

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

## **Annual report 2019**

The Annual General Meeting adopted the annual report on 25.09.2020

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

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Name: Martin Christian Kruhl

## **Contents**

	<b><u>Page</u></b>
Entity details	1
Statement by Management	2
Independent auditor's report	3
Management commentary	6
Income statement for 2019	14
Statement of comprehensive income	14
Cash flow statement for 2019	15
Balance sheet at 31.12.2019	16
Statement of shareholders' equity	18
Notes to financial statements	19
Accounting policies	42

## Entity details

### Entity

Hydratech Industries A/S  
Suensonsvej 14  
8600 Silkeborg

Central Business Registration No: 83455128  
Registered in: Silkeborg  
Financial year: 01.01.2019 - 31.12.2019

### Executive Board

Knud Andersen  
Rasmus Sandorff Jacobsen

### Board of Directors

John Staunbjerg Dueholm, Chairman  
Esben Bay Jørgensen  
Knud Andersen

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
City Tower, Værkmestergade 2  
8000 Aarhus C

## Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Hydratech Industries A/S for the financial year 1 January 2019 - 31 December 2019.

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 2019 and of the results of their operations and cash flows for the financial year 1 January 2019 - 31 December 2019.

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

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

Silkeborg, 31.08.2020

### Executive Board

Knud Andersen

Rasmus Sandorff Jacobsen

### Board of Directors

John Staunbjerg Dueholm  
Chairman

Esben Bay Jørgensen

Knud Andersen

## Independent auditor's report

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

#### Opinion

We have audited the financial statements of Hydratech Industries A/S for the financial year 1 January 2019 - 31 December 2019, 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 2019, and of the results of their operations and cash flows for the financial year 1 January 2019 - 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

#### Basis for opinion

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

#### Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

## Independent auditor's report

### Management's responsibilities for the financial statements

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

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

### Auditor's responsibilities for the financial statements

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

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

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

## Independent auditor's report

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

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

Aarhus, 31.08.2020

### **Deloitte**

Statsautoriseret Revisionspartnerselskab  
Central Business Registration No: 33963556

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

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

## Management commentary

	<b>IFRS 2019 DKK'000</b>	<b>IFRS 2018 DKK'000</b>	<b>IFRS 2017 DKK'000</b>	<b>DK GAAP 2016 DKK'000</b>	<b>DK GAAP 2015 DKK'000</b>
<b>Financial highlights</b>					
<b>Key figures</b>					
Revenue	464.936	385.006	413.033	455.428	573.899
Gross profit/loss	39.213	60.660	104.112	121.991	180.030
Operating profit/loss	(49.126)	(12.709)	11.955	27.973	1.564
Net financials	(11.089)	(12.584)	(12.342)	(5.429)	(2.007)
Profit/loss for the year	(61.118)	1.476	(20.604)	(6.073)	(5.862)
Total assets	303.065	336.720	303.157	307.185	276.641
Investments in property, plant and equipment	2.494	4.656	1.046	1.632	33
Equity	7.319	46.244	25.535	28.040	44.954
<b>Ratios</b>					
Gross margin (%)	8,4	15,8	25,2	26,8	31,4
Net margin (%)	(13,1)	0,4	(5,0)	(1,3)	(1,0)
Return on equity (%)	(228,2)	4,1	(76,9)	(16,6)	(17,6)
Equity ratio (%)	2,4	13,7	8,4	9,1	16,3

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

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

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



## 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. The company serves as sub-supplier in the market segments of wind, oil, gas, mining, industry and marine with related service activities. Hydratech Industries A/S is positioned as a major supplier in both Europe, Asia and the Americas, and are serving the largest OEM-producers in the Wind segment around the world.

### Development in activities and finances

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

The general price pressure in the wind industry, meant profitability was under pressure during 2019. However, with a continued focus on efficiency in operations and on cost out, significant supply chain improvements were seen towards the end of the year.

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

To support the activities within the Wind division during the year, a capital injection of 23,0 mill. DKK was made by the shareholders and the investment partners through issuance of new shares and cash increase. The capital injection is a positive recognition from shareholders and investment partners of the great market opportunities for the company.

### Financial development in 2019

#### **Revenue**

The revenue Increased from DKK 385m in 2018 to DKK 464m in 2019 mainly driven by the Wind and the service division. Both the Wind and Service division experienced high growth rates of approximately 25% while the Fluid division had a flat development in revenue.

#### **Gross margin**

The gross margin dropped from 15.8% to 8.4% from 2018 to 2019, due to costs related to closing the production facility in Silkeborg, setting up a new factory in Czech Republic and ramp-up of new customers in 2019 coupled with the general price pressure in the Wind industry.

## Management commentary

### ***Income from investment in group enterprises***

The subsidiaries realized a loss of DKK 15m in 2019. The performance was negatively impacted by the establishment of the factory in Czech Republic. In China, the level of revenue was disappointing due to postponed projects at a significant customer.

### **Outlook**

#### ***Revenue***

Hydratech Industries A/S expects the revenue in all three divisions to continue the positive development from the second half of 2019. The revenue is expected to increase in the range of 20% - 30% and the operational cost will decrease significantly although it will still be impacted negatively by the closure of the production in Silkeborg.

#### ***Fluid Division***

Hydratech Industries A/S currently experiences a decrease in the activity in the Oil and Gas market as a result of the declining oil price and Covid-19 and management expect the reduced activity level to continue through 2020.

#### ***Wind Division***

Hydratech Industries A/S expects a positive development in revenue in the Wind Division since we are now well-positioned with some of the largest OEM-producers worldwide, who are all experiencing high activity level, not at least in the offshore segment where Hydratech Industries A/S has a strong track record and presence. The order backlog end of 2019 is at the highest level ever.

#### ***Service Division***

Hydratech Industries A/S expects the positive development from 2019 to continue in 2020 and this is supported by a huge and still increasing installed base of the group products and the aging profile of the installed base combined with customers asking for Hydratech Industries replacement products for the original installed.

#### ***Gross margin***

The gross margin in 2019 was unacceptable and a significant improvement is expected in 2020. Improving the gross margin has been the key priority in 2019 and will continue to be the key priority in 2020. The gross margin is expected to improve in 2020 because:

- The new factory in Czech Republic is fully up and running
- The factory in Silkeborg is expected to close by mid-2020
- A new cost out program was implemented in the beginning of 2019. The initiatives identified in the cost out program will primarily impact 2020
- Products with low and negative margins have been identified in 2019. Products where an acceptable margin cannot be reached have been taken out of production.

## Management commentary

The initiatives above are expected to contribute to an improved gross margin in the range from DKK 35-50m.

In the first half of 2020 the gross margin has improved, and this positive development is expected to continue throughout 2020.

### ***Income from investment in group enterprises***

In 2020 a significant increase in revenue is expected in the subsidiaries as they have a high order backlog by the end of 2019.

The subsidiary in Czech Republic had a startup year in 2019 where the factory was not fully utilized leading to a negative result. The revenue and thereby the result is expected to increase in 2020.

The income from investment in group enterprises is expected to increase in the range of DKK 25-35m.

### **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 was during the first half of 2020 experiencing a close down in its Chinese and Indian operation due to Covid-19 and management emphasize that with the development of Covid-19 worldwide there is still a risk for temporary operational stops if hit by Covid-19.

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

### **Warranty commitments**

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

## Management commentary

### **Price risks**

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

### **Currency risks**

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

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

### **Interest-rate risks**

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

### **Funding risk**

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

### **Credit risk**

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

### **Financial reporting**

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

### **Compliance with regulations**

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

## Management commentary

### Intellectual capital resources

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

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

### 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 2019 Hydratech Industries A/S 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

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

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

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

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

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

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

## Management commentary

We use defined objectives and KPIs to monitor our improvement progress and set ambitious targets.

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

With respect to the working environment, we arrange training sessions on a safe working environment. Also in this area, the efforts in 2019 have helped sustain a healthy and safe working environment for the staff, and there have been no serious accidents in 2019.

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.

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

We use defined objectives and KPIs to monitor our improvement progress.

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

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

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

Hydratech Industries A/S respects international conventions and observes national law for protecting human rights, and preventing corruption and has implemented this as part of the code of conduct. All employees are educated in the code of conduct and formal procedures are setup to secure that both employees and business partners are compliant with the code of conduct. As a result of the clear rules in our code of conduct and the training and communication provided, we believe that we have maintained a high level of business integrity and ethics in our companies in 2019.

## Management commentary

### **Statutory report on the underrepresented gender**

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

### ***Gender composition of Management***

When engaging managers, the knowledge and professional experience needed are considered carefully to ensure that the competencies required exist at all management levels. 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. In 2019 there have been employed one new member for the Executive Board (a man). The candidate was hired as he was considered to be the best qualified candidate for the job. We are not yet closer to meeting the target but the aim is to meet the target before 2022. 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 2019, the gender composition at the other management levels was 1 woman and 10 men, which is an improvement of 1 woman compared to 2018. The efforts will continue in 2020.

### **Statutory report on corporate governance**

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

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

### **Events after the balance sheet date**

In 2020, Hydratech Industries A/S experienced the effect of the global outbreak of Covid-19, but due to strict internal processes no personal has been effected so far and operation has been close to normal.

In July 2020, a new financing agreement was finalized to ensure sustainable cash to support the expected growth in the coming years. At the same time the capital was increased by DKK 0k nominal, whereby equity has been increased by a total of DKK 10m.

## Income statement for 2019

	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Revenue	2	464.936	385.006
Cost of sales		(405.154)	(297.922)
Other external expenses		<u>(20.569)</u>	<u>(26.424)</u>
<b>Gross profit/loss</b>		<b>39.213</b>	<b>60.660</b>
Staff costs	3	(65.414)	(60.858)
Depreciation and amortisation	4	<u>(22.925)</u>	<u>(12.511)</u>
<b>Operating profit/loss</b>		<b>(49.126)</b>	<b>(12.709)</b>
Income from investments in group enterprises		(15.272)	21.535
Other financial income	5	6.531	7.332
Other financial expenses	6	<u>(17.620)</u>	<u>(19.916)</u>
<b>Profit/loss before tax</b>		<b>(75.487)</b>	<b>(3.758)</b>
Tax on profit/loss for the year	7	<u>14.369</u>	<u>5.234</u>
<b>Profit/loss</b>	8	<u><b>(61.118)</b></u>	<u><b>1.476</b></u>

## Statement of comprehensive income

<b>Profit/loss for the year</b>	<b>(61.118)</b>	<b>1.476</b>
<b>Other comprehensive income</b>		
<b>Items that can be reclassified to the income statement when certain conditions are met:</b>		
Exchange differences, foreign entities	(807)	(2.513)
Other adjustments	<u>0</u>	<u>(4)</u>
<b>Total comprehensive income</b>	<u><b>(61.925)</b></u>	<u><b>(1.041)</b></u>



## Cash flow statement for 2019

	<u>Notes</u>	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
Operating profit/loss		(49.126)	(12.709)
Amortisation and depreciation		22.925	12.511
Other provisions		(582)	100
Working capital changes	9	<u>2.528</u>	<u>41.827</u>
<b>Cash flow from ordinary operating activities</b>		<b><u>(24.255)</u></b>	<b><u>41.729</u></b>
Financial income received		926	1.059
Financial income paid		(12.196)	(12.689)
Income taxes refunded/(paid)		<u>1.373</u>	<u>426</u>
<b>Cash flows from operating activities</b>		<b><u>(34.152)</u></b>	<b><u>30.525</u></b>
Acquisition etc of intangible assets		(8.887)	(12.261)
Sale of intangible assets		0	26
Acquisition etc of plant and machinery		(2.494)	(4.656)
Sale of property, plant and equipment		2.002	76
Acquisition of enterprises		(1.499)	(180)
Acquisition etc of fixed asset investments		<u>(112)</u>	<u>0</u>
<b>Cash flows from investing activities</b>		<b><u>(10.990)</u></b>	<b><u>(16.995)</u></b>
Loans raised		0	21.500
Increase of bank loans		38.165	0
Bank loans		0	(51.955)
Mortgage debt		(6.045)	(776)
Cash increase of capital		<u>13.000</u>	<u>1.750</u>
<b>Cash flows from financing activities</b>		<b><u>45.120</u></b>	<b><u>(29.481)</u></b>
<b>Increase/decrease in cash and cash equivalents</b>		<b><u>(22)</u></b>	<b><u>(15.951)</u></b>
Cash and cash equivalents beginning of year		83	16.309
Currency translation adjustments of cash and cash equivalents		<u>0</u>	<u>(275)</u>
<b>Cash and cash equivalents end of year</b>		<b><u>61</u></b>	<b><u>83</u></b>
Cash and cash equivalents at year-end are composed of:			
Cash		<u>61</u>	<u>83</u>
<b>Cash and cash equivalents end of year</b>		<b><u>61</u></b>	<b><u>83</u></b>
Non cash transactions	10		
Reconciliation of liabilities from financial activities	11		

## Balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Completed development projects		15.028	20.907
Acquired licences		2.607	4.654
Development projects in progress		<u>12.758</u>	<u>11.405</u>
<b>Intangible assets</b>	<b>12</b>	<b><u>30.393</u></b>	<b><u>36.966</u></b>
Land and buildings		46.519	50.044
Plant and machinery		9.055	10.821
Other fixtures and fittings, tools and equipment		1.546	2.707
Leasehold improvements		<u>2.292</u>	<u>2.814</u>
<b>Property, plant and equipment</b>	<b>13</b>	<b><u>59.412</u></b>	<b><u>66.386</u></b>
Investments in group enterprises		9.345	30.805
Other investments		184	184
Deposits		1.923	1.811
Deferred tax	19	<u>8.389</u>	<u>0</u>
<b>Fixed asset investments</b>	<b>14</b>	<b><u>19.841</u></b>	<b><u>32.800</u></b>
<b>Non-current assets</b>		<b><u>109.646</u></b>	<b><u>136.152</u></b>
Raw materials and consumables		31.541	54.587
Work in progress		<u>1.504</u>	<u>3.984</u>
<b>Inventories</b>		<b><u>33.045</u></b>	<b><u>58.571</u></b>
Trade receivables	15	9.353	15.417
Contract assets	16	24.111	34.152
Receivables from group enterprises	17	117.514	86.026
Other receivables		5.561	3.922
Prepayments		2.397	2.397
Income tax receivable		<u>1.377</u>	<u>0</u>
<b>Receivables</b>		<b><u>160.313</u></b>	<b><u>141.914</u></b>
<b>Cash</b>		<b><u>61</u></b>	<b><u>83</u></b>
<b>Current assets</b>		<b><u>193.419</u></b>	<b><u>200.568</u></b>
<b>Assets</b>		<b><u>303.065</u></b>	<b><u>336.720</u></b>

## Balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Contributed capital	18	10.219	10.212
Reserve for development expenditure		20.858	23.257
Retained earnings		<u>(23.758)</u>	<u>12.775</u>
<b>Equity</b>		<b><u>7.319</u></b>	<b><u>46.244</u></b>
Deferred tax	19	0	3.180
Other provisions		1.682	1.100
Mortgage debts	20	5.487	6.293
Lease liabilities	20	<u>23.539</u>	<u>28.395</u>
<b>Non-current liabilities</b>		<b><u>30.708</u></b>	<b><u>38.968</u></b>
Current portion of long-term liabilities other than provisions	20	40.020	42.967
Bank loans	20	62.792	24.627
Prepayments received from customers	21	8.404	38.110
Trade payables		81.342	95.159
Payables to group enterprises		19.874	11.654
Other payables		<u>52.606</u>	<u>38.991</u>
<b>Current liabilities</b>		<b><u>265.038</u></b>	<b><u>251.508</u></b>
<b>Liabilities</b>		<b><u>295.746</u></b>	<b><u>290.476</u></b>
<b>Equity and liabilities</b>		<b><u>303.065</u></b>	<b><u>336.720</u></b>
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	Non- controlling interest	Total
<b>2019</b>						
<b>Shareholders' equity at beginning of year</b>	<b>10.212</b>	<b>15.199</b>	<b>(2.424)</b>	<b>23.257</b>	<b>0</b>	<b>46.244</b>
Profit for the year	0	(61.118)	0	0	0	(61.118)
Transfer to reserves	0	2.399	0	(2.399)	0	0
Other comprehensive income	0	0	(807)	0	0	(807)
Other adjustments	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>(58.719)</b>	<b>(807)</b>	<b>(2.399)</b>	<b>0</b>	<b>(61.925)</b>
Increase of capital	7	12.993	0	0	0	13.000
<b>Transactions with owners</b>	<b>7</b>	<b>12.993</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13.000</b>
Proceeds on disposal of partial interest in a subsidiary that does not involves loss of control	0	0	0	0	10.000	10.000
Adjustments preference right to distribution	0	10.000	0	0	(10.000)	0
<b>Transactions whit non-controlling interest</b>	<b>0</b>	<b>10.000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10.000</b>
<b>Shareholders' equity at end of year</b>	<b>10.219</b>	<b>(20.527)</b>	<b>(3.231)</b>	<b>20.858</b>	<b>0</b>	<b>7.319</b>
<b>2018</b>						
<b>Shareholders' equity at beginning of year</b>	<b>10.200</b>	<b>(2.589)</b>	<b>89</b>	<b>17.835</b>	<b>0</b>	<b>25.535</b>
Profit for the year	0	1.476	0	0	0	1.476
Transfer to reserves	0	(5.422)	0	5.422	0	0
Other comprehensive income	0	0	(2.513)	0	0	(2.513)
Other adjustments	0	(4)	0	0	0	(4)
<b>Total comprehensive income</b>	<b>0</b>	<b>(3.950)</b>	<b>(2.513)</b>	<b>5.422</b>	<b>0</b>	<b>(1.041)</b>
Increase of capital	12	21.738	0	0	0	21.750
<b>Transactions with owners</b>	<b>12</b>	<b>21.738</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21.750</b>
<b>Shareholders' equity at end of year</b>	<b>10.212</b>	<b>15.199</b>	<b>(2.424)</b>	<b>23.257</b>	<b>0</b>	<b>46.244</b>

The capital was in 2018 increased by DKK 12k nominal, whereby equity has been increased by a total of DKK 21,750k.

The capital was in 2019 increased by DKK 7k nominal, whereby equity has been increased by a total of DKK 13.000k.

Number of shares is 10.219.376 with the nominal value of DKK 10.219.376.

No dividend was declared in 2019.

## 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 2019 financial statements of Hydratech Industries A/S, there are a number of new or changed standards and interpretations which have not yet come into effect and have therefore have not been incorporated into the financial statements.

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

#### 1.2 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

#### **Revenue recognition**

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

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

## Notes to financial statements

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

#### **Key sources of estimation uncertainty**

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

#### ***Revenue recognition***

The estimate of the stage of completion as well as realised margin on work in progress as of 31 December 2019 is subject to uncertainty. Management assesses the stage of completion based on the cost incurred in the production of the units with a mark-up of expected gross margin on each unit produced.

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

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

Based on the budgets including cash flow for the group enterprises, Management has reversed provisions made in Hydratech China for DKK 7m, which was expensed in the financial statements in 2018 and earlier.

As of 31 December 2019, Hydratech A/S has group receivables of DKK 131m of which DKK 13m is provided for loss. The carrying amount at 31 December 2019 amounts to DKK 118m.

## Notes to financial statements

	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>2. Net sales</b>		
Europe	357.341	298.465
Asia	36.097	48.880
North America	61.217	36.288
Other regions	<u>10.281</u>	<u>1.373</u>
	<b><u>464.936</u></b>	<b><u>385.006</u></b>
Wind	319.345	262.630
Fluid	38.044	40.878
Service	<u>107.547</u>	<u>81.498</u>
	<b><u>464.936</u></b>	<b><u>385.006</u></b>

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

Change in contracts assets regarding revenue recognised from contracts with customers recognised over time amounts to DKK -10,1m as of 31 December 2019 (2018: DKK 17,0m). Contract assets amount to DKK 24,1m as of 31 December 2019 (2018: DKK 34,2m). 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 2019 are completed in 2020.

	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>3. Staff costs</b>		
Wages and salaries	48.865	44.601
Pension costs	13.012	12.484
Other social security costs	<u>3.537</u>	<u>3.773</u>
	<b><u>65.414</u></b>	<b><u>60.858</u></b>
Average number of employees	<u>228</u>	<u>217</u>

## Notes to financial statements

<b>3. Staff costs continuing</b>	<b>Top ma- nagement DKK'000</b>	<b>Other top manage- ment DKK'000</b>	<b>Total DKK'000</b>
<b>2019</b>			
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
<b>Cost at end of year</b>	<b>1.598</b>	<b>7.923</b>	<b>9.521</b>
<b>2018</b>			
Remuneration and salary	2.321	8.837	11.158
Pension, company contributions	0	499	499
Benefits (car, housing, phone etc.)	168	917	1.085
<b>Cost at end of year</b>	<b>2.489</b>	<b>10.253</b>	<b>12.742</b>

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

Referring to section 98(b3) of the Danish Financial Statements Act, information on the Board of Directors and the Executive Board is listed together in 2018.

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 and for other top management these are maximised at DKK 1.5m of the individual basic salary.

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

In November 2018, certain employees and members of Management acquired warrants and shares in the parent company Hydratech Industries Holding A/S at the fair value of the warrants at the date of acquisition. The warrants are cancelled in 2019, with no cash effect for Hydratech Industries A/S.



## Notes to financial statements

	<u>Warrants number</u>	<u>Exercise prices DKK</u>
<b>3. Staff costs continuing</b>		
<b>Number of outstanding warrants</b>		
Beginning of year 2019	4.755.000	1
Issued during the period	0	0
Cancelled in 2019	<u>(4.755.000)</u>	<u>(1)</u>
<b>End of year 2019</b>	<b><u>0</u></b>	<b><u>0</u></b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b><u>DKK'000</u></b>	<b><u>DKK'000</u></b>
<b>4. Depreciation, amortisation and impairment losses</b>		
Amortisation of intangible assets	9.330	4.985
Impairment losses of intangible assets	6.130	0
Depreciation of property, plant and equipment	7.535	7.183
Profit/loss from sale of intangible assets and property, plant and equipment	<u>(70)</u>	<u>343</u>
	<b><u>22.925</u></b>	<b><u>12.511</u></b>
Hereof depreciation of right-of-use assets	<u>4.388</u>	<u>5.119</u>
Hydratech leases several assets including buildings, plants and other fixtures, tools and equipment.		
	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b><u>DKK'000</u></b>	<b><u>DKK'000</u></b>
<b>5. Financial income</b>		
Financial income, group enterprises	1.048	1.040
Exchange rate adjustments	5.480	6.274
Other financial income	<u>3</u>	<u>18</u>
	<b><u>6.531</u></b>	<b><u>7.332</u></b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b><u>DKK'000</u></b>	<b><u>DKK'000</u></b>
<b>6. Financial expenses</b>		
Financial expenses, group enterprises	12	5
Exchange rate adjustments	5.424	6.953
Interest expenses on lease liabilities	1.931	2.151
Financial expenses to external lenders	<u>10.253</u>	<u>10.807</u>
	<b><u>17.620</u></b>	<b><u>19.916</u></b>

## Notes to financial statements

	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>7. Income tax</b>		
<i>Current tax:</i>		
Current tax on profit for the year	(1.377)	0
Adjustment in respect of prior years	0	0
Joint taxation refund	<u>(1.423)</u>	<u>0</u>
Total current tax	<u>(2.800)</u>	<u>0</u>
<i>Deferred tax:</i>		
Adjustment of deferred tax asset/liability	(10.798)	(5.234)
Adjustment of deferred tax asset/liability in respect of prior years	<u>(771)</u>	<u>0</u>
Total deferred tax	<u>(11.569)</u>	<u>(5.234)</u>
<b>Total income tax</b>	<b><u>(14.369)</u></b>	<b><u>(5.234)</u></b>
	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>Earnings before tax</b>	<b>(75.487)</b>	<b>(4.701)</b>
Income from equity method used towards subsidiaries	<u>15.272</u>	<u>(21.535)</u>
<b>Earnings before tax, parent company</b>	<b><u>(60.215)</u></b>	<b><u>(26.236)</u></b>
Calculated tax at Danish statutory rate of 22%	(13.247)	(5.772)
Adjustment in respect of prior years	(771)	0
Income / expenses not subject to tax	1.072	538
Joint taxation refund	<u>(1.423)</u>	<u>0</u>
<b>Tax charge</b>	<b><u>(14.369)</u></b>	<b><u>(5.234)</u></b>
	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>8. Proposed distribution of profit/loss</b>		
Retained earnings	<u>(61.118)</u>	<u>1.476</u>
	<b><u>(61.118)</u></b>	<b><u>1.476</u></b>

## Notes to financial statements

	<b>2019</b> <b>DKK'000</b>	<b>2018</b> <b>DKK'000</b>
<b>9. Change in working capital</b>		
Increase/decrease in inventories	25.526	(11.671)
Increase/decrease in receivables	(1.311)	6.406
Increase/decrease in trade payables etc.	(21.687)	47.092
	<b>2.528</b>	<b>41.827</b>

### 10. Non cash transactions

Conversion of debt to equity	10.000	20.000
	<b>10.000</b>	<b>20.000</b>

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

	<b>Long-term borrowings DKK'000</b>	<b>Short-term borrowings DKK'000</b>	<b>Total DKK'000</b>
<b>1 January 2019</b>	<b>34.688</b>	<b>67.594</b>	<b>102.282</b>
Cash flows	0	32.120	32.120
Amortization of lease liabilities	0	(2.564)	(2.564)
Reclassifications	(5.662)	5.662	0
<b>31 December 2019</b>	<b>29.026</b>	<b>102.812</b>	<b>131.838</b>

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

## Notes to financial statements

	Completed develop- ment projects DKK'000	Acquired licences DKK'000	Development projects in progress DKK'000
<b>12. Intangible assets</b>			
<b>2019</b>			
<b>Cost at beginning of year</b>	<b>28.124</b>	<b>13.365</b>	<b>11.405</b>
Transfers	6.867	0	(6.867)
Additions	0	178	8.709
<b>Total cost at end of year</b>	<b>34.991</b>	<b>13.543</b>	<b>13.247</b>
<b>Amortisation and impairment losses</b>			
<b>at beginning of year</b>	<b>(7.217)</b>	<b>(8.711)</b>	<b>0</b>
Amortisation for the year	(7.105)	(2.225)	0
Impairment losses for the year	(5.641)	0	(489)
<b>Total amortisation and impairment losses at end of year</b>	<b>(19.963)</b>	<b>(10.936)</b>	<b>(489)</b>
<b>Carrying amount at end of year</b>	<b>15.028</b>	<b>2.607</b>	<b>12.758</b>
Management have cancelled and consequently impaired development projects with a total of 6,130k			
<b>2018</b>			
<b>Cost at beginning of year</b>	<b>19.371</b>	<b>13.224</b>	<b>15.859</b>
Transfers	14.447	0	(14.447)
Additions	0	2.268	9.993
Disposals	(5.694)	(2.127)	0
<b>Total cost at end of year</b>	<b>28.124</b>	<b>13.365</b>	<b>11.405</b>
<b>Amortisation at beginning of year</b>	<b>(9.467)</b>	<b>(8.810)</b>	<b>0</b>
Amortisation for the year	(3.193)	(1.791)	0
Reversal regarding disposals	5.443	1.890	0
<b>Total amortisation at end of year</b>	<b>(7.217)</b>	<b>(8.711)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>20.907</b>	<b>4.654</b>	<b>11.405</b>

## 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 31.12.2019 amounts to DKK 12,758k. The systems are completed on a continuous basis and put into operation after completion of a satisfactory test. An amount of DKK 6m is estimated to complete the development projects in progress.

An amount of DKK 692k is expensed in 2019 related to research activities.

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

Management has carried out an impairment test in 2019 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 2020-2025 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. Management has in 2019 impaired development projects for a total of DKK 6,1m.

## Notes to financial statements

	<u>Land and buildings DKK'000</u>	<u>Plant and machinery DKK'000</u>	<u>Other fixtures and fittings, tools and equipment DKK'000</u>
<b>13. Property, plant and equipment</b>			
<b>2019</b>			
<b>Cost at beginning of year</b>	<b>74.328</b>	<b>80.464</b>	<b>8.889</b>
Additions	0	2.444	50
Disposals	0	(5.068)	(17)
<b>Total cost at end of year</b>	<b>74.328</b>	<b>77.840</b>	<b>8.922</b>
<b>Depreciation at beginning of year</b>	<b>(24.284)</b>	<b>(69.643)</b>	<b>(6.182)</b>
Depreciation for the year	(3.525)	(2.275)	(1.210)
Reversal regarding disposals	0	3.133	16
<b>Depreciation at end of year</b>	<b>(27.809)</b>	<b>(68.785)</b>	<b>(7.376)</b>
<b>Carrying amount at end of year</b>	<b>46.519</b>	<b>9.055</b>	<b>1.546</b>
<b>Of this right-of-use assets:</b>			
<b>Net carrying amount</b>			
31 December 2019	22.838	1.919	1.637
<b>Depreciation expense for the year</b>			
31 December 2019	2.855	1.279	945
		<b>2019</b>	<b>2018</b>
		<b>DKK'000</b>	<b>DKK'000</b>
<b>Amount recognised in profit and loss regarding leases</b>			
Depreciation		4.388	5.114
Interest		1.931	2.151
		<b>6.319</b>	<b>7.265</b>

Total cash flows related to leasing amounts to DKK 4,495k for the year.

## Notes to financial statements

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

## Notes to financial statements

	<b>Leasehold improve- ments DKK'000</b>	<b>Property, plant and equipment in progress DKK'000</b>
<b>13. Property, plant and equipment continuing</b>		
<b>2019</b>		
<b>Cost at beginning of year</b>	<b>5.351</b>	<b>0</b>
Additions	0	0
Disposals	(45)	0
<b>Total cost at end of year</b>	<b>5.306</b>	<b>0</b>
<b>Depreciation at beginning of year</b>	<b>(2.537)</b>	<b>0</b>
Depreciation for the year	(522)	0
Reversal regarding disposals	45	0
<b>Depreciation at end of year</b>	<b>(3.014)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>2.292</b>	<b>0</b>
<b>2018</b>		
<b>Cost at beginning of year</b>	<b>5.232</b>	<b>0</b>
Additions	46	0
Transfers	73	0
<b>Total cost at end of year</b>	<b>5.351</b>	<b>0</b>
<b>Depreciation at beginning of year</b>	<b>(1.928)</b>	<b>0</b>
Depreciation for the year	(542)	0
Transfers	(67)	0
<b>Depreciation at end of year</b>	<b>(2.537)</b>	<b>0</b>
<b>Carrying amount at end of year</b>	<b>2.814</b>	<b>0</b>



## Notes to financial statements

<b>14. Fixed asset investments</b>	<b>Investments in group enterprises DKK'000</b>	<b>Other investments DKK'000</b>	<b>Deposits DKK'000</b>
<b>2019</b>			
Cost beginning of year	49.154	184	1.811
Additions	1.499	0	112
Disposals	(92)	0	0
<b>Cost end of year</b>	<b>50.561</b>	<b>184</b>	<b>1.923</b>
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
<b>Revaluations end of year</b>	<b>(41.216)</b>	<b>0</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>9.345</b>	<b>184</b>	<b>1.923</b>

In 2019, Management has made a reversal of DKK 7,084k (2018: DKK 37,700k) regarding provision for loss on receivables from group enterprises made in prior years. Group enterprises with negative equity value which have not been expensed amounts to DKK 47,186k (2018: DKK 40,048k) as of 31 December 2019 including the above mentioned reversal of provision for loss on receivables from group enterprises.

## Notes to financial statements

	<b>Investments in group enterprises DKK'000</b>	<b>Other investments DKK'000</b>	<b>Deposits DKK'000</b>
<b>14. Fixed asset investments continuing</b>			
<b>2018</b>			
Cost beginning of year	48.974	184	1.887
Additions	180	0	0
Disposals	0	0	(76)
<b>Cost end of year</b>	<b>49.154</b>	<b>184</b>	<b>1.811</b>
Revaluations beginning of year	(8.004)	0	0
Adjustment according to IFRS	3.037	0	0
<b>Adjusted revaluations beginning of the year</b>	<b>(4.967)</b>	<b>0</b>	<b>0</b>
Exchange rate adjustments	(2.513)	0	0
Share of profit/loss for the year	(15.594)	0	0
Investments with negative equity deducted against receivables	7.059	0	0
Investments with negative equity recognised as provisions	(2.330)	0	0
Reversal regarding disposals	0	0	0
Other adjustments	(4)	0	0
<b>Revaluations end of year</b>	<b>(18.349)</b>	<b>0</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>30.805</b>	<b>184</b>	<b>1.811</b>
		<b>2019</b>	<b>2018</b>
		<b>DKK'000</b>	<b>DKK'000</b>
<b>15. Trade receivables</b>			
Trade receivables		9.353	16.051
Provisions for impairment of trade receivables		0	(634)
		<b>9.353</b>	<b>15.417</b>

At 01.01.2018 trade receivables amounted to DKK 11,546k and provisions for impairment of trade receivables amounted to DKK -634k.

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

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

## Notes to financial statements

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
<b>16. Contract assets</b>		
Contract assets	24.111	34.152
Provisions for impairment of contract assets	<u>0</u>	<u>0</u>
	<b><u>24.111</u></b>	<b><u>34.152</u></b>

At 01.01.2018 contract assets amounted to DKK 17,110k and provisions for impairment of contract assets amounted to DKK 0k.

No lifetime expected losses are expected, and therefore no provision for losses has been made. In 2020, Management has delivered all contract assets for 2019 and received payment without any incurred losses.

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
<b>17. Receivables from group enterprises</b>		
Receivables from group enterprises	130.804	112.784
Provisions for impairment of group receivables	<u>(13.290)</u>	<u>(26.758)</u>
	<b><u>117.514</u></b>	<b><u>86.026</u></b>

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

In 2019, Management has reversed provision for receivables from group enterprises expensed in previous years of DKK 7.084k 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 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
<b>Total</b>	<b>10.219.376</b>	<b>10.219.376</b>

#### 31 December 2018

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

### 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).

## Notes to financial statements

### 18. Contributed capital continuing

#### 2018

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

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

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

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

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
<b>Deferred tax end of year</b>	<b>7.634</b>	<b>685</b>	<b>2.789</b>	<b>(242)</b>	<b>(7.835)</b>	<b>149</b>	<b>3.180</b>
Charge to the income statement	(896)	(2.143)	(1.004)	(128)	(7.946)	548	(11.569)
<b>Deferred tax end of year</b>	<b>6.738</b>	<b>(1.458)</b>	<b>1.785</b>	<b>(370)</b>	<b>(15.781)</b>	<b>697</b>	<b>(8.389)</b>

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

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

2018 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Total deferred tax
<b>Deferred tax end of year</b>	<b>6.639</b>	<b>1.063</b>	<b>866</b>	<b>(221)</b>	<b>(324)</b>	<b>391</b>	<b>8.414</b>
Charge to the income statement	995	(378)	1.923	(21)	(7.511)	(242)	(5.234)
<b>Deferred tax end of year</b>	<b>7.634</b>	<b>685</b>	<b>2.789</b>	<b>(242)</b>	<b>(7.835)</b>	<b>149</b>	<b>3.180</b>

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

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

## Notes to financial statements

	<b>Instalments within 12 months 2019 DKK'000</b>	<b>Instalments between 12-60 months 2019 DKK'000</b>	<b>Outstanding after 60 months DKK'000</b>
<b>20. Liabilities other than provisions</b>			
<b>2019</b>			
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
	<b>102.812</b>	<b>19.381</b>	<b>9.645</b>
	<b>Instalments within 12 months 2018 DKK'000</b>	<b>Instalments between 12-60 months 2018 DKK'000</b>	<b>Outstanding after 60 months DKK'000</b>
<b>2018</b>			
Mortgage debts	801	3.230	3.063
Bank loans	37.500	0	0
Overdraft facility	24.627	0	0
Lease liabilities	4.666	28.395	0
	<b>67.594</b>	<b>31.625</b>	<b>3.063</b>

### 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 2019. The projects is expected to be delivered in 2020.

### 22. Contingent liabilities

A letter of support has been issued to some subsidiaries. At 31 December 2019, debts of these subsidiaries totalled DKK 46.968k exclusive of group balances.

## 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 9,215k nominal.

Bank loans are secured by way of a company charge.

The carrying amount of mortgaged properties is DKK 23,680k.

### 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.

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Management fee paid	3.324	3.798
Management fee received	4.144	0
Financial receivables	31.219	18.482

Transactions with group enterprises.

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Management fee	7.470	5.167
Interests	1.048	1.007
Financial receivables	99.568	115.385
Revenue	71.579	21.951
Cost of sales	93.010	28.724

Besides the above listed transactions, there was a conversion of debt of DKK 10,000k and a capital injection of DKK 13,000k 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	
	2018	2019	2018	2019
Impact on profit/(loss) from translation of debt and investments in subsidiaries	1.5	5.8	2.6	0.3
Impact on equity from translation of debt and investments in subsidiaries	1.5	5.8	2.6	1.2

#### 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 2019 would decrease by DKK 6,6m (2018: 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. Hydratech Industries A/S has agreed on certain covenants towards SEB.

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

#### 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
Payables to group companies	19.874	-	-	-	19.874
Other payables	30.979	21.628	-	-	52.607
<b>Total</b>	<b>232.047</b>	<b>24.588</b>	<b>19.381</b>	<b>9.645</b>	<b>285.661</b>

#### 2018

	<6 months	6 to 12 months	1 to 5 years	>5 years	Total
Mortgage debts	411	410	3.283	3.077	7.181
Bank loans	1.243	63.370	-	-	64.612
Lease liabilities	3.616	3.532	22.353	12.777	42.278
Trade payables	95.159	-	-	-	95.159
Payables to group companies	11.654	-	-	-	11.654
Other payables	22.396	16.596	-	-	38.991
<b>Total</b>	<b>134.479</b>	<b>83.908</b>	<b>25.637</b>	<b>15.854</b>	<b>259.875</b>

#### 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 2019 received capital injection of 13.000 tDKK and conversion of debt of 10.000 tDKK.

### 27. Events after the reporting period

In 2020, Hydratech Industries A/S experienced the effect of the global outbreak of Covid-19, but due to strict internal processes no personal has been effected so far and operation has been close to normal.

In July 2020, a new financing agreement was finalized to ensure sustainable cash to support the expected growth in the coming years. At the same time the capital was increased by DKK 0k nominal, whereby equity has been increased by a total of DKK 10m.

## Accounting policies

### Reporting class

The 2019 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 2019 and all subsidiaries of Anpartsselskabet af 4 juli 2019, with Anpartsselskabet af 4 juli 2019 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
- Spare-part sales

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

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

Revenue from spare-part sales is recognised in the income statement when control is transferred to the customer, which is considered to be upon delivery. Revenue from spare-parts is recognised at a point in time.

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

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

#### Cost of sales

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

#### Other external expenses

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

#### 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

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

### Other financial income

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

### Financial expenses from group enterprises

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

### Other financial expenses

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

### Tax on profit/loss for the year

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

## Accounting policies

### Balance sheet

#### Intellectual property rights etc

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

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

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

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

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

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

#### Property, plant and equipment

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

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

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

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

## Accounting policies

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

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

### Investments in group enterprises

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

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

### Inventories

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

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

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

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

### Receivables

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

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



## Accounting policies

### Prepayments

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

### Cash

Cash comprises cash in hand and bank deposits.

### Deferred tax

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

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

### Other provisions

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

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

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

### Mortgage debt

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

### Leases

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

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

## Accounting policies

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

### Other financial liabilities

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

### Prepayments received from customers

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

### Income tax receivable or payable

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

### Cash flow statement

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

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

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

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

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