



Water made by nature

Annual report 2019

Our goal is clean, natural drinking water for all, and the sustainable re-use of water in industrial applications.



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Aquaporin at a glance

Aquaporin A/S is a global water technology company headquartered in Kongens Lyngby, Denmark. Aquaporin is dedicated to revolutionizing water purification by merging biotechnological techniques and classical engineering. The company's strategy is to commercialize biomimetic water membranes for households and industrial use in a wide variety of markets and applications. Aquaporin deploys direct sales, sales through distributors and commercial partnerships.

The company's Aquaporin Inside® technology is based on the aquaporin protein – nature's own 100% selective and extremely effective water channel. The aquaporin protein is ubiquitous in living cells where it facilitates water transport across cell membranes.



1

Core technology

Aquaporin Inside® is viable for use in multiple applications and industries

6+

Products

Aquaporin has entered the market with our tap water and forward osmosis products

59

Patents

With 59 granted patents in 23 patent families, Aquaporin offers proprietary solutions to water purification challenges

95

Employees

Aquaporin has 95 employees working in R&D, sales, production, and administration

The macro trends driving us forward

Fundamentally, the world is lacking clean water. According to the UN, water scarcity is already affecting 40% of the global population and this is projected to increase, driven by a growing population, improving living standards, climate change and urbanization. These trends will support a continued long-term market growth and are expected to heighten the pace of innovation in the water industry, driving adoption of new purification technologies such as Aquaporin Inside®.

Inventing for the future – and investing in it

The world's water-related challenges are daunting, leading the World Economic Forum to conclude that lack of clean water is one of the largest global risks over the next decade. For Aquaporin, this is what motivates the tireless development and commercialization of ground-breaking solutions for water purification.

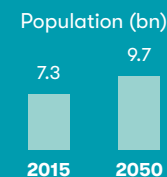
Increased water scarcity leads to a growing need for treating and reusing wastewater, and towards reducing the cost of treating water. Both needs are directly served by Aquaporin's product lines.

The growing population and the rise in living standards drive market growth for residential water purification, especially in developing countries. Residential water purification is the main market for Aquaporin's reverse osmosis product line.

Furthermore, an increasing global water scarcity awareness drive the transition towards more responsible production and consumption practices. The unique characteristics of our forward osmosis products are tailored to support industrial wastewater treatment and reuse.

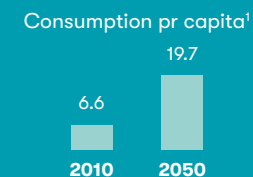
Growing population

Leading to higher global water consumption



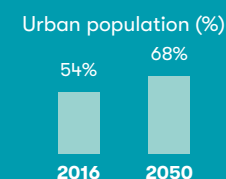
Rising living standards

Leading to increased industrialization and growing consumption of water-intensive goods



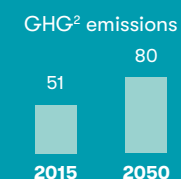
Urbanization

Leading to increased pollution, reduced water quality, and a need to modernize outdated water infrastructure



Global warming

Leading to more extreme droughts and depletion of existing water resources



¹Thousands constant 2010 USD/person. ² Greenhouse gas.
Sources: Global Water Intelligence 2016, OECD and UN

Clean water is a human right

Aquaporin is committed to countering the development by contributing with solutions that aim at providing clean, natural drinking water for all and sustainable re-use of water in industrial applications.

The water cycle is not in balance

Today, many of the solutions in water supply are unsustainable. Within Drinking water, half a trillion plastic bottles of water are transported around the world every year. This is not sustainable, neither in terms of carbon footprint, water quality or plastic waste. For Industrial water, 80 % of all wastewater is released to the environment without adequate treatment, because the solutions are not implemented.

Aquaporin has a key role to play

Water is key to economic growth, and therefore also contains huge strategic opportunities. Businesses that are prepared will seize the markets. Aquaporin has a unique position in the future of water, where a new industry vertical is emerging from the convergence between biology and engineering. In 2019, Aquaporin had constant focus on commercial execution in our two business areas, Drinking water and Industrial water. With this, we stay committed to our long-term commercial goals.

We offer Water made by nature

Using nature's own water channels, Aquaporin has a strong product pipeline securing our long-term value creation. Piloting the products is essential for success in each commercial focus area. Important milestones achieved in 2019 are:

- ◆ Global testing and piloting of Aquaporin Inside® products with customers in Drinking water in both Point of Use (PoU) and Point of Entry (PoE) solutions
- ◆ Established +20 pilot installations utilizing Aquaporin Inside® products with customers in Industrial water, providing valuable data from among others; the textile, oil & gas and food & beverage industries
- ◆ Successful development of our technology in industrial water treatment into large scale production in our strategic commercial partnership with a major global systems integrator and solution provider

Creation of a sustainable future in water

The milestones reached in 2019 continue to bring us even closer to our customers and meeting their future water needs. In 2020 we will focus on:

- ◆ Bringing our first Point of Use Drinking water solutions to market, hereby increasing the likeability of locally filtered tap water
- ◆ Continuing development of our installations in Industrial water treatment, with a special focus on textile waste water
- ◆ Developing and maturing our Seawater desalination technology in close partnership with The Public Utility Board (PUB) in Singapore

In 2020, the World Water Day will focus on how water can help fight climate change. The United Nations are very clear in their message. “We cannot afford to wait”.

In Aquaporin, our organization consists of talented and committed professionals, and they are not waiting. We are thankful for the hard work and effort they put into driving our company forward. Moreover, we are grateful for the continued support from both new and existing shareholders. On behalf of the entire Board of Directors and Executive Management team, we would like to thank you for taking part in this blue journey.

Clean water is a human right.

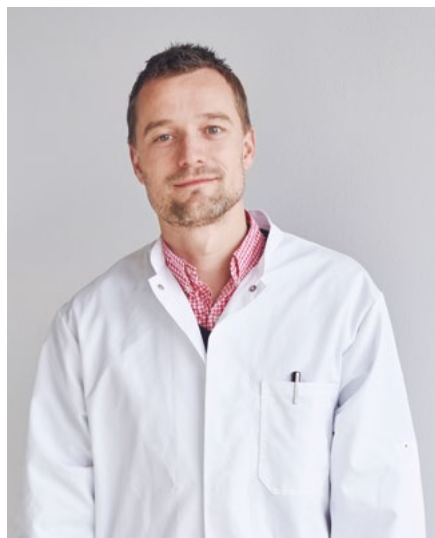
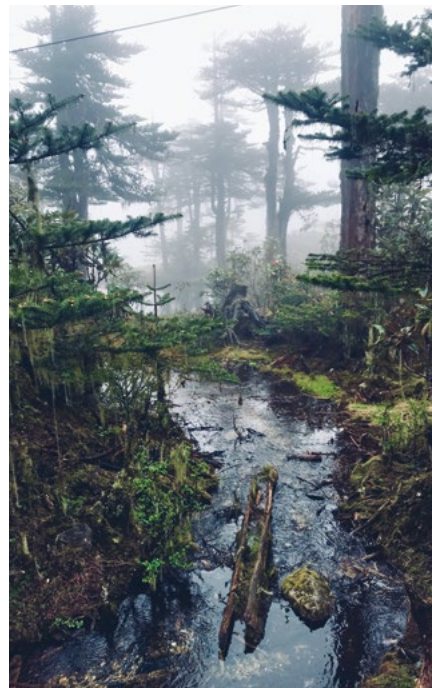
NIELS HEERING
Chairman of the Board

PETER HOLME JENSEN
CEO & Co-Founder

SØREN BJØRN HANSEN
Deputy Chairman of the Board

“Science, math and engineering can give you the exhilarating power to become not mere spectators or consumers, but the active explorers, makers and doers who will help invent the future”

Susan Hockfield, former MIT President and author of the book “The Age of Living Machines”



2019 key events

February

Largest pilot to date is initiated in Canada

The largest pilot plant to date is initiated in Canada in collaboration with Forward Water Technologies Inc., built for testing a range of different wastewater streams

April

Launch of a new forward osmosis product

During spring, we launched our smallest forward osmosis product to date – the HFFO 0.6. With 0.6 m2 of membrane, it is ideal for conducting lab scale application testing prior to investing in larger systems

May

The Age of Living Machines

Susan Hockfield, former president of MIT, published her book “The Age of Living Machines”, highlighting Aquaporin as a prime example of the technological convergence needed to solve the world’s challenges

June

Strengthening of the Management Team

Jörg Hess, COO, joined the company to further strengthen commercialization and scaling

July

First sales of tubular forward osmosis product

Aquaporin’s tubular FO membrane, which is being developed in collaboration with Berghof Membranes, reached first sales for testing by customers

August

Major milestone for Brackish Water membrane

Over the summer, Aquaporin successfully transferred the Brackish Water membrane from pilot to large scale production

September

+20 pilot installations within forward osmosis

In collaboration with customers and strategic commercial partners, pilot installations using Aquaporin Inside® FO membranes passed 20, providing valuable data from industries such as textile dye manufacturing, oil & gas, and food & beverage

December

UN Global Compact signatory

In December, Aquaporin signed a public pledge to support the 10 UN Global Compact principles as an important part of implementing our sustainability strategy

December

Extended contract with European Space Agency

The European Space Agency extended its engagement with our subsidiary, Aquaporin Space Alliance, to develop a water recycling unit for space applications

Aquaporin and the Sustainable Development Goals

The UN Sustainable Development Goals take some of the most pressing challenges of our time and encourage others to take action to solve them. Goal 6 is clean, accessible water and good sanitation for all. We have been working towards this goal since our inception. Now, it is time to accelerate.

Sustainability

Taking responsibility is an integrated and key part of our business model. Aquaporin's products and technologies aim directly at contributing to saving clean water, improving access to drinking water in areas with scarce fresh water resources and sustainable water management – all in line with the Sustainable Development **Goal 6**. As such, Aquaporin works to immediately improve the lives of people around the world while also contributing to saving the planet's ecosystems, especially marine life as expressed in **Goal 14**, for future generations.

Our most important contribution is enabling our customers' success in reaching water sustainability, part of **Goal 12**. But we also want to lead the way ourselves. To report on our sustainability contributions, we have joined the UN Global Compact and will provide a status on our progress annually.

Aquaporin joins the SDG Accelerator

In 2019, we joined the SDG Accelerator Program hosted by The United Nations Development Program. This gives us the chance to work more comprehensively with the SDGs, build new partnerships and alliances, and develop innovative solutions that will take us through the next decade and beyond.





“Disruption is rarely the result of an isolated effort. It is the fruit of long-term partnerships that span industries, professions and ways of thinking.

At Aquaporin, we are deeply committed to bringing sustainability into the water industry through partnerships. Our technology has been developed and proven by working with an open innovation mindset for more than a decade. In close collaboration with governments, research institutions, system integrators, end users and even the world of art, we strive to break new ground through partnerships, aiming to solve the world’s long-term water crisis.”

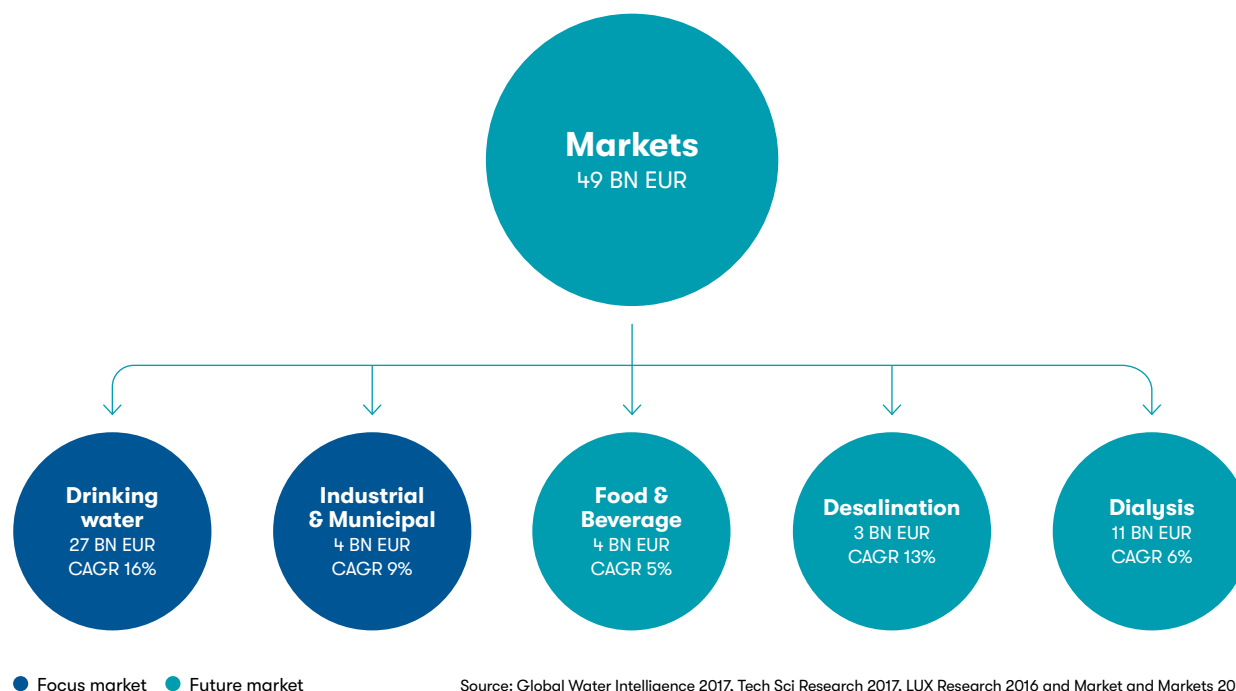
Peter Holme Jensen, CEO



Our business

Markets

Given the novelty of the underlying technology, Aquaporin is facing a wide range of potential markets. Each has its own set of opportunities, challenges and requirements. Our pipeline reflects product development for each market at different maturity stages



Source: Global Water Intelligence 2017, Tech Sci Research 2017, LUX Research 2016 and Market and Markets 2018

Drinking water is mainly kitchen appliances producing clean water for the household, also called Point-of-Use. Reverse osmosis purifiers are the fastest growing type of household water purifiers. Point-of-Entry systems are larger installations purifying water at the inflow.

Industrial & Municipal water treatment is the traditional water market containing industrial lines from 100 m³/day and up to municipal plants of more than 100,000 m³/day. Membrane treatment is regarded as advanced water treatment in this market and is especially used to generate clean process water for industry and to treat wastewater for reuse.

Food & Beverage processing covers concentration steps for liquids such as coffee, tea, dairy and juices as well as food ingredients. Membranes are a low-energy alternative to evaporation, thus producing high-quality concentrates while lowering power consumption.

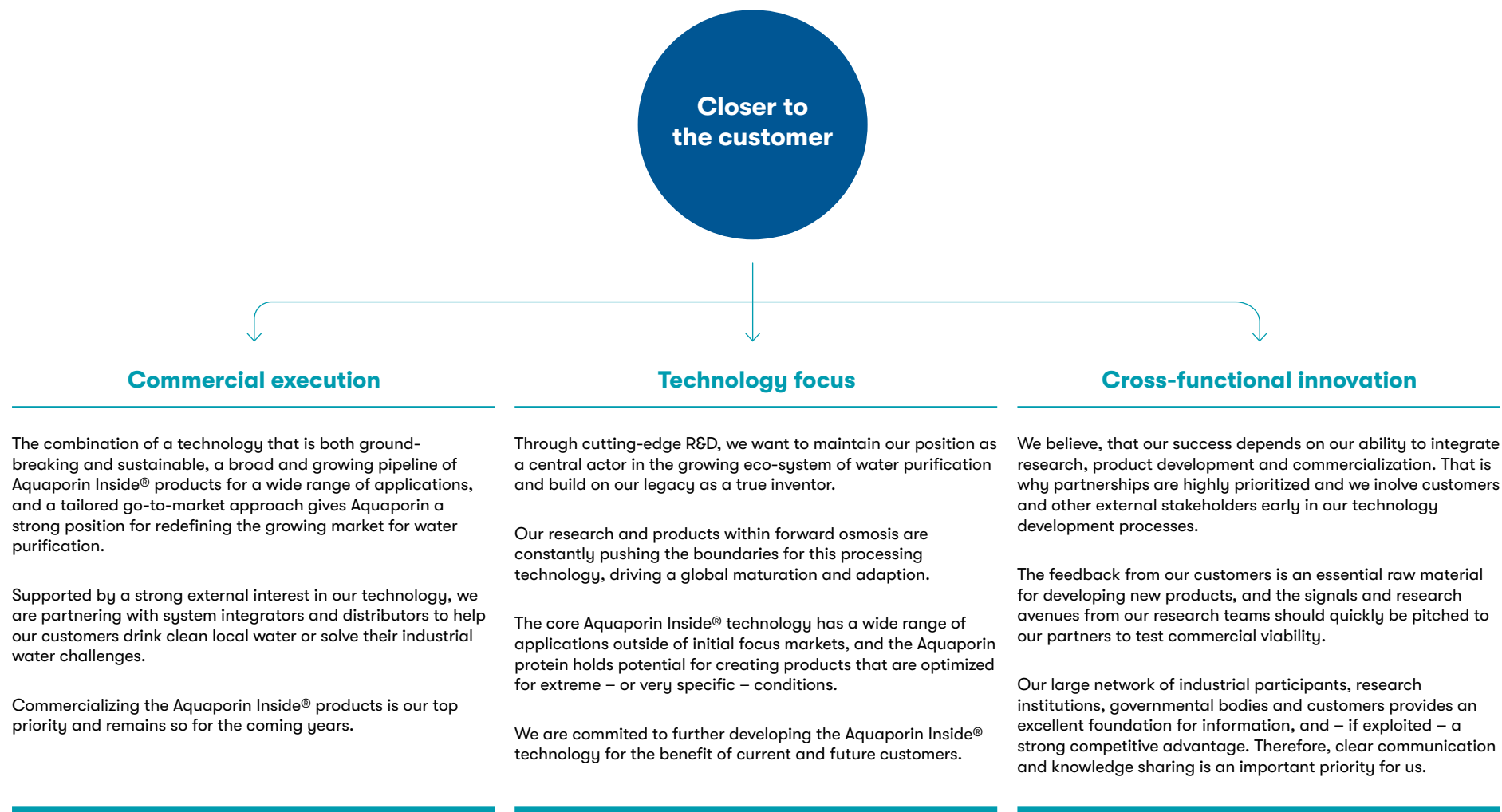
Desalination is the specialized market of mega-installations which generates potable water from seawater or brackish groundwater. Traditionally a large industry in the Middle East, desalination is expected to increase in importance everywhere within the next decade due to increasing water scarcity.

Aquaporin is also exploring opportunities for using its membranes in the **medical device (dialysis)** market. The primary applications are for a more sustainable dialysis treatment, portable and miniature devices and lowering detection limits in assays. These applications are being explored with dedicated partners.

The directly accessible market for membranes within our markets are estimated to be 5-6 BN EUR.

Strategy

We want to be world-leading in protein-enhanced water purification. To deliver on this ambition, we are pursuing three strategic goals specifically aimed at our top priority:
Moving closer to the customer



Commercialization

Aquaporin is focusing on two major water purification markets for commercializing current products. The markets have very different characteristics, emphasizing the need for a tailored market approach and clear value proposition for each.

	Why Sustainability perspective	How Go-To-Market strategy	What Value proposition
DRINKING WATER	Provides access to clean water Reduces plastic bottle consumption	Partner with leading purifier brands	Great-tasting, natural water Water filtration to suit the need Scandinavian quality
INDUSTRIAL WATER	Increases water reuse Minimizes water pollution	Prove technology and scale up Partner with solution providers	Water reuse savings Lower cost of ownership Modular system design

Drinking water The drinking water market is characterized by relatively low barriers to entry, large accounts, and repeat sales to existing installations. For Point-of-Use, it also has high proximity to the end-consumer: when using a kitchen appliance-sized water purifier, the consumer interacts with the product. To strengthen the consumer's experience of producing natural water, Aquaporin is emphasizing the unique 'Water Made by Nature' brand, providing a clear distinction from other membrane providers. The ability to produce great-tasting, natural water, combined with Scandinavian quality, are the key value propositions when entering strategic commercial partnerships and distribution agreements.

Apart from water purifiers, our technology can be used in Point-of-Entry systems. Due to the size and diversi-

ty of those applications, they are best served through established distributors, who mostly operate nationally. Aquaporin cooperates with these to promote the Aquaporin Inside® product portfolio alongside the distributors' other product offerings in order to optimize our market reach.

Industrial water Aquaporin is focusing on Industrial water within the Industrial & Municipal segment. Generally, the industrial water market is conservative, differentiated, and characterized by project sales. Smaller sub-markets with propensity for fast-tracking innovation within water purification also exist, for instance the textile industry highlighted on page 21. Aquaporin is partnering with solution providers within each relevant submarket to help customers treat difficult wastewater

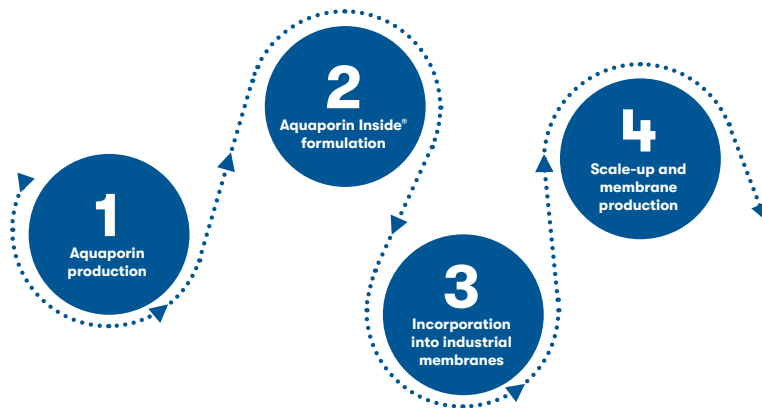
streams. The forward osmosis technology empowered by Aquaporin Inside® provides a strong distinction in the market, with unique water treatment capabilities and a favorable economic profile ensuring adequate returns on investment. Meanwhile, modular design allows for flexible installations. To speed up commercialization of Aquaporin's industrial products, lab-scale proof-of-concept and pilot studies are offered prior to commercial commitment.

Preparing for new launches

Supplementing the activities in our focus markets, we are building market intelligence and partnership leads to ensure a market fit for our pipeline products within Food & Beverage, Desalination and Medical Devices.

The Aquaporin Inside® technology

The core of the Aquaporin Inside® technology is to replicate nature's way of filtering water by producing a stable and active formulation for the aquaporin protein. When incorporated into an industrial membrane, this protein formulation produces an effective and extremely selective water filtration membrane. Aquaporin has established a strong patent portfolio creating a unique platform for aquaporin-based membranes.



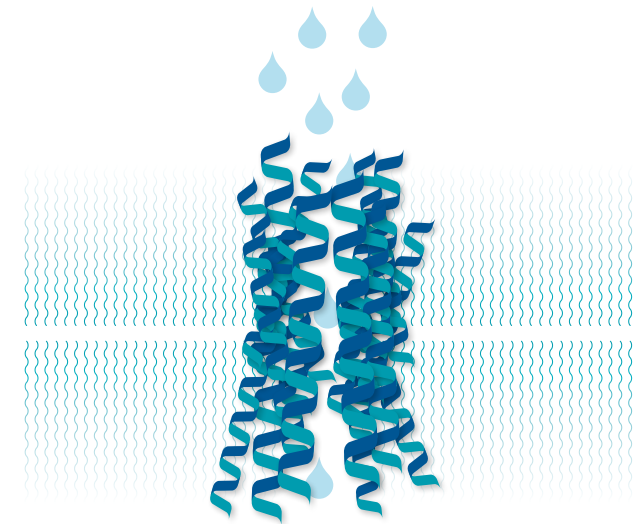
The core technology of Aquaporin includes fermentation of the aquaporin membrane protein (1), stabilization of the active protein in the Aquaporin Inside® formulation (2), development (3) and scale-up and production (4) of industrial membranes.

The Aquaporin Inside® technology is applied across our reverse osmosis and forward osmosis product ranges, for different membrane form factors (flat sheet or hollow fiber membrane), and in all sizes of membrane elements. In production, the Aquaporin Inside® technology has four distinct advantages:

- The membrane production process is similar to well-known membrane production processes
- It carries a low production cost – only slightly more expensive than conventional membranes
- It allows for fast scale-up, both in producing the biological component and the final membrane
- The key protein formulation component is produced in a single facility (in Denmark) in order to protect core know-how

Aquaporin – nature's own water filter

The Aquaporin Inside® technology is based on the aquaporin protein – nature's own 100% selective and extremely effective water channel. The aquaporin protein is ubiquitous in living cells, where it is responsible for water transport across cell membranes.



Aquaporin water channels are found in the cell membranes of all living cells. These water channels only let water pass and are very effective in doing so. One gram of aquaporin protein can transport up to 700 liters of water per second.

Product pipeline

Water filtration membranes are used in many applications. Aquaporin's product pipeline targets drinking water, industrial process use, wastewater treatment, medical devices and desalination. End-users will generally benefit from cleaner water, better water flow, less wastewater, higher degree of water reuse and lower energy consumption.

Product development targets

For Industrial Water, we aim at improving and broadening our forwards osmosis product range and maintain progress in developing brackish water reverse osmosis products. For the Food & Beverage industry, we focus on piloting and testing production to bring products closer to the market. Within Drinking Water, our membranes are continuously being improved with the aim of bringing new, updated products to the market. We expect continued progress for the earlier staged projects within Desalination and Medical Devices.

Aquaporin Inside® product

	R&D	Proof of concept	Piloting	Production	Market
TAP WATER REVERSE OSMOSIS TWRO	Drinking Water				
FORWARD OSMOSIS FO	Industrial & Municipal				
	Food & Beverage				
	Medical Devices				
BRACKISH WATER REVERSE OSMOSIS BWRO	Industrial & Municipal				
	Food & Beverage				
SEAWATER REVERSE OSMOSIS SWRO	Desalination				



**One million plastic
bottles per minute.
Every day, all year round.**

Case

Drinking water



Water is essential to all life and an important part of a healthy lifestyle. Yet while an increasing part of the global population has access to safely managed drinking water, the consumption of bottled water keeps increasing at great environmental cost. To reduce demand for bottled water, we want to increase the access to healthy home drinking water.

From bottled to tap water

According to the United Nations, 71 percent of the global population had access to safely managed drinking water in 2017, an increase of 16% since 2000. This is important since having drinking water readily available makes water the easiest choice for staying hydrated.

Surprisingly, it takes more than a clean water supply to make people choose tap water over bottled water. According to the World Health Organization (WHO), taste and perception vastly affect how likely we are to drink tap water at home. The perceived quality of public water delivered to households is poor in many places and in the past decade, sales of bottled water have increased by more than 10 percent per year.

Environmental cautiousness is on the rise globally and governments are increasingly regulating plastic usage. Meanwhile, consumers are looking for ways to avoid generating plastic waste, providing a unique opportunity to increase the likability of home drinking water.

Water made by nature

Our Aquaporin Inside® Tap Water membranes bring natural water filtration to drinking water – providing a more appealing alternative to bottled water for a greener lifestyle. By delivering naturally filtered water tailored to increase the perception and taste, the result is great tasting tap water that is healthy and refreshingly natural. We call it Water Made by Nature.

583.3

Billion Plastic bottles

Estimated to be sold
worldwide in 2021

70x

More energy required to produce bottled
water compared to tap water

Financial highlights and key ratios

Amounts in DKK thousand

	2019	2018	2017	2016	2015
Income statement					
Net revenue	6,078	7,894	2,131	8,419	236
Sales and distribution costs	19,948	16,784	12,723	7,755	3,553
Research and development costs	57,198	51,614	40,942	24,782	13,075
Administrative costs	17,660	16,471	15,290	14,228	7,571
EBITDA	(72,427)	(62,163)	(59,840)	(32,249)	(21,522)
Operating profit (EBIT)	(89,419)	(77,160)	(64,360)	(35,457)	(22,167)
Net financial items	(3,664)	(3,006)	(1,947)	(454)	2,377
Result for the period	(70,629)	(71,573)	(62,235)	(34,645)	(16,016)
Balance sheet					
Total non-current assets	256,558	233,889	167,209	163,359	83,718
Total current assets	32,898	33,335	59,355	79,107	94,803
Total assets	289,456	267,224	226,564	242,466	178,521
Equity	164,062	110,819	181,484	205,692	174,689
Total liabilities	125,394	156,405	45,080	36,774	3,832
Cash flow					
Cash flow from operating activities	(64,064)	(78,062)	(42,829)	2,216	(24,040)
Cash flow from investment activities	(22,357)	(14,091)	(14,856)	(73,545)	(47,042)
– Investments in intangible assets	(13,814)	(7,641)	(7,285)	(9,533)	(5,324)
– Investments in tangible assets	(8,675)	(3,062)	(7,561)	(63,936)	(16,612)
– Investments in associates and joint arrangements	0	(3,326)	0	0	(23,313)
Cash flow from financing activities	86,684	46,870	34,715	60,000	87,030
Key ratios					
Equity share	57%	41%	80%	85%	98%
Average number of FTE's	83	73	65	51	33

The key figures and key ratios have been prepared on a consolidated basis, and are in accordance with "Recommendations & Financial Ratios 2015" published by the Danish Finance Society.

Forward Osmosis applications

The forward osmosis technology is maturing and our products for Industrial water are in the hands of many customers. In 2019, we have been busy testing and gaining knowledge about the potential applications in close collaboration with our customers.

The map shows a global reach for multiple activities in either laboratories or pilot-scale.

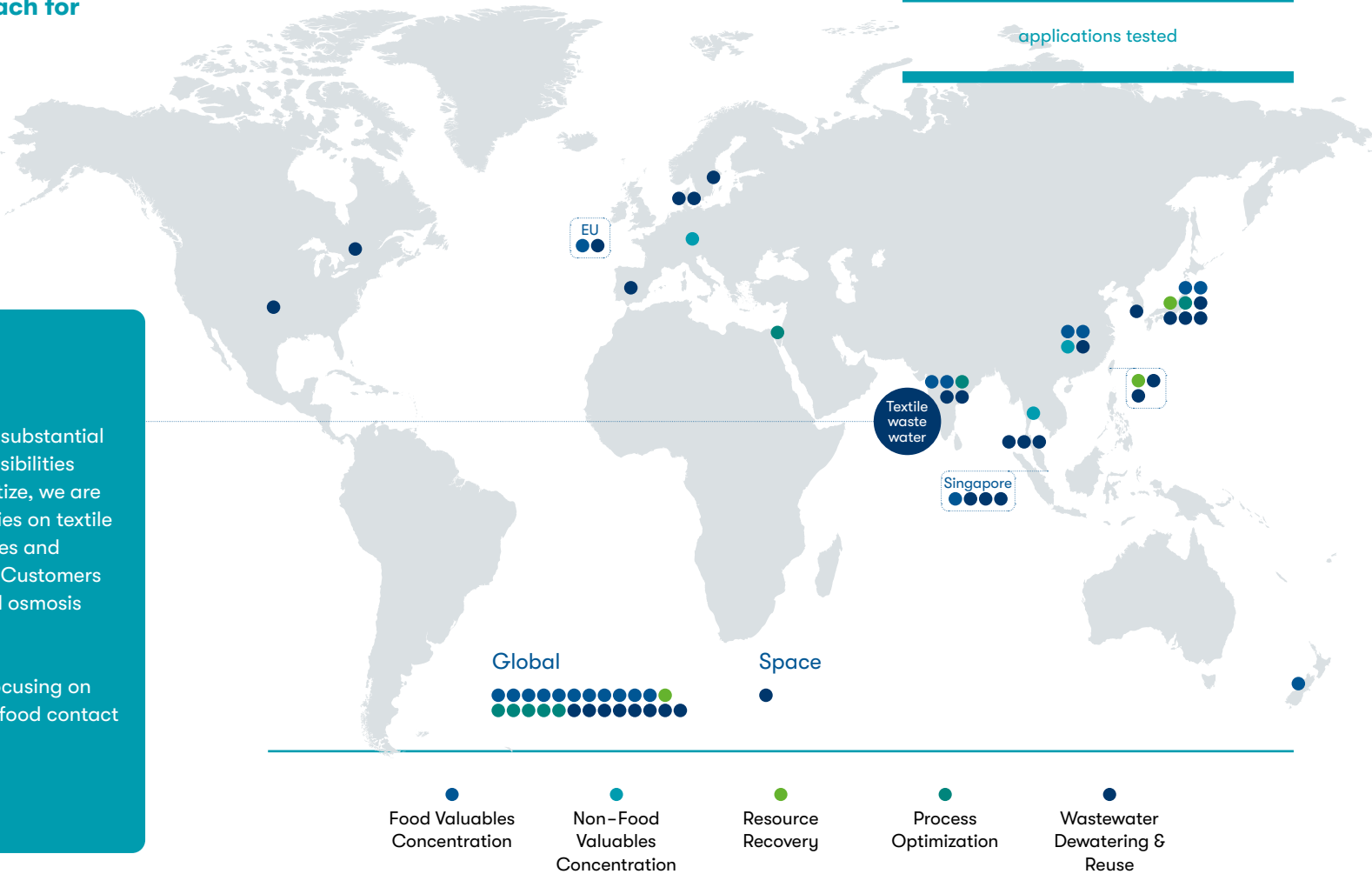
57

applications tested

**Prioritizing possibilities:
Textile waste water**

Throughout 2019, we have spent substantial resources understanding the possibilities within forward osmosis. To prioritize, we are now actively focusing our activities on textile wastewater with a dedicated sales and applications development team. Customers can still buy and use our forward osmosis products for other applications.

We launch an additional team focusing on food & beverage upon succesful food contact material compliance.





**Producing one t-shirt
uses up to 2,700 liters
of water.**

Case

Textile waste water



The textile industry is among the most water polluting industries in the world, accounting for 20% of global industrial water contamination. But focus is rapidly shifting towards sustainable production. This is critical for reaching the United Nations Sustainable Development Goals, and it is a major opportunity for the water purification industry.

An industry in transition

Textile production is one of the largest and most resource intensive industries. It is also a powerful engine for global growth and development, and companies in the fashion industry have a critical role to play in achieving the Sustainable Development Goals. Driven by a desire to transform, and supported by changing consumer patterns and regulatory pressures, fashion and textile companies are now organizing to adjust.

For the first time, sustainability is considered one of the largest challenges among fashion executives, according to McKinsey's annual State of Fashion report. In April 2019, 32 of the world's leading fashion and textile companies, including Nike, Adidas, Gap, Burberry, H&M and Inditex, entered the Fashion Pact. The signatories are recognizing the industry's environmental responsibility, and they are committing to reducing

their impact, which includes "supporting new technologies and adoption of pollution controls to safeguard the rivers and oceans from chemicals released through the fashion production supply chain".

Our contribution

Aquaporin's Industrial Water membranes offer a new technological solution to extract clean water from textile wastewater streams. This allows for water to be reused in the production, and it concentrates and minimizes the residual wastewater requiring additional treatment.

In close collaboration with industry partners – and supported by the UN SDG Accelerator program – we are evaluating which wastewater streams are best fit for forward osmosis treatment and developing solutions to support transitioning the industry.

165

Toxic chemicals

Identified in textile production

79bn

Tons of water

Consumed by the textile industry in 2015, expected to increase by at least 50% by 2030

Financial review

The financial review is based on the Group's consolidated financial information for the year ended 31 December 2019.

2019 was an important year for Aquaporin. We gained valuable insights concerning markets and customers that strengthened our foundation for growth and understanding of the market dynamics. Based on this Aquaporin has a focus on two segments, Drinking water and Industrial water with a special focus on textile waste water. Our product revenue started to grow within both market segments.

We established multiple pilot installations across the world with many new partners, while we continued to develop our products and technology. Also, we

have engaged in several discussions with global companies that can leverage our technology for their specific needs and purposes. We believe these discussions will result in more collaborations being announced as we move forward.

We expect these trends to continue into 2020 as we grow our product revenue significantly and broaden our customer base substantially while maintaining substantial investments in developing our products, proprietary technology, and people. As such, we expect to improve our financial performance in 2020 compared

to 2019. Due to further substantial development activity and the commercial build up, the result for 2020 is expected to be a loss, but somewhat lower than in 2019.

We secured additional funding in the beginning of 2020 and is continuously in dialogue with investors from around the world that can contribute and support our growth.

In applying the Group's accounting policies, Management makes judgments which may significantly influence the amounts recognized. Determining the

carrying amount of some assets and liabilities requires judgments, estimates and assumptions concerning future events and developments. These are made based on market studies, actual plans and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty. The areas carrying the most significant assumptions are intangible assets, deferred tax assets, and future liquidity needs.

DKK thousand	31 Dec. 2019	31 Dec. 2018	Net change	% change	Management's comments
Drinking water revenue	358	115	243	211%	The sale of Drinking water products amounted to DKK 0.4 million compared to DKK 0.1 million in 2018.
Industrial water revenue	1,956	1,490	466	31%	The sale of Industrial water products amounted to DKK 1.9 million compared to DKK 1.5 million in 2018, an increase of 31%.
Milestone revenue	3,764	6,289	(2,525)	(40%)	Milestone revenue amounted to DKK 3.8 million compared to DKK 6.3 million in 2018.
Operating cost	94,806	84,869	12,679	11.7%	Operating costs amounted to DKK 94.8 million compared to DKK 84.9 million in 2018, an increase of DKK 12.7 million (12%).
Sales and distribution costs	19,948	16,784	2,797	16.7%	The increase was driven by further expansion of the global sales organization and increasing marketing costs.

DKK thousand	31 Dec. 2019	31 Dec. 2018	Net change	% change	Management's comments
Research and development costs	57,198	51,614	5,584	10.8%	Research and development costs amounted to DKK 57.2 million compared to DKK 51.6 million in 2018. The increase was driven by additional supporting of commercial activities including testing and piloting. Further, the production facilities were used to support R&D activities.
Administration costs	17,660	16,471	1,189	7.2%	The increase was driven by external costs related to strategy and market analyses to support global expansion.
Net financials	3,664	3,006	658	21.9%	Net financial expenses amounted to DKK 3.7 million compared to DKK 3.0 million in 2018. The increase was related to increasing financial costs of DKK 0.7 million.
Income tax	25,328	13,330	11,986	89.9%	Transfer of intellectual property from Singapore to Denmark had an impact on Group tax due to difference in foreign tax rates.
Loss for the period	70,629	71,573	(932)	(1.3%)	Loss for the period amounted to DKK 70.6 million.
Balance sheet					
Total non-current assets	256,558	233,889	22,657	9.7%	Intangible assets increased by DKK 10.0 million driven by a 15% increase in Development Projects. Plant and Machinery decreased by DKK 0.6 million. Financial assets decreased by DKK 2.8 million due to write-down of investments in associates. Current and non-current tax assets increased with a total of DKK 20.0 million in a combination of deferred tax assets and tax receivables.
Cash	1,382	1,091	291	26.7%	At the end of the year, net cash and cash equivalents amounted to DKK 1.4 million.
Equity	164,062	110,819	53,232	48.0%	The increase was driven by capital increases of DKK 122.5 million partly offset by the negative result of the year.
Cash flow statement					
Cash flow from operating activities	(64,064)	(78,062)	13,998	17.9%	The improvement was primarily due to a positive change in net working capital and received tax.
Cash flow from investing activities	(22,357)	(14,091)	(8,266)	(58.7%)	The increase was driven by investments in non-current assets of DKK 22.4 million compared to DKK 10.7 million in 2018.
Net cash flow for the year	263	(45,283)	45,532	100.5%	The total negative cash flow of DKK 86.5 million from operating and investment activities was offset by net financial activities of DKK 86.7 million, including capital injections of DKK 122.5 million.
Events after the balance sheet date					
Capital management	In January 2020, a capital increase of DKK 27.6 million was completed.				
COVID-19	The full impact of the COVID-19 lockdown remains unclear. In April 2020, as a consequence of the uncertainty, management decided to implement cost reductions to adjust the organization.				



Corporate matters

Risk management

Our risk management approach reduces uncertainties as our activities grow and facilitates a timely response to issues that may have a material impact on the Group's earnings, financial position and the achievement of targets.

Risk governance structure

The Board of Directors has the final responsibility for risk management in the Aquaporin Group and determines the overall framework for identifying and mitigating risks. The Audit Committee supervises compliance within the agreed risk management strategy.

The Executive Management is responsible for the day-to-day implementation of risk-mitigating actions as well as a continuous development of the risk management activities to ensure a proactive approach to potential risks.

Risk management process

Each quarter, all Group departments are involved in a bottom-up risk analysis and reporting process, in which a number of gross risks are identified. Subsequently, each risk and the current or planned risk mitigating actions are described. The result is presented to the Audit Committee, which discusses whether the risk situation is acceptable and, if not, decides on further mitigating actions. The process of identifying, handling and reporting risks are continuously addressed by the Audit

Committee, to ensure that the underlying risk identification method is appropriate and reflects the actual risk picture.

Customers

Aquaporin is highly dependent on delivering relevant and value-creating solutions to customers and end-users. The company has established a global sales organization to understand regional preferences and build value creating solutions. If the company fails to deliver on quality and stability, the potential downside of losing customers and not growing our business increases.

Product supply and product safety

The main risk associated with product supply is emergency situations, such as lack of or poor access to raw materials. Aquaporin has a preventative approach to inventory management, including build-up of contingency inventories of critical raw materials. The highest product safety is ensured through an extensive quality assurance program covering the entire value chain. Production and manufacturing processes, are subject to periodic and routine inspections to ensure that production and product quality

standards are met. Aquaporin's product safety program is certified according to internationally recognized standards, including ISO 9001:2015 and NSF.

Health and safety

Risks associated with health and safety at Aquaporin mainly relates to ergonomic and physical hazards. Aquaporin's business is low intense production with limited manual interaction, noise, smell and vibration. The company is committed to ensuring a healthy psychosocial and physical working environment for its employees and has implemented several initiatives to underline the importance of a safe working environment. Incidents are monitored and handled both on department and Executive Management level.

Intellectual property rights

The company maintains a proactive patent strategy and protects new knowledge created to support the business. Aquaporin actively monitors third party patent positions within our relevant fields to secure freedom-to-operate for our products and technologies. Aquaporin currently has more than 51 patents granted or pending.

Internal control

Risk management and internal controls related to financial reporting are designed to limit the risk of material misstatements. Standard procedures for

Governance and quarterly reporting flow



the month-end closing process are implemented to ensure an in-depth analysis of potential deviations between actual performance, business plans, budgets, and quarterly estimate updates.

Financial risks

Due to the nature of its operations, investments and financing, Aquaporin is exposed to risks related to currencies, funding, liquidity, credit and counterparties. Aquaporin aims to actively address financial risks to mitigate potential material impacts on the Group's financial position. The financial risks are managed centrally with an objective to reduce the sensitivity on earnings of fluctuations in exchange rates, interest rates and liquidity.

Corporate governance

Aquaporin A/S is a private company headquartered in Denmark with additional operations in China, Singapore and the US. We apply adequate corporate governance practices to ensure transparency and accountability for the benefit of customers, shareholders, partners, employees, authorities and other stakeholders. Our corporate governance efforts are informed by the “Recommendations for Corporate Governance” as issued by the Danish Committee on Corporate Governance.

The governing body of Aquaporin is comprised of a two-tier management structure consisting of a non-executive Board of Directors and the Executive Management team. The allocation of responsibilities between the Board of Directors and Executive Management are laid down in the Rules of Procedure. The two entities are separate, and no person serves as a member of both.

Information concerning remuneration of the Board of Directors and Executive Management is disclosed in note 4 and 5 in the consolidated financial statements.

Shareholders

Shareholders have ultimate authority over Aquaporin and exercise their right to make decisions at general meetings. At the Annual General Meeting, shareholders

approve the annual report and elect Board members and the independent auditor. The following shareholders hold at least 5% of the votes or at least 5% of the share capital:

- M. Goldschmidt Capital A/S
- Danica Pension, Livsforsikringsaktieselskab
- InterChina Water Treatment Hong Kong Company Ltd.
- Bech N.V. -

Board of Directors

The Board of Directors currently consists of nine shareholder-elected members, of which five are independent according to the Recommendations for Corporate

Governance. The Board of Directors supervises the overall development of the Group, develops the Group's corporate strategy together with the Executive Management and oversees progress, financial performance as well as assessing whether the necessary skills and qualifications are in place to support the Group's development and strategic business objectives. The Board is also responsible for securing an appropriate capital structure. All Board members are elected at the Annual General Meeting. They serve a one-year term and are eligible for re-election.

The Board of Directors has established an Audit Committee, a Remuneration Committee, and a Nomination Committee, which came into effect in June 2018.





Audit Committee

The Audit Committee assists the Board of Directors in handling accounting and audit matters that by decision of the Board or the Audit Committee require a more thorough evaluation. Among its duties are supervision of the Company's financial reporting and the Group's external auditors, and assessment of the internal controls and risk management systems of the Group. The Audit Committee met four times in 2019.

Remuneration Committee

The role of the Remuneration Committee is to ensure that the Company maintains a remuneration policy for the members of the Board and Executive Management, which includes overall guidelines on incentive pay to the Board and Executive Management, and to evaluate and make recommendations for the remuneration of the members of the Board and the Executive Management. The remuneration policy and any changes thereto must be approved both by the Board as well as on the general meeting. The Remuneration Committee met twice in 2019.

Nomination Committee

The Nomination Committee assists the Board of Directors with ensuring that appropriate plans and processes are in place for nomination of candidates to the Board, the Executive Management,

and the board committees. The Nomination Committee must also evaluate the composition of, and make recommendations for nomination or appointment of members to, the Board, the Executive Management, and the board committees. The Nomination Committee met twice in 2019.

Executive Management

The registered Executive Management consists of the CEO and CFO, and is appointed by the Board of Directors. Together with the CCO and COO, they form the Executive Management Team, which is responsible for strategy execution and day-to-day management in accordance with the guidelines issued by the Board of Directors. The Executive Management also presents and recommends proposals on the overall strategy and objectives to the Board of Directors. Duties, obligations and liabilities of the Executive Management, including specific authorizations within which the Executive Management may transact business, are laid down in the Rules of Procedure for the Executive Management.

Who we are — and how we work

Aquaporin is founded on core values, that can be summarized with seven words: sustainability, pioneering, excellence, influence, growth, pride and open-mindedness. They run through our organization and are weaved into the way we work as a team – and, ultimately, the products and solutions we deliver.

Diversity, innovation and the art of being open-minded

We firmly believe that a company with a diverse workforce has a competitive advantage driven by better innovation and more motivated employees. In our mind, the key to Aquaporin's success is an open attitude with an innovative drive, coupled with a company culture that supports dynamic interaction across functions and cultural backgrounds. The close collaboration with joint venture companies and international projects leads to a natural ethnic diversity, which we are certain contribute to achieving better business results. But we also strive for diversity to enhance innovation, to increase employees' ability to work cross-culturally and to give them a better understanding of the communities in which they operate.

We operationalize our diversity principles in the hiring process, where the focus is on finding the right candidate for the job regardless of gender, nationality, age, sexuality and cultural background. The

result is a diverse company with 22 different nationalities present and where 40% of employees are non-Danish. Across the organization, 59% of employees are male and 41% are female.

For the managerial levels (Board of Directors, Executive Management, Managers), 19% are female and 38% are non-Danes. Currently, there are two female Board members and three members originating from outside Denmark. The Board of Directors will continue to focus on gender and diversity in general, when evaluating its composition, competencies, and future candidates.

In support of our diversity principles, we maintain a range of in-house initiatives – Art, Academy and Garage – contributing to an open-minded, multifaceted workplace.

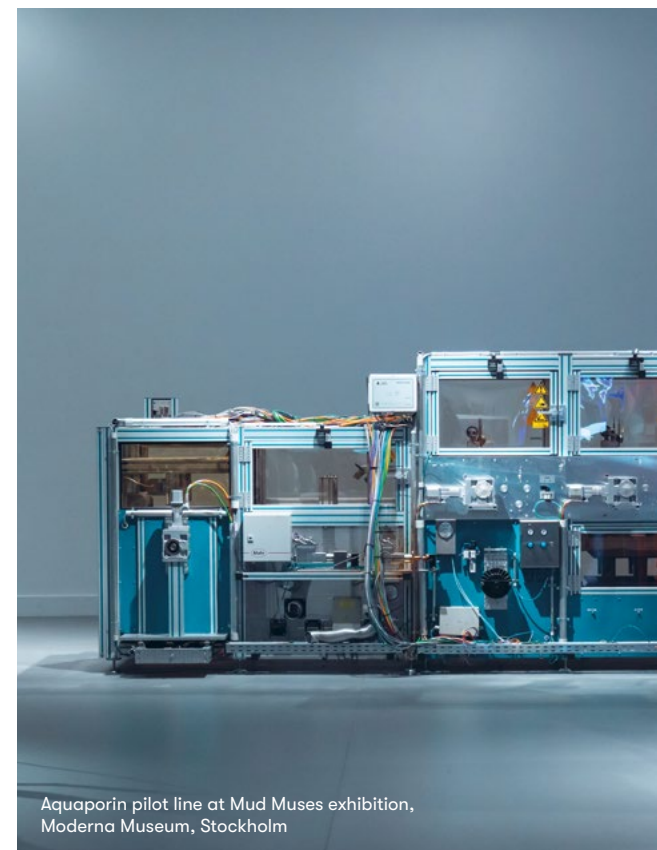
Aquaporin Academy

Aquaporin Academy offers students a unique opportunity to become part of

developing our company and technology through study-relevant projects. Throughout the years, students from all over the world have visited the Academy and supported scientific and business-related research. The industrial setting and real study cases combined with the innovative mind-set and knowledge that the students bring is what continues to make Aquaporin Academy a success for all parties. More recently, the Academy has also proven a valuable pipeline for talent by ensuring a mutual fit and rapid onboarding of bright minds into our company.

Aquaporin Art

Through Aquaporin Art, the company offers exhibition space in collaboration with a Danish artistic, curatorial and research collective. The initiative is open-ended, providing inspiration to visitors and employees while encouraging everyone to reflect on their daily work from new perspectives.



Aquaporin pilot line at Mud Muses exhibition, Moderna Museum, Stockholm



Aquaporin Garage

Aquaporin Garage was established upon the belief that sustainable solutions require technological innovation and entrepreneurship. It is an initiative that offers small pioneering start-up companies office space at Aquaporin's headquarter in Denmark, providing them with access to the company's competencies and experiences and the possibility of interacting with like-minded innovative start-ups.

20

NATIONALITIES

59

% HOLDS AN MSC.

16

% HOLDS A PHD

Sustainability at Aquaporin

Behaving responsibly has been a cornerstone of Aquaporin since our foundation. Now, we are taking the next step. During 2019, we became signatory to the UN Global Compact, whose Ten Principles provide the backdrop for our general approach to doing business by outlining our commitment to basic human rights, labor, environment and anti-corruption. We expect our suppliers to adhere to the same standards, which are expressed in our supplier code of conduct, and we will perform regular audits to ensure that suppliers understand and respect its standards. Through participation in the SDG Accelerator, hosted by the United Nations Development Program, we are deepening our work with the SDGs and our contribution to a sustainable future, as described on page 10.

We were 95 employees at the end of 2019, each playing a crucial part in the realization of our vision. Aquaporin feels responsible for the well-being of our employees and regularly conducts surveys to better understand how working at Aquaporin can become even better. We want to be an open and flexible workplace where the individual employee thrives and can develop and grow. We believe in the importance of our employees having a good work-life balance and aim to support our employees in having a healthy and active lifestyle. To that end, we are supporting a range of employee-led initiatives including sports activities, social events and inspiring talks.

Board of Directors

Niels Heering Chairman

Independent No	Nationality Danish
First elected 2015	Year of birth 1955

Chairman of the Nomination- & Remuneration Committee of Aquaporin A/S. Member of the Audit Committee of Aquaporin A/S

Master of Law. Partner at Gorrissen Federspiel. Chairman of the Boards of Aquaporin Space Alliance ApS, Arborethusene A/S, Civ.ing. N.T. Rasmussens Fond, Danish Aerospace Company A/S, Danish Aerospace Medical Company A/S, Investeringsforeningen BankInvest, JEU Holding ApS, Nesdugaard Holding ApS, NTR Holding A/S*, Stæhr Holding A/S, Viga Holding A/S and WAMA Consult ApS. Deputy Chairman of the Board of 15. Juni Fonden. Member of the Boards of BI Management A/S, Henning Stæhr A/S, Kapitalforeningen Nykredit Private Banking Elite, Lise og Valdemar Kählens Familiefond, Ole Mathiesen A/S and StandbyCo I ApS (Helgstrand Dressage)

*Listed company

Søren Bjørn Hansen Deputy Chairman

Independent No	Nationality Danish
First elected 2007	Year of birth 1972

Member of the Nomination- & Remuneration Committee of Aquaporin A/S

M.Sc. Economics. Deputy CEO at M. Goldschmidt Holding A/S. Chairman of the Board of Aquaporin Space Alliance ApS. Deputy Chairman of the Boards of Imerco A/S and Danish Aerospace Company ApS. Member of the Board of Aquapoten Co Ltd., China.

Anne Broeng Member

Independent Yes	Nationality Danish
First elected 2018	Year of birth 1961

Chairman of the Audit Committee of Aquaporin A/S

M.Sc. Economics. Chairman of the Board of Velliv. Member of the Boards of NNIT A/S, VKR Holding A/S, Velux A/S, ATP, IFU, NASDAQ Nordic OY and Rodinia ApS.

Lars Christian Hansen Member

Independent Yes	Nationality Danish
First elected 2015	Year of birth 1967

Member of the Nomination- & Remuneration Committee of Aquaporin A/S

M.Sc. Chemical Engineering. Executive Director at Villum Foundation. Chairman of the Board of Danish Foundations Knowledge Center.

Jens Denkov Member

Independent No	Nationality Danish
First elected 2019	Year of birth 1981

M.Sc. in Economics. Chief Investment Director at Danica Pension & Danske Bank.

Weiming Jiang
Member

Independent Yes	Nationality Chinese
First elected 2018	Year of birth 1956

M.Sc./Ph.D. the Royal Veterinary and Agricultural University of Denmark. Senior Corporate Vice President of DSM and President of DSM China Ltd. Deputy Chairman of the board of China Business Council for Sustainable Development (CBCSD).

Michael Frank
Member

Independent Yes	Nationality Danish
First elected 2007	Year of birth 1963

M.Sc. Finance. Investment Director at Syddansk Innovation A/S. Chairman of the Board of Less Audio ApS. Member of the Boards of MedTrace Pharma A/S, Shape Robotics ApS, Terranol A/S, Farmdroid ApS, Achoo ApS, Flexya ApS and Ceko Sensors ApS.

Lei Zhang
Member

Independent No	Nationality Chinese
First elected 2014	Year of birth 1982

Master of Law. CEO of Aquapoten Co Ltd and working Deputy Chairman of the Board of Poten Environment Group Co, Ltd.* Chairman of the Board of Aquapoten Co Ltd., China.

Cai Jianwen
Member

Independent Yes	Nationality Chinese
First elected 2014	Year of birth 1974

MBA, Business Administration. Executive Director of New Concepts Holding Co, Ltd.

*Listed company

Executive Management Team



BO KARMARK
Chief Financial Officer

JOERG HESS
Chief Operating Officer

PETER HOLME JENSEN
Chief Executive Officer & Co-Founder



Financial statements

Consolidated financial statements

Consolidated statement of profit and loss

DKK thousand	Note	2019	2018
Net revenue	2.1	6,078	7,894
Cost of goods sold	2.2	(691)	(185)
Gross profit		5,387	7,709
Sales and distribution costs	2.3, 2.4, 2.5	(19,948)	(16,784)
Research and development costs	2.3, 2.4, 2.5	(57,198)	(51,614)
Administrative costs	2.3, 2.4, 2.5	(17,660)	(16,471)
Operating profit		(89,419)	(77,160)
Share of net loss of associates	3.3	(2,874)	(4,737)
Finance income	2.6	152	157
Finance costs	2.6	(3,816)	(3,163)
Loss before income tax		(95,957)	(84,903)
Income tax benefit	2.7	25,328	13,330
Loss for the period		(70,629)	(71,573)
Loss is attributable to			
Owners of Aquaporin A/S		(70,629)	(70,744)
Non-controlling interests		-	(829)
		(70,629)	(71,573)

Consolidated statement of comprehensive income

DKK thousand	Note	2019	2018
Loss for the period		(70,629)	(71,573)
Other comprehensive income			
Items that can be reclassified to profit and loss:			
Exchange differences regarding foreign operations		87	(2)
Other comprehensive income for the period, net of tax		87	(2)
Total comprehensive income (loss) for the period		(70,542)	(71,575)
Total comprehensive income for the period is attributable to:			
Owners of Aquaporin A/S		(70,542)	(70,704)
Non-controlling interests		-	(871)
		(70,542)	(71,575)

Consolidated balance sheet Assets at 31 December

DKK thousand	Note	2019	2018
Know-how	3.1	2,899	2,899
Development projects	3.1	76,365	66,418
Intangible assets		79,264	69,317
Plant and Machinery	3.2	53,594	54,197
Right-of-use assets	3.2	56,512	60,906
Other equipment	3.2	3,017	3,601
Leasehold improvements	3.2	21,164	20,043
Tangible assets		134,287	138,747
Investments in associates	3.3	1,671	4,501
Financial assets		1,671	4,501
Deposits		2,097	2,052
Deferred tax assets	3.5	39,239	19,272
Other non-current assets		41,336	21,324
Total non-current assets		256,558	233,889
Inventories	3.6	19,166	13,035
Receivables from associated and joint ventures		-	326
Trade receivables	3.4	293	224
Other receivables		5,194	6,473
Income tax receivable		5,504	11,004
Prepayments		1,359	1,182
Current assets		31,516	32,244
Cash and cash equivalents	3.7	1,382	1,091
Total current assets		32,898	33,335
Total assets		289,456	267,224

Consolidated balance sheet Equity and liabilities at 31 December

DKK thousand	Note	2019	2018
Share capital	3.8	7,789	6,969
Retained earnings		115,610	73,950
Reserve for exchange rate transactions		670	583
Reserve for share-based payments		10,380	9,093
Other reserves		29,613	20,224
Capital and reserves attributable to owners of Aquaporin A/S		164,062	110,819
Lease liability	3.2	56,369	59,261
Total non-current liabilities		56,369	59,261
Lease liability	3.2	3,275	3,336
Trade payables		5,909	7,262
Other payables		10,647	8,413
Other liabilities		32,000	28,525
Borrowings	3.9	16,794	49,608
Contract liabilities	3.10	400	-
Total current liabilities		69,025	97,144
Total liabilities		125,394	156,405
Total equity and liabilities		289,456	267,224

Consolidated statement of changes in equity at 31 December

DKK thousand	Share capital	Retained earnings	Reserve for Exchange rate translation	Reserve for share-based payment	Other reserves	Aquaporin A/S total	Non-controlling interests	Total equity
Balance at 31.12.2017	6,944	157,018	543	9,432	13,117	187,054	(4,321)	182,733
Profit for the period	-	(70,744)	-	-	-	(70,744)	(829)	(71,573)
Development costs	-	(7,107)	-	-	7,107	-	-	-
Other comprehensive income	-	-	40	-	-	40	(42)	(2)
Total comprehensive income for the period	-	(77,851)	40	-	7,107	(70,704)	(871)	(71,575)
<i>Transactions with owners in their capacity as owners</i>								
Increase in share capital	25	2,972	-	-	-	2,997	-	2,997
Share-based payment	-	-	-	(339)	-	(339)	-	(339)
Purchase of ownership interests subject to non-controlling interests	-	(8,189)	-	-	-	(8,189)	5,192	(2,997)
Balance at 31.12.2018 hereafter	6,969	73,950	583	9,093	20,224	110,819	-	110,819
Profit for the period	-	(80,018)	-	-	9,389	(70,629)	-	(70,629)
Other comprehensive income	-	-	87	-	-	87	-	87
Total comprehensive income for the period	-	(80,018)	87	-	9,389	(70,542)	-	(70,542)
<i>Transactions with owners in their capacity as owners</i>								
Increase in share capital	820	121,678	-	-	-	122,498	-	122,498
Share-based payment	-	-	-	1,287	-	1,287	-	1,287
Balance at 31.12.2019	7,789	115,610	670	10,380	29,613	164,062	-	164,062

Consolidated Cash flow statement for the year ended 31 December

DKK thousand	Note	2019	2018
Profit before tax		(95,957)	(84,903)
Reversal of financial items		3,664	3,006
Depreciations and amortizations		16,992	14,997
Non-cash items		1,957	(1,518)
Change in net working capital	4.4	138	(11,624)
Cash flow from primary operating activities		(73,206)	(77,006)
Received interests and other financial income		1	14
Paid interests and other financial expenses		(1,721)	(1,070)
Received tax		10,862	-
Cash flow from operating activities		(64,064)	(78,062)
Investments in non-current assets		(22,359)	(10,704)
Investment in associates		-	(3,326)
Deposits		2	(61)
Cash flow from investing activities		(22,357)	(14,091)
External financing	3.9	(32,814)	49,608
Repayment of lease liabilities		(3,000)	(2,738)
Capital injections		122,498	-
Cash flow from financing activities		86,684	46,870
Net cash flow for the year		263	(45,283)
Cash and cash equivalents, beginning of the year		1,091	46,374
Foreign exchange adjustment of cash and cash equivalents		28	-
Cash and cash equivalents, end of the year		1,382	1,091

§ Accounting policy

The cash flow statement is prepared in accordance with the indirect method on the basis of the Group's profit before tax for the year. The statement shows the Group's cash flow broken down into operating, investment and financing activities, and cash and cash equivalents at year end.

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date. Cash flows from operating activities includes adjustment for non-cash items and changes in working capital. Cash flow from investing activities include investments in non-current assets, associates and joint arrangements. Cash flow from financing activities include cash flows from capital injections.

Notes to the consolidated financial statements

0 Capital base

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- 1.1 Significant accounting policies
- 1.2 Significant accounting estimates and assessments

Section 2. Operating activities

- 2.1 Net revenue
- 2.2 Cost of sales
- 2.3 Staff costs
- 2.4 Shared-based payments
- 2.5 Depreciations and amortizations
- 2.6 Financial income and expenses
- 2.7 Tax on profit for the year

Section 3. Assets and liabilities

- 3.1 Other intangible assets
- 3.2 Property, plant and equipment
- 3.3 Investments in associates
- 3.4 Trade receivables
- 3.5 Deferred tax
- 3.6 Inventories
- 3.7 Cash
- 3.8 Share capital
- 3.9 Borrowings
- 3.10 Contract liabilities

Section 4. Capital structure, financing and other notes

- 4.1 Commitments and contingent liabilities
- 4.2 Financial risks
- 4.3 Events after the balance sheet date
- 4.4 Changes in net working capital
- 4.5 Related parties and ownership
- 4.6 Government grants
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Notes to the consolidated financial statements

0. Capital base

The Company expects a requirement of additional capital during 2020. The Company explores the possibilities for strengthening the capital base through contributions from existing and/or new shareholders. Concrete negotiations are ongoing, and a capital increase through issue of new shares during 2020 is expected.

Based on the expectation and the present loan financing, the Company assesses that the capital base and liquidity are sufficient for operations and investments for at least the coming year.

SECTION 1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. Significant accounting policies

The Consolidated Financial Statements for the Aquaporin Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union as well as additional Danish disclosure requirements applying to entities of reporting class C (middle).

The general accounting policies are described below and in extension to this, specific accounting policies have been incorporated to the respective notes

Impact of new accounting standards

The Aquaporin Group made an early adoption of IFRS 16 in 2018 why comparative figures also include the changes made by IFRS 16.

General information on recognition and measurement

The Financial Statements have been prepared under the historical cost method, except for the measurement of certain financial instruments at fair value.

The accounting policies set out below have been applied consistently in respect of the financial year and the comparative figures.

Basis of consolidation

The Consolidated Financial Statements cover Aquaporin A/S (the Parent Company) and entities over which the Parent Company has a controlling influence. The Group controls an entity

when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Purchase of shares in subsidiaries from non-controlling interests are recognized in equity.

Translation from functional currency to presentation currency

Items in the financial statements of each of the reporting companies of the Group are measured in the currency of the primary economic environment in which the company operates (the functional currency).

Assets, liabilities and equity items are translated from each reporting company's functional currency to DKK at the balance sheet date. The income statements are translated from the functional currency into the presentation currency based on the average exchange rate for the individual months. Differences arising on the translation of the equity at the beginning of the period, and translation of the income statement from the average rates to the exchange rate at the balance sheet date, are recognized in other comprehensive income and presented as a separate reserve in equity.

The functional currency of the Parent Company is the Danish krone (DKK) and the Consolidated Financial Statements are likewise presented in Danish kroner (DKK).

Translations and transactions

Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the transaction date.

Exchange adjustments arising due to differences between the transaction date rates and the rates at the payment date are recognized in financial income or financial expenses in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognized in financial income or financial expenses in the income statement.

Notes to the consolidated financial statements

1.2. Significant accounting estimates and assessments

In preparing the Consolidated Financial Statements, Management makes various accounting estimates and assumptions, which form the basis of presentation, recognition and measurement of the Group's assets and liabilities. The most significant accounting estimates and judgments are presented below.

In applying the Group's accounting policies, Management makes judgments which may significantly influence the amounts recognized in the Consolidated Financial Statements. Determining the carrying amount of some assets and liabilities requires judgments, estimates and assumptions concerning future events.

The judgments, estimates and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise. The most critical judgments, estimates and assumptions for the individual items are described in the notes:

- Impairment of Other intangible assets (note 3.1)
- Deferred tax (note 3.5)

The Group is also subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

Notes to the consolidated financial statements

SECTION 2. OPERATING ACTIVITIES

2.1. Net revenue

§ Accounting policy

Revenue is recognized in the income statement if the control has been transferred to the purchaser at the balance sheet date, if the income can be measured reliably, and if expenses incurred or expected to be incurred in connection with the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received excluding VAT and less commission and discounts granted in connection with the sales.

Royalties, license fees and milestones are recognized when earned according to the terms of the license agreements.

The revenue derives primarily from transfer of goods and milestones over time and at point in time. The main product lines consist of Drinking Water products and Industrial Water products. This split reflects Management's view and is in line with internal reporting

Sale of products

Revenue from the sale of products is recognized when control is transferred to customers which is ex works in standard delivery terms. Thereby, the sale is recognized at point in time.

Revenue is recognized based on the price specified in the contract. Normal payment term of the transaction is due within 15 days from invoice date, why there is no financing elements in the contracts. Price is fixed.

Warrant obligation covers a period of 12 months or shelf life of the objects whichever period expires first. Liability is recognized on behalf of this warrant.

Milestones

Revenue from milestones is recognized in accordance with the milestone agreement, which can either be at a specific point in time or over time depending on the requirements and obligations attached. The continuous transfer of control is reflected in the customers' obligation to pay for the performed work when the milestone is met.

Annual milestone fees are recognized over time according to the timeframe of the agreement.

The revenue is recognized based on the price specified in the contract. The contract contains no financial elements. Normal payment terms are 15 days from invoicing date.

Revenue

DKK thousand	2019	2018
Drinking Water	358	115
Industrial Water	1,956	1,490
Milestone payment	3,764	6,289
Total	6,078	7,894
Over time	–	2,545
At point in time	6,078	5,349
Total	6,078	7,894

Notes to the consolidated financial statements

2.2. Cost of sales

§ Accounting policy

Cost of sales comprises the cost of products sold. Cost comprises the purchase price of raw materials, consumables and goods for resale, direct labor costs and a share of indirect production costs, including costs of operation and depreciation of production facilities as well as operation, administration and management of factories.

2.3. Staff costs

DKK thousand	2019	2018
Salaries	48,272	40,515
Pension costs, defined contribution plans	246	147
Other expenses to social security	1,029	873
Share-based payments (Note 2.4)	1,287	(339)
Capitalized salaries	(8,635)	(6,591)
Total	42,199	34,605
Average number of full-time employees	83	73
<i>Included in the Income statement:</i>		
Sales and distribution costs	9,170	7,081
Research and development costs	31,089	24,349
Administrative costs	10,575	9,766
Capitalized salaries	(8,635)	(6,591)
Total	42,199	34,605

DKK thousand	2019	2018
Remuneration to Board of Directors		
Fixed base fee		
Niels Heering	-	-
Søren Bjørn Hansen	-	-
Lars Christian Hansen	100	100
Anne Broeng*	100	-
Weiming Jiang*	100	-
Michael Frank	-	-
Lei Zhang	-	-
Cai Jianwen	-	-
Jens Denkov**	-	-
Torsten Freltoft***	30	100
Jens Frederik Lage Hansen***	30	100
Total	360	300
Share-based incentive (Note 2.4)		
Lars Christian Hansen	-	69
	-	69
Total	360	369

* Since March 2018

** Since March 2019

*** Until March 2018

Notes to the consolidated financial statements

2.3. Staff costs, continued

Remuneration to Executive Board

DKK thousand	Fixed base salary	Bonus	Benefits	Share-based incentive	Total
2019					
Executive Board					
Peter Holme Jensen	2,003	206	135	–	2,344
Bo Karmark	1,545	156	97	409	2,207
Thomas Christian Beck*	1,125	117	49	–	1,291
Non-registered member of Executive Management					
Jacob Hagemann**	1,000	–	2	256	1,258
Joerg Hess***	750	–	59	256	1,065
Total	6,423	479	342	921	8,165

2018

Executive Board					
Peter Holme Jensen	1,980	–	135	–	2,115
Bo Karmark	1,500	35	97	69	1,701
Thomas Christian Beck*	1,500	29	100	69	1,698
Claus Helix-Nielsen****	230	29	29	–	288
Total	5,210	93	361	138	5,802

* Until March 2019

** From May 2019 to April 2020

*** Since July 2019

**** Until March 2018

2.4. Shared-Based Payments

§ Accounting policy

Aquaporin operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (warrants) of the group. The fair value of the employee services received in exchange for the grant of the warrants is recognized as a compensation expense and allocated over the vesting period. The total amount to be expensed is determined by reference to the grant date fair value of the warrants granted including any market performance conditions, excluding the impact of any service and non-market performance vesting conditions and including the impact of any non-vesting conditions.

At the end of each reporting period, the group revises its estimates of the number of warrants that are expected to vest based on the service and non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the income statement, with a corresponding adjustment to equity.

When the warrants are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Employee warrant program

Aquaporin has established incentive plans based on warrant programs for Executive Management and certain key employees. The purpose of these programs is to ensure common goals for management, employees and shareholders. Allocation of programs is set by the Board of Directors.

The warrant program comprises a total of 482,811 warrants at 31 December 2019 (2018: 531,311). Each warrant gives the holder right to buy one ordinary share of nominally 1 DKK in Aquaporin A/S. The outstanding warrants amount to 6% of the share capital if they are all exercised (2018: 7%).

The number of warrants granted is determined annually by the Board of Directors in accordance with the company's articles of association.

Notes to the consolidated financial statements

2.4. Shared-based payments, continued

Current warrant programs as of 31 December 2019	Granted	Exercised	Forfeited	Expired	Outstanding	Exercise price DKK	Expiring date
Board of Directors & Executive Management							
2012	62,000	(50,000)	-	(12,000)	-	20	Q2 2019
2013	150,000	-	-	-	150,000	20	Q3 2020
2014	145,000	-	-	-	145,000	20	Q3 2021
2016	60,000	-	(15,000)	-	45,000	120	Q3 2021
2019	27,000	-	-	-	27,000	158	Q2 2024
Total	444,000	(50,000)	(15,000)	(12,000)	367,000		
Other Key Employees							
2012	38,000	(8,500)	(7,000)	(22,500)	-	20	Q2 2019
2014	33,000	(1,500)	(5,000)	-	26,500	20	Q3 2021
2016	90,000	-	(23,689)	-	66,311	120	Q3 2021
2018	10,000	-	-	-	10,000	120	Q1 2023
2019	13,000	-	-	-	13,000	158	Q2 2024
Total	184,000	(10,000)	(35,689)	(22,500)	115,811		
Employee warrants 31 December 2019	628,000	(60,000)	(50,689)	(34,500)	482,811		
Shareholder warrants							
2014	106,932	-	(10,718)	-	96,214	30	Q4 2021
2017	272,945	-	-	-	272,945	120	Q4 2022
Total	379,877	-	(10,718)	-	369,159		
Outstanding warrants 31 December 2019	1,007,877	(60,000)	(61,407)	(34,500)	851,970		

Notes to the consolidated financial statements

2.4. Shared-based payments, continued

In 2019, 40,000 warrants were granted with an exercise price of DKK 158 per warrant. The warrants can be exercised at any time within 5 years from the date of the Board resolution. There are no other conditions for vesting or exercise.

In 2018, 10,000 warrants were granted with an exercise price of DKK 120 per warrant. The warrants can be exercised at any time within 5 years from the date of the board resolution. There are no other conditions for vesting or exercise.

As of 31 December 2019, all the granted warrants mentioned above can still be exercised.

For outstanding warrants at 31 December 2019, the average remaining life is 2.4 years (2018: 2.3 years). The average exercise price is DKK 57 (2018: DKK 45).

Specification of outstanding employee warrants

	Number
Outstanding 1 January 2018	547,143
Granted	10,000
Forfeited or expired	(25,832)
Outstanding 31 December 2018	531,311
Granted	40,000
Exercised	(50,000)
Forfeited or expired	(38,500)
Outstanding 31 December 2019	482,811

Shares and warrants held by members of the Board of Directors, executive management and other key personnel

	2019			2018		
	01.01	Change during the year	31.12	01.01	Change during the year	31.12
Shareholdings						
Niels Heering	8,343	-	8,343	8,343	-	8,343
Søren Bjørn Hansen	8,343	-	8,343	8,343	-	8,343
Lars Christian Hansen	10,001	-	10,001	10,001	-	10,001
Jiang Weiming*	-	3,167	3,167	-	-	-
Anne Broeng	-	6,335	6,335	-	-	-
Peter Holme Jensen	135,001	24,658	159,659	135,001	-	135,001
Bo Karmark	4,171	-	4,171	4,171	-	4,171
Thomas Christian Beck**	6,257	-	6,257	6,257	-	6,257
Warrants						
Lars Christian Hansen	15,000	-	15,000	15,000	-	15,000
Peter Holme Jensen	325,000	-50,000	275,000	325,000	-	325,000
Bo Karmark	15,000	12,000	27,000	15,000	-	15,000
Jacob Hagemann***	-	7,500	7,500	-	-	-
Joerg Hess****	-	7,500	7,500	-	-	-
Thomas Christian Beck**	15,000	-	15,000	15,000	-	15,000

* Since March 2019

** Until March 2019

*** From May 2019 to April 2020

**** Since July 2019

Notes to the consolidated financial statements

2.4. Shared-based payments, continued

In 2019 the recognized expense related to share-based payments amount to DKK 1,287 thousand (2018: DKK 339 thousand).

Fair value of each warrant granted in 2019 was DKK 68 (2018: DKK 40). The value was calculated using the Black-Scholes option valuation model.

The following assumptions were made at the grant in 2019:

Share price:	158 DKK
Expected volatility:	67%
Expected life:	3 years
Expected dividend:	0%
Risk free interest rate:	-0.73%

Fair value of the warrants granted in 2019 was determined to be equal to the share price paid by the new investors at the capital increase in July 2019. The expected volatility was determined as the observable volatility for the expected life of the warrants for a peer group of listed companies.

The following assumptions were made at the grant in 2018:

Share price:	120 DKK
Expected volatility:	50%
Expected life:	3 years
Expected dividend:	0%
Risk free interest rate:	-0.29%

Fair value of the shares granted in 2018 was determined to be equal to the share price paid by the new investors at the capital increase in January 2019. The expected volatility was determined as the observable volatility for the expected life of the warrants for a peer group of listed companies.

Determination of fair value of the warrants requires significant judgment regarding fair value of the underlying shares, expected life and volatility. Due to the recent capital increase by new investors, fair value of the underlying shares is in Management's view limited. The expected life of the warrants is based on the assumption that the holder will exercise the warrants when they are fully vested and all restrictions on the holders' ability to dispose of the underlying ordinary shares expire. Actual exercise patterns may differ from the assumption used herein. The expected volatility is based on peer group data and reflects the assumption that the historical volatility over a period similar to the life of the equity awards is indicative of future trends, which may not necessarily be the actual outcome. The peer group consists of listed companies that management believes are similar to Aquaporin in respect to industry and stage of development.

Certain shareholders were granted 106,932 warrants on 19 December 2014. Each warrant gives the holder right to subscribe one ordinary share of nominally 1 DKK in Aquaporin A/S at an exercise price of DKK 30 per warrant. The warrants can be exercised in a period of 7 years from the grant date. They can only be settled in new shares in Aquaporin A/S. As of 31 December 2019, 10,718 warrants were forfeited, and 96,214 warrants issued were outstanding. The outstanding warrants amount to 1% of the share capital if they are all exercised (2% at 31 December 2018).

Certain shareholders were granted 272,945 warrants on 26. October 2017. Each warrant gives the holder right to subscribe one ordinary share of nominally 1 DKK in Aquaporin A/S at an exercise price of DKK 120 per warrant. The warrants can be exercised at any time. They can only be settled in new shares in Aquaporin A/S.

As of 31 December 2019, all of the warrants issued were outstanding. The outstanding warrants amount to 3% of the share capital if they are all exercised (4% at 31 December 2018).

The warrants are classified as equity instruments.

Notes to the consolidated financial statements

2.5. Depreciations and amortizations

DKK thousand	2019	2018
Sales and distribution costs	1,168	1,839
Research and development costs	14,876	11,417
Administrative costs	948	1,741
Total	16,992	14,997

2.6. Financial income and expenses

§ Accounting policy

Financial income and expenses comprise interest receivable and interest payable, surcharges and refunds under Denmark's on-account tax scheme, and value adjustments of financial fixed assets and items denominated in a foreign currency.

DKK thousand	2019	2018
Financial income		
Interest income, banks	1	14
Exchange rate adjustments	151	143
Total	152	157
Financial expenses		
Interest expenses, banks	240	452
Interest expenses, right of use assets	1,991	2,065
Exchange rate adjustments	104	28
Other financial expenses, including bank fees	1,481	618
Total	3,816	3,163

2.7. Tax on profit for the year

§ Accounting policy

Current tax liabilities and receivables are recognized in the balance sheet at the amounts calculated on the taxable income for the year adjusted for tax on taxable incomes for prior years and for taxes paid on account.

Deferred tax is measured using the balance sheet liability method. All temporary differences between the carrying amount and the tax base of assets and liabilities are recognized, apart from temporary differences arising on the initial recognition of an asset or a liability if the transaction affects neither accounting profit nor taxable income. In cases where the computation of the tax base may be performed according to different tax rules, deferred tax is measured on the basis of Management's intended use of the asset or settlement of the liability.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized when it is probable that they can be realized by offset against future taxable profits. At each balance sheet date, it is assessed whether an offset is likely in a foreseeable future.

DKK thousand	2019	2019	2018	2018
Profit before tax	(95,957)	22%	(84,903)	22%
Calculated 22% (2018: 22%) of profit before tax	21,110	22%	18,679	22%
<i>Tax effect of:</i>				
Regulation of calculated tax in foreign affiliated companies in relation to 22% (2018: 22%)	5,039	5%	(2,217)	-3%
Non-deductible expenses	(844)	-0.9%	(872)	-1.0%
Adjustments regarding previous years	(76)	-0.1%	(2,047)	-2.4%
Withholding taxes	(138)	-0.1%	(182)	-0.2%
Other corrections	237	3.2%	(31)	0.0%
Tax on profit/loss for the year	25,328	26.4%	13,330	15.7%

Notes to the consolidated financial statements

SECTION 3. ASSETS AND LIABILITIES

3.1. Other intangible assets

§ Accounting policy

Research expenses are recognized in the income statement as they are incurred. Development costs are recognized as intangible assets if all of the following conditions are met:

- the technical feasibility to complete the development has been demonstrated,
- Management intends to and expects to have sufficient financial resources to complete development, and
- the costs are expected to be recovered through income from the sale of the goods developed.

Amortization is based on the straight-line method over the expected useful lives of the assets:

- Development projects: 10 years

The amortization begins when the development project is at a stage where its commercial potentials can be utilized in the manner intended by Management.

Know-how related to the development of the company's products is assessed to have an indefinite useful life, and is tested for impairment on an annual basis.

DKK thousand	Know-how	Finished development projects	Development projects in progress	Total
Cost price at 1 January 2019	2,899	38,465	30,371	71,735
Additions during the year	–	–	13,814	13,814
Transfer	–	14,954	(14,954)	–
Purchase price at 31 December 2019	2,899	53,419	29,231	85,549
Amortizations at 1 January 2019	–	2,418	–	2,418
Amortizations	–	3,867	–	3,867
Amortizations at 31 December 2019	–	6,285	–	6,285
Carrying amount 31 December 2019	2,899	47,134	29,231	79,264
Cost price at 1 January 2018	2,899	–	61,195	64,094
Additions during the year	–	–	7,641	7,641
Transfer	–	38,465	(38,465)	–
Purchase price at 31 December 2018	2,899	38,465	30,371	71,735
Amortizations at 1 January 2018	–	–	–	–
Amortizations	–	2,418	–	2,418
Amortizations at 31 December 2018	–	2,418	–	2,418
Carrying amount 31 December 2018	2,899	36,047	30,371	69,317

Notes to the consolidated financial statements

3.1. Other intangible assets, continued

Material intangible assets:

For development projects in progress an impairment test is performed annually. The impairment test is performed on the basis of various factors, including: future expected use of the outcome of the project, the fair value of the estimated future earnings, interest rates and risks.

Management evaluates budgets and business plans and finds that sufficient resources are available to complete the ongoing development projects and expects them to generate future profits. Development projects in progress amount to DKK 29.2 million at 31 December 2019 (2018: DKK 30.4 million).

Development projects in progress (DKK 29.2 million) comprise of direct costs related to development of membrane products. Development projects in progress and know-how are tested at least annually to identify any further need for impairments. The impairment test consist of the estimated future cash flows using a 10-year financial budget to validate if the assessed recoverable amount surpass the carrying amount for each cash generating unit. A 10-year budget period is used due to the complexity of the products. The growth rate in the terminal period is estimated to be 2% and a WACC on 14% is used as discount factor. The impairment tests has not given any indications of impairments needed.

The amortization begins when the development project is at a stage where its commercial potentials can be utilized in the manner intended by Management.

In 2019 DKK 15.0 million have been transferred to finished development projects and amortization of these projects have started. Amortization period is 10 years due to the unique character of the product.

3.2. Property, plant and equipment

§ Accounting policy

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment charges. Property, plant and equipment in progress are measured at cost. Cost comprises expenses for materials, other expenses directly related to making the asset ready for use and reestablishment expenses, provided that a corresponding provision is made at the same time.

The useful lives of the individual groups of assets are estimated as follows:

- Plant and Machinery:	4 - 20 years
- Land and buildings (Right-of-use assets):	2 - 20 years
- Other equipment:	2 - 8 years
- Leasehold improvements:	8 - 20 years

Depreciation is based on a straight-line pattern.

Gains and losses on the disposal of property, plant and equipment are recognized in the income statement under other operating income and other operating expenses.

The carrying amounts of property, plant and equipment carried at cost or amortized cost are tested annually to determine whether there are indications of any impairment. Assets are written down to the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized under the same line item as depreciation of the assets.

Right-of-use assets are recognized on the balance sheet when the assets are made available for the entity.

Right-of-use assets with low value or short-term are recognized as an expense in the income statement on a straight line-basis over the lease term.

Right-of-use assets are measured at cost comprising:

- amount of the initial measurement of lease liability
- lease payments made at or before the commencement date
- initial costs
- restoration costs

The right-of-use assets are depreciated over the shorter of the underlying asset's expected useful life and the lease term on a straight-line basis.

Notes to the consolidated financial statements

3.2. Property, plant and equipment, continued

DKK thousand	Plant and machinery	Right-of-use assets	Other equipment	Leasehold improvements	Total
Purchase price at 1 Jan. 2019	62,112	65,616	9,141	25,137	162,006
Exchange rates	176	79	14	28	297
Additions during the year	4,727	700	755	2,492	8,674
Disposal during the year	-	(309)	-	-	(309)
Purchase price at 31 Dec. 2019	67,015	66,086	9,910	27,657	170,668
Depreciations at 1 Jan. 2019	7,915	4,710	5,540	5,094	23,259
Exchange rates	61	21	10	21	113
Depreciations	5,445	4,972	1,343	1,378	13,138
Depreciations disposal	-	(129)	-	-	(129)
Depreciations at 31 Dec. 2019	13,421	9,574	6,893	6,493	36,381
Carrying amount 31 December 2019	53,594	56,512	3,017	21,164	134,287
Purchase price at 1 Jan. 2018	60,741	-	7,982	24,462	93,185
Exchange rates	115	-	10	18	143
Additions during the year	1,256	65,616	1,149	657	68,678
Purchase price at 31 Dec. 2018	62,112	65,616	9,141	25,137	162,007
Depreciations at 1 Jan. 2018	2,814	-	4,033	3,761	10,608
Exchange rates	30	-	4	7	41
Depreciations	5,071	4,710	1,503	1,326	12,610
Depreciations at 31 Dec. 2018	7,915	4,710	5,540	5,094	23,259
Carrying amount 31 December 2018	54,197	60,906	3,601	20,043	138,747

Leases recognized on the balance sheet per asset class:

DKK thousand	2019	2018
Right-of-use assets		
Land and buildings	55,408	59,488
Other equipment	1,104	1,418
Carrying amount of lease assets	56,512	60,906
Lease liabilities		
Within one year from the balance sheet date	3,275	3,336
Between one and five years from the balance sheet date	13,550	13,545
After five years from the balance sheet date	42,819	45,716
Total	59,644	62,597

Amounts recognized in the income statement, relating to leases:

	2019	2018
Interest expenses	1.991	2.065
Expenses related to short-term leases (Sales and distribution)	33	-
Expenses related to short-term leases (Research and development)	76	-

Depreciation related to right-of-use assets

Land and buildings	4.414	4.197
Other equipment	558	513
Depreciation of right-of-use assets	4.972	4.710

Amounts recognized in the cash flow statement, relating to leases:

The total cash outflow for leases	5.545	5.075
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Notes to the consolidated financial statements

3.2. Property, plant and equipment, continued

Aquaporin's leases are primarily composed by land, buildings, vehicles and office equipment. Rental contracts are typically made for a fixed period and the right of use assets are calculated on behalf of this fixed period.

The main rental agreement is included until 2036 when the agreement expires.

3.3. Investments in associates

§ Accounting policy

Investments in associates and joint ventures are recognized according to the equity method and are measured at the proportionate share of the entities' net asset values calculated in accordance with Aquaporin's accounting policies.

The proportionate share of the results of associates and joint ventures after tax is recognized in the consolidated income statement after elimination of the proportionate share of unrealized intra-Group profits/losses.

DKK thousand	2019	2018
Purchase price at 1 January	26,679	23,353
Additions during the year	-	3,326
Purchase price at 31 December	26,679	26,679
Accumulated write-ups and write-downs at 1 January	(22,178)	(17,435)
Unrealized gain on sale of assets from Aquaporin	403	398
Share of result after tax	(3,277)	(5,136)
Exchange rate adjustments	44	(5)
Accumulated write-ups and write-downs at 31 December	(25,008)	(22,178)
Carrying amount 31 December	1,671	4,501

Investments in associates includes:

DKK thousand	2019			2018		
	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Total	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Total
Country	China	Denmark		China	Denmark	
Ownership share	45%	50%		45%	50%	
Share of equity						
31 December	5,442	60	5,502	6,605	59	6,664
Share of intangible assets related to IP-transfer at 1 January	(2,768)	-	(2,768)	(3,184)	-	(3,184)
Reversal of share of depreciation of intangible assets related to IP-transfer in 2016 during the year	377	-	377	416	-	416
Share of intangible assets related to IP-transfer at 31 December	(2,391)	-	(2,391)	(2,768)	-	(2,768)
Additional paid-in capital	610		610	605		605
Write down	(2,050)		(2,050)			
Carrying amount 31 December	1,611	60	1,671	4,442	59	4,501

Notes to the consolidated financial statements

3.3. Investments in associates, continued

Summarized financial information for included associates:

DKK thousand	2019		2018	
	Aquapoten Company Limited	Aquaporin Space Alliance ApS	Aquapoten Company Limited	Aquaporin Space Alliance ApS
Country	China	Denmark	China	Denmark
Ownership share	45%	50%	45%	50%
Comprehensive income				
Net revenue	2	5	106	68
(Loss) / profit for the period	(2,730)	3	(11,470)	52
Balance sheet				
Total non-current assets	9,879	–	11,031	1
Total current assets	2,766	132	4,597	152
Total liabilities	(553)	(12)	(951)	(35)
Total equity	12,093	120	14,677	118

3.4. Trade receivables

§ Accounting policy

Receivables are initially recognized at fair value adjusted for any transaction costs. Subsequently, receivables are measured at amortized cost less provisions for bad debts. Provisions for bad debts are determined on the basis of a simplified expected credit loss-model.

3.5. Deferred tax

DKK thousand	2019	2018
Deferred tax at 31 December	39,239	19,272
Intangible assets	(5,521)	(8,322)
Property, plant and equipment	(8,261)	(10,665)
Current assets	2,472	866
Lease liability	12,924	13,415
Tax loss carry forwards	37,625	23,978
Total	39,239	19,272

Utilization of deferred tax assets is dependent on future taxable profit. Management has considered budgets and business plans when evaluating recognition of deferred tax assets and finds that there is convincing evidence that sufficient taxable profit will be available against which the deferred tax assets can be utilized. Recognized deferred tax assets amount to DKK 39.2 million at 31 December 2019 (2018: DKK 19.3 million).

Notes to the consolidated financial statements

3.6. Inventories

§ Accounting policy

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out convention.

The cost of goods for resale and raw materials and consumables comprises purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising costs incurred to bring the product to the current completion rate and location. Costs include the cost of raw materials, consumables, direct wages and salaries, and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery and equipment as well as production administration and management.

DKK thousand	2019	2018
Raw material and consumables	3,704	2,839
Goods in progress	212	1,008
Finished goods	15,250	9,188
Total	19,166	13,035
Write-down on inventories, December 31	4,557	923

3.7 Cash

§ Accounting policy

Cash and cash equivalents comprise cash balances and unrestricted deposits with banks.

3.8. Share capital

The share capital comprises 7,789,054 shares of a nominal value of DKK 1 each as of December 31, 2019 (2018: 6,969,277 shares).

The shares are not divided into share classes, and each share carries one vote. No shares carry any special rights.

3.9 Borrowings

§ Accounting policy

Financial liabilities are initially measured at fair value less transaction costs incurred. Subsequently, the loans are measured at amortized cost. Amortized cost is calculated as original cost less instalments plus/less the accumulated amortization of the difference between cost and nominal value. Losses and gains on loans are thus allocated over the term so that the effective interest rate is recognized in the income statement over the loan period. Financial liabilities are derecognized when settled.

DKK thousand	Due within 1 year	Total
31 December 2019		
Credit facility	16,794	16,794
Total	16,794	16,795

31 December 2018

Credit facility	49,608	49,608
Total	49,608	49,608

The credit facility has a fixed interest of 0% (2018: 3.15%) and expires February 28, 2020.

3.10 Contract liabilities

DKK thousand	2019	2018
Prepayments from customers	400	-
Contract liabilities, December 31	400	-

Notes to the consolidated financial statements

SECTION 4. CAPITAL STRUCTURE, FINANCING AND OTHER NOTES

4.1. Commitments and contingent liabilities

There are no pending court and arbitration cases or other contingent liabilities.

4.2. Financial risks

General risk management

Due to its activities, the Group is exposed to various financial risks, including foreign exchange, interest, liquidity and credit risks. The Group manages the risks centrally and follows the policies approved by the Board of Directors. The Group does not actively engage in speculation of financial risks.

Credit risks

The Group's credit risks mainly relates to trade receivables and other receivables with a total of DKK 5.5 million (2018: DKK 7.0 million). Maximum exposure corresponds to the carrying amount.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and other receivables.

Foreign exchange risks

The Groups sales, cost of goods sold, and expenses are mainly incurred in DKK, EUR, SGD or USD. The Group has transactions in other currencies, but the foreign exchange risks related to this are not considered material.

The table below shows the net effect on the equity and profit/loss for the year, if the year-end exchange rates for EUR, USD and SGD had been higher than the actual exchange rate. A similar fall in the exchange rate would have had the opposite effect.

DKK thousand	Possible change in exchange rate (+/-)	Hypothetical change in equity	Hypothetical change in profit/loss
2019			
EUR/DKK	1%	1	5
USD/DKK	15%	243	(207)
SGD/DKK	15%	2,811	(1,478)

Interest rate risk

The Group's credit facility carry a fixed interest rate. The Group is not exposed to other material interest rate risks.

Liquidity risk

The management of the liquidity risk is ensured through consistent focus on budgeted and realized cash flow. To cover the short-term liquidity need, a credit facility has been established of DKK 35 million (2018: DKK 50 million). The credit facility has been utilized in 2019.

Notes to the consolidated financial statements

4.2. Financial risks, continued

Capital management

Management evaluates the needs for capital on an ongoing basis. The objectives when maintaining capital are to maintain sufficient capital in order to meet short term obligations and at the same time preserve the confidence of the investors required to sustain future development of the business. As of 31 December 2019, the Group is partly financed by a credit facility of DKK 35 million.

To cover future liquidity needs, a capital increase of DKK 27.6 million was completed in January 2020 and Aquaporin has an ongoing dialog to secure further funding.

DKK thousand	0-1 year	1-5 years	>5 years	Total	Carrying amount
31 December 2019					
Trade and other receivables	5,487	-	-	5,487	5,487
Total	5,487	-	-	5,488	5,487
Lease liability	5,151	17,141	55,454	77,746	59,644
Trade and other payables	16,556	-	-	16,556	16,556
Short-term borrowings	16,794	-	-	16,794	16,794
Total	38,501	17,141	55,454	111,096	92,994

31 December 2018

Trade and other receivables	7,023	-	-	7,023	7,023
Total	7,023	-	-	7,023	7,023
Lease liability	5,309	21,994	55,454	82,757	62,597
Trade and other payables	15,675	-	-	15,675	15,675
Short-term borrowings	51,171	-	-	51,171	49,608
Total	72,155	21,994	55,454	149,603	127,880

DKK thousand	2019	2018
Trade and other receivables	5,487	7,023
Cash and cash equivalents	1,382	1,091
Financial assets measured at amortized cost	6,869	8,114
Lease liability	59,644	62,597
Trade and other payables	16,556	15,675
Short-term borrowings	16,794	49,608
Financial liabilities measured at amortized cost	92,994	127,880

4.3. Events after the balance sheet date

The full impact of the COVID-19 lockdown remains unclear. In April 2020, as a consequence of the uncertainty, management decided to implement cost reductions to adjust the organization. Further, a capital increase of DKK 27.6 million was completed in January 2020.

Besides the above no other events of importance to the Annual Report have occurred after the balance sheet date.

4.4. Changes in net working capital

DKK thousand	2019	2018
Change in inventory	(6,131)	(10,120)
Changes in trade receivables	(69)	169
Changes in other receivables	1,383	(3,786)
Changes in trade payables	(1,353)	(2,389)
Contract liabilities	400	-
Changes in other payables	2,234	1,203
Changes in deferred income	3,674	3,299
Total	138	(11,624)

Notes to the consolidated financial statements

4.5. Related parties and ownership

Related parties

Related parties comprise Aquaporin A/S' Supervisory Board and Executive Board, their close family members and companies in which these persons have significant influence.

During the year, the Group was not involved in any transactions with the shareholder, members of the Supervisory Board, members of the Executive Board or companies outside the Group in which these parties have significant influence, except for the payment of the Management's remuneration.

Ownership

The following shareholders are recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

- M. Goldschmidt Capital A/S
Grønningen 25
DK-1270 København K
- Danica Pension, Livsforsikringsaktieselskab
Parallelvej 17
DK-2800 Kongens Lyngby
- InterChina Water Treatment Hong Kong Company Ltd
15/F, CBB Tower
3 Connaught Road
Central Hong Kong

4.6. Government grants

§ Accounting policy

Government grants comprise grants for investments, research and development projects, etc. Grants are recognized when there is a reasonable certainty that they will be received.

Grants are recognized as deferred income under current liabilities and will be recognized in the income statement as the related development projects are recognized in the income statement (depreciation / writing down).

During 2019, the Group received DKK 2.7 million (2018: DKK 1.2 million) in public grants for research and development purposes, which was recognized directly in the income statement. The Group also received DKK 4.7 million (2018: DKK 2.8 million) in public grants relating to projects, which qualifies for capitalization.

Government grants are recognized on Deferred income and depreciated in accordance with the development projects, once they are finalized.

4.7. List of Group companies at 31 December 2019

Company	Country	Currency	Nominal capital	Aquaporin's holding
Aquaporin Asia Pte. Ltd.	Singapore	SGD	103	100%
Aquaporin Membrane Protein ApS	Denmark	DKK	128,206	100%
Aquaporin US Inc.	USA	USD	1	100%
Aquapoten Company Limited	China	CNY	49,349	45%
Aquaporin Space Alliance ApS	Denmark	DKK	80,000	50%

Parent company financial statements

Parent company statement of profit and loss

DKK thousand	Note	2019	2018
Net revenue		6,215	7,884
Cost of goods sold		(718)	(185)
Gross profit		5,497	7,699
Sales and distribution costs	2	(19,208)	(14,477)
Research and development costs	2	(58,423)	(47,234)
Administrative costs	2	(17,660)	(14,851)
Other operating income		75	152
Other operating expenses	3	(26,030)	-
Operating profit		(115,749)	(68,711)
Share of net profit of associates		(2,874)	(4,737)
Finance income	4	4,165	2,896
Finance costs	5	(4,999)	(4,047)
Profit before income tax		(119,457)	(74,599)
Income tax expenses		25,325	13,326
Profit for the period		(94,132)	(61,273)

Parent company Balance Sheet Assets at 31 December

DKK thousand	Note	2019	2018
Know-how		1,160	1,739
Development projects		76,365	66,417
Intangible assets	6	77,525	68,156
Machinery		49,833	51,121
Right-of-use assets		55,643	59,327
Other equipment		2,981	3,487
Leasehold improvements		21,043	19,810
Tangible assets	7	129,500	133,745
Investments in subsidiaries	8	3,148	3,148
Investments in associates	9	1,671	4,501
Financial assets		4,819	7,649
Deposits		1,935	1,945
Deferred tax assets	10	39,239	19,272
Other non-current assets		41,174	21,217
Total non-current assets		253,018	230,767
Inventories		19,166	13,035
Receivables from group enterprises		50,190	35,670
Receivables from associated and joint ventures		-	326
Trade receivables		293	224
Other receivables		2,639	5,736
Income Tax Receivable		5,500	11,000
Prepayments	11	1,344	1,038
Total current assets		79,132	67,029
Cash and cash equivalents		580	400
Total current assets		79,712	67,429
Total assets		332,730	298,196

Parent company Balance Sheet Equity and liabilities at 31 December

DKK thousand	Note	2019	2018
Share capital		7,789	6,969
Retained earnings		129,101	110,944
Reserve for exchange rate translation		(2,043)	(2,087)
Other reserves		39,991	29,315
Total equity		174,838	145,141
Lease liability		56,106	58,394
Total non-current liabilities		56,106	58,394
Lease liability		2,640	2,583
Trade payables		5,722	6,998
Other payables		9,826	7,921
Payables to group enterprises		36,251	241
Other liabilities		30,153	27,310
Borrowings		16,794	49,608
Deferred income	12	400	-
Total current liabilities		101,786	94,661
Total liabilities		157,892	153,055
Total equity and liabilities		332,730	298,196

Parent company statement of changes in equity at 31 December

DKK thousand	Share capital	Retained earnings	Reserve for exchange rate	Reserve for intangible assets	Reserve for share-based payment	Total equity
Balance at 31.12.17	6,944	176,352	(2,082)	13,117	9,430	203,761
Profit for the period	-	(61,273)	-	-	-	(61,273)
Capitalized development costs	-	(7,107)	-	7,107	-	-
Exchange rate translation	-	-	(5)	-	-	(5)
Total comprehensive income for the period	-	(68,380)	(5)	7,107	-	(61,278)
<i>Transactions with owners in their capacity as owners</i>						
Increase in share capital	25	2,972	-	-	-	2,997
Share-based payment	-	-	-	-	(339)	(339)
Balance at 31.12.2018	6,969	110,944	(2,087)	20,224	9,091	145,141
Profit for the period	-	(94,132)	-	-	-	(94,132)
Capitalized development costs	-	(9,389)	-	9,389	-	-
Exchange rate translation	-	-	44	-	-	44
Total comprehensive income for the period	-	(103,521)	44	9,389	-	(94,088)
<i>Transactions with owners in their capacity as owners</i>						
Increase in share capital	820	121,678	-	-	-	122,498
Share-based payment	-	-	-	-	1,287	1,287
Balance at 31.12.2019	7,789	129,101	(2,043)	29,613	10,378	174,838

Notes to the parent company financial statements

- Note 1. Accounting policies
- Note 2. Staff costs
- Note 3. Other operating expenses
- Note 4. Financial incomes
- Note 5. Financial expenses
- Note 6. Other intangible assets
- Note 7. Property, plant and equipment
- Note 8. Investments in subsidiaries
- Note 9. Investments in associates
- Note 10. Deferred tax
- Note 11. Prepayments
- Note 12. Deferred income
- Note 13. Related parties
- Note 14. List of Group companies at 31 December 2019
- Note 15. Commitments and contingent liabilities at 31 December 2019
- Note 16. Events after the balance sheet date

Notes to the Parent company financial statements

1. Accounting policies

The Financial Statements of Aquaporin A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class C middle) on the presentation of financial statements.

Basis of Preparation

The Financial Statements of Aquaporin A/S for 2019 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class C which has changed from class B in previous year.

Besides the above mentioned, the accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 are presented in DKK.

Recognition and measurement

Revenues are recognized in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortized cost are recognized. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translations and transactions

Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the transaction date.

Exchange adjustments arising due to differences between the transaction date rates and the rates at the payment date are recognized in financial income or financial expenses in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognized in financial income or financial expenses in the income statement.

Government grants

Government grants comprise grants for investments, research and development projects, etc. Grants are recognized when there is a reasonable certainty that they will be received.

Grants are recognized as deferred income under current liabilities and will be recognized in the income statements as the related development projects are recognized in the income statement (depreciation / writing down).

Income Statement

Gross profit/loss

Gross margin consists of grants and support net of other external expenses.

Revenue

Revenue is recognized in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Notes to the Parent company financial statements

1. Accounting policies, continued

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses. Staff costs related to development projects are capitalized under intangible assets.

Dividends

Dividends from the Group companies are recognized as income in the income statement of the Parent Company in the financial year in which the dividend is declared. If the carrying amount of an investment in a subsidiary exceeds the carrying amount of the net assets in the subsidiary's financial statements or the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared, the carrying amount of the subsidiary is tested for impairment.

Amortization, depreciation and impairment losses

Amortization, depreciation and impairment losses comprise amortization, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognized in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognized in the income statement, whereas the tax attributable to equity transactions is recognized directly in equity.

Balance Sheet

Intangible assets

Acquired goodwill is measured at cost less accumulated depreciation. Goodwill is amortized linearly over the estimated useful life estimated at 5 years.

Development projects are measured at the lower of cost less accumulated amortization and recoverable amount.

Cost comprises of direct salaries and materials.

Depreciation period is 10 years due to the unique character of the product.

An amount corresponding to the capitalized development costs has been reclassified from retained earnings to reserve for intangible assets net of tax.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

- Plant and Machinery:	4 - 20 years
- Land and buildings (Right-of-use assets):	2 - 20 years
- Other equipment:	2 - 8 years
- Leasehold improvements:	8 - 20 years

Notes to the Parent company financial statements

1. Accounting policies, continued

Investments in subsidiaries and associates

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write down is made to this lower value.

Investments in associates are recognized and measured under the equity method.

The total net revaluation of investments in associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in associates.

Intra-group company acquisitions are recognized according to the merger method (sammenlægningsmetoden). Comparative figures are adjusted back to the point in time, where control was obtained. Added value (goodwill), if any, in connection with the acquisition is recognized in equity.

In connection with acquisition of further equity investments in a subsidiary, Management assesses the equity method as a method of consolidation, where recognition in the Parent company reflects the accounting treatment in the consolidated financial statements. Acquisition of further equity investments in subsidiaries as a consequence are recognized directly in equity.

Receivables

Receivables are measured in the balance sheet at the lower end of amortized cost and net realizable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in regard to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carried forward, are measured at the value at which the asset is expected to be realized, either by elimination in tax on future earnings or by set off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that are effective under the legislation at the balance sheet date when the deferred tax is expected to crystallize as current tax. Any changes in deferred tax due to changes to tax rates are recognized in the income statement.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognized in the balance sheet as the expected taxable income for the year, adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognized in the income statement in financial income and expenses.

Financial debts

Other debts are measured at amortized cost, substantially corresponding to nominal value.

Management review

With reference to Danish Financial Statements Act § 78 (6) Management review of the Parent company is not prepared.

Cash Flow Statement

With reference to Danish Financial Statements Act § 86 (4) cash flow statement is not prepared.

Notes to the Parent company financial statements

2. Staff costs

DKK thousand	2019	2018
Salaries	43,593	37,372
Pension costs, defined contribution plans	246	147
Other expenses to social security	606	476
Share-based payments	1,287	(337)
Capitalized salaries	(6,986)	(6,609)
	38,746	31,049
Average number of full-time employees	70	62

With reference to Danish Financial Statements Act § 78 (6) please see note 2.3 in consolidated financial statement for information related to remuneration to Board of Directors and Executive Board.

3. Other operating expenses

Consist of purchasing IP rights.

4. Financial income

DKK thousand	2019	2018
Interest income, banks	1	14
Interest income, intercompanies	1,370	959
Exchange rate adjustments	2,794	1,923
	4,165	2,896

5. Financial expenses

DKK thousand	2019	2018
Interest expenses, banks	779	434
Exchange rate adjustments	1,372	1,009
Other financial expenses, including bank fees	909	605
Interest expenses, right-of-use assets	1,939	1,999
	4,999	4,047

Notes to the Parent company financial statements

6. Other intangible assets

DKK thousand	Know-how	Finished development projects	Development projects in progress	Total
Cost price at 1 January 2019	2,899	38,465	30,371	71,735
Additions during the year	-	-	13,814	13,814
Transfer	-	14,954	(14,954)	-
Purchase price at 31 December 2019	2,899	53,419	29,231	85,549
Amortizations at 1 January 2019	1,160	2,418	-	3,578
Amortizations	579	3,867	-	4,446
Amortizations at 31 December 2019	1,739	6,285	-	8,024
Carrying amount 31 December 2019	1,160	47,134	29,231	77,525
Cost price at 1 January 2018	2,899	-	61,195	64,094
Additions during the year	-	-	7,641	7,641
Transfer	-	38,465	(38,465)	-
Purchase price at 31 December 2018	2,899	38,465	30,371	71,735
Amortizations at 1 January 2018	580	-	-	580
Amortizations	580	2,418	-	2,998
Amortizations at 31 December 2018	1,160	2,418	-	3,578
Carrying amount 31 December 2018	1,739	36,047	30,371	68,157

With reference to Danish Financial Statements Act § 78 (6) please see note 3.1 in consolidated financial statement

7. Property, plant and equipment

DKK thousand	Plant and machinery	Right-of-use assets	Other equipment	Leasehold improvements	Total
Purchase price at 1 Jan. 2019	57,356	63,470	8,766	24,456	154,048
Additions during the year	3,436	700	755	2,492	7,383
Disposal during the year	-	(309)	-	-	(309)
Purchase price at 31 Dec. 2019	60,792	63,861	9,521	26,948	161,122
Depreciations at 1 Jan. 2019	6,235	4,143	5,279	4,646	20,303
Exchange rates					
Depreciations	4,724	4,204	1,261	1,259	11,448
Depreciations disposal	-	(129)	-	-	(129)
Depreciations at 31 Dec. 2019	10,959	8,218	6,540	5,905	31,622
Carrying amount 31 December 2019	49,833	55,643	2,981	21,043	129,500
Purchase price at 1 Jan. 2018	56,558	-	7,616	23,899	88,073
Additions during the year	798	63,470	1,149	557	65,974
Purchase price at 31 Dec. 2018	57,356	63,470	8,765	24,456	154,048
Depreciations at 1 Jan. 2018	1,724	-	3,865	3,530	9,119
Depreciations	4,511	4,143	1,414	1,116	11,184
Depreciations at 31 Dec. 2018	6,235	4,143	5,279	4,646	20,303
Carrying amount 31 December 2018	51,121	59,327	3,486	19,810	133,744

Notes to the Parent company financial statements

8. Investments in subsidiaries

DKK thousand	2019	2018
Purchase price at 1 January	3,148	151
Additions during the year	-	2,997
Purchase price at 31 December	3,148	3,148

Investments in subsidiaries are specified as followed:

	Aquaporin's holding	Equity	Result
Aquaporin Asia Pte. Ltd.	100%	(8,461)	25,351
Aquaporin Membrane Protein ApS	100%	122	(13)
Aquaporin US Inc.	100%	(1,029)	(1,038)

9. Investments in associates

DKK thousand	2019	2018
Purchase price at 1 January	26,679	23,353
Additions during the year	-	3,326
Purchase price at 31 December	26,679	26,679
Accumulated write-ups and write-downs at 1 January	(22,178)	(17,435)
Unrealized gain on sale of assets from Aquaporin	403	398
Share of result after tax	(3,277)	(5,136)
Exchange rate adjustments	44	(5)
Accumulated write-ups and write-downs at 31 December	(25,008)	(22,178)
Carrying amount 31 December	1,671	4,501

Investments in associates are specified as followed:

	Aquaporin's holding	Equity	Result
Aquapoten Company Limited	45%	12,093	2,730
Aquaporin Space Alliance ApS	50%	120	3

Notes to the Parent company financial statements

10. Deferred tax

DKK thousand	2019	2018
Deferred tax at 31 December	39,239	19,272
Intangible assets	(5,521)	(8,322)
Property, plant and equipment	(8,261)	(10,665)
Current assets	2,472	866
Lease liability	12,924	13,415
Tax loss carryforwards	37,625	23,978
Total	39,239	19,272
Deferred tax is calculated at a tax rate of 22%		
Deferred tax 1 January	19,272	18,105
Deferred tax recognized in the profit and loss	19,967	1,167
Deferred tax 31 December	39,239	19,272

Utilization of deferred tax assets are dependent on future taxable profit. Management has considered budgets and business plans when evaluating recognition of deferred tax assets and finds that there is convincing evidence that sufficient taxable profit will be available against which the deferred tax assets can be utilized. Recognized deferred tax assets amount to DKK 39.2 million at 31 December 2019 (2018: DKK 19.3 million).

11. Prepayments

Consist mainly of prepaid expenses related to production, service agreement, rental fee etc.

12. Deferred income

Consist of received prepayments relating to income in following years.

13. Related parties

The following shareholders are recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

- M. Goldschmidt Capital A/S
Grønningen 25
DK-1270 København K
- Danica Pension, Livsforsikringsaktieselskab
Parallevej 17
DK-2800 Kongens Lyngby
- InterChina Water Treatment Hong Kong Company Ltd
15/F, CBB Tower
3 Connaught Road
Central Hong Kong

14. List of Group companies at 31 December 2019

Company	Country	Currency	Nominal capital	Aquaporin's holding
Aquaporin Asia Pte. Ltd.	Singapore	SGD	103	100%
Aquaporin Membrane Protein ApS	Denmark	DKK	128,206	100%
Aquaporin US Inc.	USA	USD	1	100%
Aquapoten Company Limited	China	CNY	49,349	45%
Aquaporin Space Alliance ApS	Denmark	DKK	80,000	50%

15. Commitments and contingent liabilities at 31 December 2019

There are no pending court and arbitration cases or other contingent liabilities.

16. Events after the balance sheet date

Please see subsequent events after the balance sheet date in the management report for the Aquaporin Group.

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Aquaporin A/S for the financial year; 1 January 2019 to 31 December 2019.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2019 of the Group and the Company and of the result of the Group and the Company operations and consolidated cash flows for the financial year 1 January 2019 to 31 December 2019.

In our opinion, the Management's review includes a true and fair account of; the developments in the operational and financial circumstances of the Group and the Company, of the results for the year and of the financial position of the Group and the Company as well as a description of the most significant risks and elements of uncertainty that the Group and the Company are facing.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 15 June 2020

Executive Board

Peter Holme Jensen
Chief Executive Officer (CEO)

Bo Karmark
Chief Financial Officer (CFO)

Board of Directors

Niels Heering
Chairman

Søren Bjørn Hansen
Deputy Chairman

Anne Broeng

Jiang Weiming

Lars Christian Hansen

Jens Denkov

Michael Frank

Lei Zhang

Cai Jianwen

Independent Auditor's Report

To the Shareholders of Aquaporin A/S

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2019 and of the results of the Group's operations and cash flow for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Aquaporin for the financial year 1 January – 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("financial statements").

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 our report. We are independent of the Group in accordance with the International Ethics Standards Board for 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 Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, 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 Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of 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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of 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 financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 the Group's and the Parent Company's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ◆ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- ◆ Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Hellerup, 15 June 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

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Clean water is a human right

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