000	2019 DKK'000
15. Trade receivables		
Trade receivables	10.331	9.353
Provisions for impairment of trade receivables	(787)	0
	9.544	9.353

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

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

Notes to financial statements

	2020 DKK'000	2019 DKK'000
16. Contract assets		
Contract assets	14.195	24.111
Provisions for impairment of contract assets	<u>0</u>	<u>0</u>
	<u>14.195</u>	<u>24.111</u>

No lifetime expected losses are expected, and therefore no provision for losses has been made. In 2021, Management has delivered all contract assets for 2020 and received payment without any incurred losses.

	2020 DKK'000	2019 DKK'000
17. Receivables from group enterprises		
Receivables from group enterprises	127.821	130.642
Provisions for impairment of group receivables	<u>(13.128)</u>	<u>(13.128)</u>
	<u>114.693</u>	<u>117.514</u>

Management calculates provision based on 12-month expected losses. Management has identified objective indication of credit losses incurred on some group enterprises and therefore made provision for lifetime expected losses. Management assesses the need for provisions for 12-month expected losses as well as lifetime expected losses based on budgets for each group enterprise.

The estimation uncertainty is related to the realization of future expected efficiencies and the conclusion of expected contracts in subsidiaries.

In 2019, Management has reversed provision for receivables from group enterprises expensed in previous years of DKK 7.084 due to positive development in the group enterprises in China in 2019 and future budgets for the entities.

Notes to financial statements

18. Contributed capital

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

31 December 2020

Share Class	Number of Shares (nominal DKK)	Share Capital
A Shares	1.022.760	1.022.760
B Shares	8.778.500	8.778.500
C Shares	306.809	306.809
D Shares	119.291	119.291
E Shares	150	150
Total	10.227.510	10.227.510

31 December 2019

Share Class	Number of Shares (nominal DKK)	Share Capital
A Shares	1.021.940	1.021.940
B Shares	8.771.550	8.771.550
C Shares	306.585	306.585
D Shares	119.201	119.201
E Shares	100	100
Total	10.219.376	10.219.376

2020

Each class B preference share, which has a par value of DKK 1, carries a preferential right to distribution of proceeds to shareholders of an aggregate amount of DKK 160m with addition of an accumulating compound return of 4-12.5% annually from the date of the initial issuance of the Class B preference shares.

Upon the preferential rights of the Class B shares having been satisfied, Class E preference shares, which have a par value of DKK 1, carry a preferential right to dividend distribution of proceeds pro rata of an aggregate amount of DKK 22m with addition of an accumulating compound return of 13.5% annually from the date of the initial issuance of the Class E shares.

Upon the preferential rights of the Class E shares having been satisfied, Class A, C and D preference shares, which have a par value of DKK 1, carry a preferential right to dividend distribution of proceeds pro rata of an aggregate amount of DKK 130m with addition of an accumulating compound return of 15% annually from the date of the initial issuance of the Class A, C and D shares.

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

Notes to financial statements

18. Contributed capital continuing

2019

Each class B preference share, which has a par value of DKK 1, carries a preferential right to distribution of proceeds to shareholders of an aggregate amount of DKK 145m with addition of an accumulating compound return of 4-12.5% annually from the date of the initial issuance of the Class B preference shares.

Upon the preferential rights of the Class B shares having been satisfied, Class E preference shares, which have a par value of DKK 1, carry a preferential right to dividend distribution of proceeds pro rata of an aggregate amount of DKK 10m with addition of an accumulating compound return of 15% annually from the date of the initial issuance of the Class E shares.

Upon the preferential rights of the Class E shares having been satisfied, Class A, C and D preference shares, which have a par value of DKK 1, carry a preferential right to dividend distribution of proceeds pro rata of an aggregate amount of DKK 113m with addition of an accumulating compound return of 15% annually from the date of the initial issuance of the Class A, C and D shares.

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

19. Deferred tax assets and deferred tax liabilities

2020 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax beginning of year	6.738	(1.458)	1.785	(370)	(15.781)	697	(8.389)
Charge to the income statement	(1.910)	(501)	(184)	75	3.690	(697)	473
Deferred tax end of year	4.828	(1.959)	1.601	(295)	(12.091)	0	(7.916)

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	7.916
Deferred tax liability	<u>0</u>
Deferred tax liabilities year end, net	<u>7.916</u>

Deferred tax assets is expected to be utilized through future profits. Future profits is determined on the basis of the budget years 2021-2027 approved by Management.

The estimation is based on budgets stating, that future expected efficiencies in the Company will be realized and thereby create positive taxable profit.

As of 31.12.2020 there is a non-recognized tax asset related to taxable losses for prior years. The non-recognized tax asset related to taxable losses for prior years amounts to DKK 9m.

2019 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
Deferred tax beginning of year	7.634	685	2.789	(242)	(7.835)	149	3.180
Charge to the income statement	(896)	(2.143)	(1.004)	(128)	(7.946)	548	(11.569)
Deferred tax end of year	6.738	(1.458)	1.785	(370)	(15.781)	697	(8.389)

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	8.389
Deferred tax liability	<u>0</u>
Deferred tax liabilities year end, net	<u>8.389</u>

Notes to financial statements

	Instalments within 12 months 2020 DKK'000	Instalments between 12-60 months 2020 DKK'000	Outstanding after 60 months DKK'000
20. Liabilities other than provisions			
2020			
Mortgage debts	808	3.237	1.419
Lease liabilities	5.150	15.233	6.878
Bank loans	24.000	84.000	0
Overdraft facility	30.088	0	0
Other payables	4.235	11.922	10.318
	64.281	114.392	18.615
2019			
Mortgage debts	806	3.242	2.245
Bank loans	34.100	0	0
Overdraft facility	62.792	0	0
Lease liabilities	5.114	16.139	7.400
	102.812	19.381	9.645

21. Prepayments received from customers

Prepayments received from customers primarily relates to projects in the wind division. Production has not yet begun hence no revenue is recognized in 2020. The projects is expected to be delivered in 2021.

22. Contingent liabilities

A letter of support has been issued to one subsidiary. At 31 December 2020, debts of the subsidiary totalled DKK 1.800k exclusive of group balances.

A letter of support has been issued to some suppliers. At 31 December 2020, debts of the suppliers totalled DKK 910k.

Notes to financial statements

23. 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 45,272k nominal.

Bank loans are secured by way of a company charge.

The carrying amount of mortgaged properties is DKK 23,067k.

Joint taxation arrangement

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

24. Subsidiaries

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

Notes to financial statements

25. Related parties and group relations

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

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

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

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

Transactions with parent entities.

	2020	2019
	DKK'000	DKK'000
Management fee paid	4.154	3.324
Management fee received	4.950	4.144
Financial receivables, loans	40.656	31.219
Financial payables, loans	5.998	4.304

Transactions with group enterprises.

	2020	2019
	DKK'000	DKK'000
Management fee	23.109	7.470
Interests	853	1.048
Financial receivables, loans	28.305	32.844
Financial receivables, trade	65.070	66.580
Financial payables, trade	14.205	15.571
Revenue	41.562	71.579
Cost of sales	121.569	93.010

Besides the above listed transactions, there was a capital injection of DKK 10,000k by the shareholders.

With reference to note 3, we refer to staff cost to Management.

Notes to financial statements

26. Financial risks and financial instruments

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

Exchange rate risk

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

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

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

mDKK	USD impact		CNY impact	
	2019	2020	2019	2020
Impact on profit/(loss) from translation of debt and investments in subsidiaries	5.8	5.6	0.3	1.5
Impact on equity from translation of debt and investments in subsidiaries	5.8	5.6	1.2	2.9

Interest rate risk

The interest rates of credit facilities and mortgages are variable, and the change in interest rates are monitored monthly. The interest rates of mortgage debt is based on EURIBOR3.

Interest rate sensitivity analysis:

If interest rates had been 100 basis points higher and all other variables were held constant, the Company's profit for the year ended 31 December 2020 would decrease by DKK 2,8m (2019: decrease by DKK 6,6m) due to the Company's exposure to interest rates on variable rate borrowings.

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

Notes to financial statements

26. Financial risks and financial instruments continuing

Liquidity risk

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

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

2020

	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Mortgage debts	447	446	3.444	1.419	5.756
Bank loans	14.275	13.625	115.388	0	143.288
Lease liabilities	3.441	3.440	21.953	10.218	39.052
Other payables, non current	2.702	2.702	13.709	14.445	33.558
Prepayments from costumers	17.910	0	0	0	17.910
Trade payables	31.934	300	0	0	32.234
Paybles to group companies	15.314	0	0	0	15.314
Other payables	44.646	0	0	0	44.646
Total	130.669	20.513	154.494	26.082	331.758

2019

	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Mortgage debts	403	403	3.242	2.245	6.293
Bank loans	96.892	-	-	-	96.892
Lease liabilities	2.557	2.557	16.139	7.400	28.653
Trade payables	81.342	-	-	-	81.342
Paybles to group companies	19.874	-	-	-	19.874
Other payables	30.979	21.628	-	-	52.607
Total	232.047	24.588	19.381	9.645	285.661

Credit risk

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

Notes to financial statements

26. Financial risks and financial instruments continuing

Capital structure

The Company's management assesses whether the Company's capital structure is in line with the interests of the company and its shareholders. The overall objective is to ensure a capital structure that supports long-term profitable growth. Hydratech Industries A/S has in 2020 received capital injection of 10.000 tDKK.

27. Events after the reporting period

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

Equity has been increased by DKK 25m in July 2021 as a cash injection of DKK 25M has been made.

Accounting policies

Reporting class

The 2020 annual report of the company is presented in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for the financial statements of class C enterprises, cf. the Danish Executive Order on IFRS (IFRS-bekendtgørelsen) issued in accordance with the Danish Financial Statements Act.

Corporation tax

The Company is jointly taxed with all of its Danish subsidiaries, its ultimate parent Anpartsselskabet af 4 juli 2008 and all subsidiaries of Anpartsselskabet af 4 juli 2008, with Anpartsselskabet af 4 juli 2008 serving as the administration company. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Recognition and measurement

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

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

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

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

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

Foreign currency translation

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

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

Accounting policies

Income statement

Revenue

Hydratech recognises revenue from the following major sources:

- Fluid power contract sales
- Wind power contract sales

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

Control is transferred upon production from OEM sales in the Fluid and Wind divisions and consequently Hydratech recognises revenue over time.

Service sales, comprising service and maintenance agreements as well as extended warranties regarding wind turbines and wind power plants sold, were recognised as revenue over the term of the agreement as the services were provided.

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

Cost of sales

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

Other external expenses

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

Staff costs

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

Accounting policies

Depreciation and amortisation

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

Income from investments in group enterprises

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

Financial income group enterprises

Financial income from group enterprises comprises interest income etc on receivables from group enterprises.

Other financial income

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

Financial expenses from group enterprises

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

Other financial expenses

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

Tax on profit/loss for the year

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

Accounting policies

Balance sheet

Intellectual property rights etc

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

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

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

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

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

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

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

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

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

Accounting policies

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

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

Investments in group enterprises

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

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

Inventories

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

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

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

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

Receivables

Trade receivables are recognised initially at their transaction price and subsequently measured at amortised cost, which usually corresponds to the nominal value less lifetime expected credit losses.

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

Accounting policies

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

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

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

Other provisions

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

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

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

Mortgage debt

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

Leases

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

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

Accounting policies

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

Other financial liabilities

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

Prepayments received from customers

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

Income tax receivable or payable

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

Cash flow statement

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

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

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

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, instalments on interest-bearing debt and payment of dividend.

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