Howden Axial Fans ApS

Industrivej 23, DK-4700 Næstved

Annual Report for 1 January - 31 December 2017

CVR No 15 52 42 43

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 31/5 2018

Kenneth Ladefoged Petersen
Chairman of the General Meeting

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Howden Axial Fans ApS for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Næstved, 31 May 2018

Executive Board

Kenneth Ladefoged Petersen

Board of Directors

Allan Jan Formann Chairman	Steven Hughes	Mark Paul Lehman
Fionnuala Mary Barrie	Elias Zabaneh	Tekon Özcay
Bjarne Børge Starzec		

Independent Auditor's Report

To the Shareholder of Howden Axial Fans ApS

Opinion
We have audited the Financial Statements of Howden Axial Fans ApS for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company 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.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with 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 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 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.

Independent Auditor's Report

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

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

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

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.

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.

Independent Auditor's Report

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

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

Frederiksberg, 31 May 2018
Ernst & Young
Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Lars Hansen
state authorised public accountant
mne24828

Company Information

The Company	Howden Axial Fans ApS Industrivej 23 DK-4700 Næstved E-mail: power@howden.dk Website: www.howden.com CVR No: 15 52 42 43 Financial period: 1 January - 31 December Municipality of reg. office: Næstved
Board of Directors	Allan Jan Formann, Chairman Steven Hughes Mark Paul Lehman Fionnuala Mary Barrie Elias Zabaneh Tekon Özcay Bjarne Børge Starzec
Executive Board	Kenneth Ladefoged Petersen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 DK-2000 Frederiksberg
Bankers	Danske Bank

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2017 DKKk	2016 DKKk	2015 DKKk	2014 DKKk	2013 DKKk
Key figures					
Profit/loss					
Revenue	582,890	581,690	620,808	432,903	677,367
Profit/loss before financial income and expenses	71,037	74,745	86,132	65,352	83,774
Net financials	2,612	3,723	9,089	6,365	9,028
Net profit/loss for the year	57,401	61,180	76,832	53,967	66,184
Balance sheet					
Balance sheet total	664,023	701,838	611,874	500,646	470,256
Equity	439,370	440,713	381,659	303,844	272,294
Investment in property, plant and equipment	1,526	0	-530	-329	68
Number of employees	132	114	121	133	147
Ratios					
Gross margin	27.1%	26.3%	26.9%	33.7%	25.5%
Profit margin	12.2%	12.8%	13.9%	15.1%	12.4%
Return on assets	10.7%	10.6%	14.1%	13.1%	17.8%
Solvency ratio	66.2%	62.8%	62.4%	60.7%	57.9%
Return on equity	13.0%	14.9%	22.4%	18.7%	28.2%

Management’s Review

Key activities

Howden Axial Fans ApS, which is owned 100% by Howden Holdings ApS, markets, sells, design and supplies large axial fans of type VARIAX primarily to the global power plant market and to a lesser degree to the global mining market.

Howden Axial Fans ApS refers to an overall group management in Howden Ltd. Glasgow, Scotland, which is part of the American group Colfax Group. (www.colfaxcorp.com)

The products include new axial fans, conversion of axial fans, service of these and related replacement parts.

Howden Axial Fan ApS follow our owners policies and guidlines as laid out in the Colfax Code of Conduct and related policies as well as Howden Globals policies and guidelines. Howden Axial Fan Aps are certified towards ISO 9001, ISO 14001 and OHSAS 18001 and we have our own policy regarding values, quality, environment, health and safety. Policies and guidelines is available on www.howden.com.

The year that was and the follow-up to last year's expected development

At the end of 2013, Fläkt Woods Global Infrastructure & Industry was acquired by Howden Group and during 2014/2015, Howden Axial Fans ApS established a closer cooperation with the former Fläkt Woods Swedish entity, Howden Axial Fans AB. In 2017 the activities in Howden Axial Fans AB, Sweden has been acquired by Howden Axial Fans ApS and the Swedish company will be liquidated in 2018. The process to form a larger and stronger global axial fan business continued with adding Howden Axial Fans GmbH in Germany to the Group.

In 2016/2017 there was again focus on Howdens long-term strategic objectives, and there was a major organizational change – where Howden Axial Fans, previously located in the HF&H division, now would be in the new formed PEP division (Power-Environment & Process) with the other Fans & Heaters companies Howden UK (centrifs and heaters) and Howden Holland (cooling fans). This was part of a new global organizational strategy with focus on strong Product companies (where Howden Axial Fans are part of) – strong Regional companies (close to the customers) – global supply chain organization (ensure procurement synergies) and global aftermarket organization (to ensure better service towards end-users).

In addition to the above mentioned changes we did still continue with the local strategic projects deal, like CBS/LEAN, product development, project cost optimization, new market initiatives and the continued expansion of the business area, Aftermarket (spares, retrofits and service). Aftermarket again achieved good results in 2017, however we did not see the same growth that we had seen in the previous years.

All these proactive measures were instrumental in strengthening Howdens competitiveness and profitability in 2017 - and in the years ahead. However, in spite of winning a large part of the new projects in the global power plant market, the total order volume for new projects was lower than expected. This has put additional focus on development and our strategy for the future.

Management's Review

The American market, has now changed to mainly be an aftermarket focused market – meaning not many new build projects – but mainly focus on an active aftermarket and retrofit solutions primarily due to the upgrading of the flue gas cleaning of existing power plants. Likewise, we ensured again some large Aftermarket orders in the US market.

China, Middle East & South East Asia market are the most active markets for Howden Axial Fans and we are focused on continued positioning with the local Howden entities, our key customers as the leading supplier of axial fans. We expect and hope also in 2018-2020 that the market will develop positively in may again be some years of lower activity.

Throughout 2017, we have developed our organization with the appointment of several new key employees as well as reorganization in connection with the integration, so that we are well prepared for 2018-2020. We have continued to buy machined parts in Howdens factory in Weihai / China - which also provides a great flexibility and improved competitive position. Also it should be noted that we also have good focus on the metro/tunnel market where we have special focus in the EU.

In general the power market is still characterized by limited growth and uncertain global environment legislation; however our win / loss rate has still been positive. The volatile USD continues to have an impact on the one hand our competition partly earnings in particular the US market, but so far we have been able to adapt and dietary basis as sales prices and thus maintain earnings. The new cutting edge technology (M5 / P150), which we introduced in 2007, continued again in 2015 and combined with the acquired technologies during end of 2014/2015 as well as new developments for specially the Chinese market in 2016/2017 have enabled us to be competitive on the part of the honored projects and gives us earnings benefits compared to the previously established technology, we expect it will continue in 2018.

The revenue, gross profit and net profit for 2017 are in line with 2016 but the order intake was 27% lower. It is mainly in the New Built Power segment incl. Retrofit where we have seen the decline from 2016 to 2017.

Howden Axial Fans ApS consists of the following departments / activities:

- New Equipment Sales
- Marketing & Business Development
- Quality Assurance
- Engineering
- Aftermarket
- Operations
- Finance, Admin, HR & IT

Management’s Review

Special risks, operational risks and financial risks

The US dollar variation against the Danish krone and the euro remains the largest non-industry dependent parameter of competition. Since 2015 the dollar has been very volatile and that has impacted as well the competitiveness as the profit levels, and specially the last year the exchange rate has not been positive for Howden Axial Fans.

Expectations for the coming year 2018

In 2018 we will continue our focus on selecting profitable and strategic customers and not least invest further in continued expansion of the Aftermarket segment. Furthermore, we aim to capture market share in other areas like Middle East, Far East/South East Asia and China.

The company's developed M5 / P150, which is beneficial to all of our market segments, both new sales and aftermarket, is expected to be a very strong card in China, India and the Far East in the future, but we also expect to be able to utilize the technology in the effort to capture market share in the US and Europe. We also expect that this technology will give us a technological lead on another couple of years, and need to be exploited to the maximum, and we also in 2018 will launch new product related initiatives which would give us an advantage in 2018-2020. Due to the lower order intake in 2017 we expect a lower revenue for 2018 in the New Built Power segment. Aftermarket and Tunnel/Metro are expected to continue the growth in accordance with the strategic initiatives.

Development (including research) of our products and business systems

The company makes continuous development and technological maintenance of its products. During 2012-2015 we have completed a development of more than 8,000 engineering hours and made major hardware investments that have improved our competitiveness in particular the Chinese market, where we have managed to reduce our direct cost to the Chinese fans by approx 25%-30%. This continued during 2016/2017 & the gained intellectual property will be further invested in the fans.

To further strengthen the business area, Aftermarket, we have in 2016/2017 initiated various small development projects for Aftermarket, including development of sales concepts, development of product, branding and invested in our sales network to the EU in particular after the market, and all this will help to increase our competitiveness in this particular core area. This initiative was completed in 2016/2017 & it has been further developed and fine-tuned, & can be implemented globally in 2018.

Furthermore, we have in 2016/2017 continued implementation of CBS / LEAN in Howden Axial Fans, and improved use of our business system Microsoft Dynamics AX even more – as this is now the common system between Germany, Sweden, Denmark and UK.

Management's Review

External environment

In 2017, we focused on the external environment, especially in connection with our action plans in connection with our ISO 14001 certification. In this regard, we are very focused on environmental initiatives in product development and our household including reducing local consumption of electricity, heating, water, paper etc.

Besides this we also focus on our products where we increasingly place demands on our partners and sub-contractors can demonstrate environmental improvements and either ISO 14001 or other documented environmental improvement initiatives. This will in the future we also try to incorporate as a parameter when we select new partners.

Finally, we are working in the Aftermarket very focused on reducing the energy consumption of our fans and thus reduce emissions from power plants by offering more optimal technical solutions and increase the efficiency of existing machines to our customers. This is supported by the introduction of new products and the development projects mentioned.

In 2017 we improved the environmental impact on our new developed Chinese Fan product up to 20% due to minimizing raw material use (Steel and Aluminum). We lowered our electricity consumption with 5% in our general office household.

Howden Axial Fan do not have an explicit CO2 or Clime policy but we have integrate the impact of our product in our environmental part of our overall policy. Our Axial Fan products are the highest efficient fans on the global power and mining market.

Corporate Social Responsibility (CSR)

Howden Axial Fans ApS has again in 2017 focused on initiatives that can prevent any form of bribery and corruption, and has continued to develop the policy implemented during 2014/2015 in regards to "Bribery and Corruption Policy". Every associate has gone through an ethics, bribery and corruption training including passing a test to be able to work in Howden Axial Fans ApS. This is part of a group wide Colfax requirement and Howden Axial Fans ApS drives it even further. During 2016/2017, we again have performed a review and update of contracts with the agents used worldwide again to prevent any type of corruption. We now believe we have a good and robust process. No corruption incidents have been reported in 2017.

Howden Axial Fans is aware of and take its wider community responsibility. We are very focused on environmental and working conditions, environmental impact and our general ethical and social responsibility. Howden Axial Fans currently has the three main ISO certificates in the industry, namely ISO 9001, ISO 14001 and ISO 18001. In 2017 we managed again to avoid any severe work related accidents in staff and this is also the goal for 2018. We will furthermore continue to support a number of local social activities in vicinity of Næstved, including financial support to local organizations that support local charities for special children. We still focus on HEALTHY HOWDEN for all employees, recruitment of students, training of citizens who, for various reasons have been away from the labor market for a longer period, sponsorship of local sports clubs in football, handball and basketball in Næstved. In addition, our Aftermarket focused on reducing energy consumption, and therefore emissions

Management's Review

from power plants, by offering more optimal solutions (high-efficiency machines) for our customers. In 2008, we introduced an annual survey of job satisfaction in Howden Denmark, in 2016 we noted that job satisfaction had slightly decreased and the concluded root cause for this is the changes implemented during the establishment of the axial fan business group within the Howden Group covering the entities in Sweden, Germany and Denmark. In 2017 we improved the results in the employee engagement survey – but we still have many areas where we can improve, and we have initiated various positive measures and action plans in the fields below average.

Finally, Howden Axial Fans strives to follow all rules and regulations in the social and environmental fields, and initiate even more volunteer activities for continual improvement of our ethical and social responsibility.

Anti-harassment and discrimination policy

It is important that our workplace remain free from all forms of discrimination, intimidation and harassment. An environment where Associates can maximize their potential is only possible when each person is treated fairly and with respect. Associates are expected to comply with the Colfax Anti- Harassment and Discrimination Policy.

Howden Axial Fans is committed to enforcing this policy at all levels within the organization. This includes all sales agents, representatives, independent contractors, consultants, employees, officers, and when they are acting on behalf of Howden Axial Fans. Any Associate who engages in prohibited discrimination or harassment will be subject to discipline, up to and including immediate discharge from employment.

In 2017 no harassment or discrimination incidents was reported.

Gender Policy

Howden Axial Fans see it as strength that both genders are well represented at management level and that this brings added value to Howdens business and the development of this. In Howden Axial Fans everyone has an equal opportunity independent of gender, sexual preference, religion or color.

Howden Axial Fans seeks to ensure a balance in the number of men and women at all levels of management, and are striving towards the objective, that neither men nor women in 2018 must be represented by less than 25% of the senior management levels, ie the Board, Directors and the local management team.

Today, one of the five Executive Board members elected by the owner is a woman, and among the broader management team - totaling 9 members - two of these are women. In total this equivalent to 22% women, why target figure pt. almost is met.

Target fulfillment is hard to meet since the industry in general is male dominated. Objective in all recruitments it to place the best qualified candidate and the male/female ration of applicants is approx. 90/10%. We do however when we have the opportunity to make internal placement seek to improve the gender balance in both the board of Directors and in management in general.

Income Statement 1 January - 31 December

	Note	2017	2016
		DKKk	DKKk
Revenue	1,2	**582,890**	**581,690**
Other operating income		8,409	6,289
Expenses for raw materials and consumables	2	-341,182	-347,488
Other external expenses		-92,381	-87,451
Gross profit		**157,736**	**153,040**
Staff expenses	3	-85,709	-78,113
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-990	-182
Profit before financial income and expenses		**71,037**	**74,745**
Income from investments in associates		579	417
Financial income	5	4,152	4,005
Financial expenses	6	-2,119	-699
Profit before tax		**73,649**	**78,468**
Tax on profit for the year	7	-16,248	-17,288
Net profit for the year		**57,401**	**61,180**

Balance Sheet 31 December

Assets

	Note	2017	2016
		DKKk	DKKk
Goodwill		24,932	0
Intangible assets	8	**24,932**	**0**
Other fixtures and fittings, tools and equipment		1,581	405
Property, plant and equipment	9	**1,581**	**405**
Investments in associates	10	4,955	5,126
Other receivables	11	375	375
Fixed asset investments		**5,330**	**5,501**
Fixed assets		**31,843**	**5,906**
Finished goods and goods for resale		12,687	16,496
Inventories		**12,687**	**16,496**
Trade receivables		149,961	93,420
Contract work in progress	12	33,243	117,198
Receivables from group enterprises		409,523	457,070
Other receivables	13	4,862	6,081
Deferred tax asset	14	12,152	0
Prepayments	15	1,591	3,577
Receivables		**611,332**	**677,346**
Cash at bank and in hand		**8,161**	**2,090**
Currents assets		**632,180**	**695,932**
Assets		**664,023**	**701,838**

Balance Sheet 31 December

Liabilities and equity

	Note	2017	2016
		DKKk	DKKk
Share capital		1,500	1,500
Retained earnings		200,274	439,213
Proposed dividend for the year		237,596	0
Equity	16	**439,370**	**440,713**
Provision for deferred tax	14	0	1,177
Other provisions	18	17,890	34,447
Provisions		**17,890**	**35,624**
Prepayments received from customers		8,424	0
Trade payables		106,866	103,971
Contract work in progress, liabilities	12	9,383	43,010
Payables to group enterprises		57,568	44,561
Corporation tax		4,132	6,570
Other payables	13	20,390	27,389
Short-term debt		**206,763**	**225,501**
Debt		**206,763**	**225,501**
Liabilities and equity		**664,023**	**701,838**

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Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKKk	DKKk	DKKk	DKKk
Equity at 1 January	1,500	439,212	0	440,712
Net adjustment of hedge instruments	0	10,829	0	10,829
Tax on adjustment of hedging instruments for the year	0	-2,382	0	-2,382
Intragroup business combination	0	-86,141	0	-86,141
Tax on other equity movements	0	18,951	0	18,951
Net profit/loss for the year	0	-180,195	237,596	57,401
Equity at 31 December	**1,500**	**200,274**	**237,596**	**439,370**

Notes to the Financial Statements

		2017	2016
		DKKk	DKKk
1	**Revenue**		
	Geographical segments		
	Revenue, domestic markets	12,746	10,282
	Revenue, export markets	570,144	571,408
		582,890	**581,690**
2	**Fair value hedging**		
	Fair value hedging of receivables recognised in revenue		
	Value adjustment of forward exchange contract	8,303	-5,358
	Exchange adjustment of receivables	-8,303	5,358
	Net	0	0
	Fair value hedging of payables recognised in expenses for raw materials and consumables		
	Value adjustment of forward exchange contract	-462	92
	Exchange adjustment of payables	462	-92
	Net	0	0
3	**Staff expenses**		
	Wages and salaries	78,786	72,222
	Pensions	6,448	5,125
	Other social security expenses	475	766
		85,709	**78,113**
	Including remuneration to the Executive Board of:		
	Executive Board	2,494	1,976
		2,494	**1,976**
	Average number of employees	**132**	**114**

Notes to the Financial Statements

		2017	2016
		DKKk	DKKk
4	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	639	0
	Depreciation of property, plant and equipment	351	182
		990	**182**
5	**Financial income**		
	Interest received from group enterprises	3,239	3,872
	Exchange rate gains	913	133
		4,152	**4,005**
6	**Financial expenses**		
	Other financial expenses	2,119	699
		2,119	**699**
7	**Tax on profit for the year**		
	Current tax for the year	13,008	15,116
	Deferred tax for the year	-13,329	1,572
		-321	**16,688**
	which breaks down as follows:		
	Tax on profit/loss for the year	16,248	17,288
	Tax on changes in equity	-16,569	-600
		-321	**16,688**

Notes to the Financial Statements

8 Intangible assets

	Goodwill
	DKKk
Cost at 1 January	0
Additions for the year	25,571
Cost at 31 December	25,571
Impairment losses and amortisation at 1 January	0
Amortisation for the year	639
Impairment losses and amortisation at 31 December	639
Carrying amount at 31 December	**24,932**

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	DKKk
Cost at 1 January	10,747
Additions for the year	1,526
Cost at 31 December	12,273
Impairment losses and depreciation at 1 January	10,341
Depreciation for the year	351
Impairment losses and depreciation at 31 December	10,692
Carrying amount at 31 December	**1,581**

10 Investments in associates

	2017	2016
	DKKk	DKKk
Cost at 1 January	11,640	11,640
Cost at 31 December	11,640	11,640

Notes to the Financial Statements

	2017	2016
	DKKk	DKKk

10 Investments in associates (continued)

	2017	2016
Value adjustments at 1 January	-6,514	-6,931
Net profit/loss for the year	579	417
Dividends received	-750	0
Value adjustments at 31 December	-6,685	-6,514
Carrying amount at 31 December	**4,955**	**5,126**

Investments in associates are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
I/S Suså	Næstved, Denmark	50%	5,126	417

11 Other fixed asset investments

	Other receivables
	DKKk
Cost at 1 January	375
Cost at 31 December	375
Carrying amount at 31 December	**375**

12 Contract work in progress

	2017	2016
	DKKk	DKKk
Selling price of work in progress	119,508	254,241
Payments received on account	-95,648	-180,053
	23,860	**74,188**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	33,243	117,198
Contract work in progress recognised in liabilities	-9,383	-43,010
	23,860	**74,188**

Notes to the Financial Statements

13 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded to hedge future sale of goods in USD, SEK and JPY and to hedge future purchase of goods in USD, KRW and SEK. Furthermore, at the balance sheet date the Company has derivative instruments in the same currencies to hedge recognized accounts receivables and payables. At the balance sheet date, the fair value of unsettled derivative financial instruments amounts to:

	2017	2016
	DKKk	DKKk
Assets	977	0
Liabilities	0	9,977

In addition to the fair value of unsettled derivative financial instruments, derivative financial instruments of DKK 3,496k have been settled concerning sale and purchase goods.

Profit and loss accounted for in equity concerning future sale and purchase of goods amount to DKK 313k.

Sale and purchase of goods in USD has been hedged for a period of 1-31 months for an amount of USD 16,780k (net sales) corresponding to approx 85% of the expected sales and purchases in USD in the period.

Sale and purchase of goods in JPY, KRW and SEK has been hedged for a period of 1-17 months for an amount corresponding to DKK 8,372k (net purchase) and approx 75% of the expected sales and purchases in those currencies in the period.

14 Deferred tax asset

	2017	2016
	DKKk	DKKk
Deferred tax asset at 1 January	-1,177	395
Amounts recognised in the income statement for the year	-3,240	-2,172
Amounts recognised in equity for the year	16,569	600
Deferred tax asset at 31 December	**12,152**	**-1,177**

The deferred tax asset primarily concerns temporary differences between the carrying amount and tax base of goodwill, work in progress and warranty provisions. The deferred tax asset does not comprise any taxable losses carried forward.

Notes to the Financial Statements

15 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premium, subscriptions and interest.

16 Equity

The share capital consists of 1 share of a nominal value of DKKk 1,500. No shares carry any special rights.

17 Distribution of profit

	2017	2016
	DKKk	DKKk
Proposed dividend for the year	237,596	0
Retained earnings	-180,195	61,180
	57,401	**61,180**

18 Other provisions

Warranty commitments and other commitments in connection with delayed delivery	17,890	34,447
	17,890	**34,447**
The provisions are expected to mature as follows:		
Within 1 year	17,890	34,447
	17,890	**34,447**

19 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	120	347
Between 1 and 5 years	78	0
After 5 years	0	0
	198	**347**
Rent obligations, period of non-terminability between 3-12 months	4,513	750

Notes to the Financial Statements

19 Contingent assets, liabilities and other financial obligations (continued)

Guarantee obligations

Guarantee obligations amount to DKK 132,804k (2016: DKK 154,319k).

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Howden Holdings ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

20 Related parties

	Basis
Controlling interest	
Howden Holdings ApS, Industrivej 23, Næstved, Denmark	Parent Company
Colfax Corporation, 8170 Maple Lawn Blvd., Suite 180, Fulton, MD 20769, USA	Ultimate Parent Company

Transactions

During the year, the Company had the following transactions with its ultimate Parent Company and its subsidiaries:

Sale of goods and services, mDKK 211.6
Purchase of goods and services, mDKK 95.6
Interest income, mDKK 3.1
Management fee and Trademark fee, cost, mDKK 15.0
Royalty, income, mDKK 5.3
Product license fee expense, mDKK 20.9

Receivables, mDKK 119.8
Payables, mDKK 58.0
Loan receivable, mDKK 289.7

Notes to the Financial Statements

20 Related parties (continued)

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company

Name	Place of registered office
Colfax Corporation	Maryland, Delaware, USA

The Group Annual Report of may be obtained at the following address: www.colfaxcorp.com.

21 Fee to auditors appointed at the general meeting

	2017	2016
	DKKk	DKKk
Audit fee to EY	108	225
	108	**225**

22 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Notes to the Financial Statements

23 Accounting Policies

The Annual Report of Howden Axial Fans ApS for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Financial Statements for 2015 are presented in Danish kroner.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Colfax Corporation, the Company has not prepared a cash flow statement.

Business combinations

Acquisitions

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method). Cost comprises the fair value of the consideration paid as well as expenses for consultants etc directly related to the acquisition. Any remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straightline basis over its estimated useful life. Any remaining negative differences are recognised as income in the income statement at the date of acquisition.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill or negative goodwill, including in amortisation already made. Moreover, any change in contingent consideration is adjusted in the value of goodwill or negative goodwill.

Amortisation of goodwill is recognised in “Amortisation, depreciation and impairment losses”.

Pooling of interests

Intragroup business combinations are accounted for under the pooling-of-interests method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. Any consideration which exceeds the carrying amount of the acquired enterprise is recognised directly in equity. The pooling-of-interests method is applied at the date of acquisition, and comparative figures have not been restated.

Notes to the Financial Statements

23 Accounting Policies (continued)

Leases

All leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Revenue

Information on geographical segments is based on the Companys internal financial reporting system.

Notes to the Financial Statements

23 Accounting Policies (continued)

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses relating to distribution, sale, advertising, administration, premises, bad debts, payment under operation leases, etc.

Staff expenses

Staff expenses comprise wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the Company´s employees. The item is net of refunds made by public authorities.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of property, plant and equipment.

Notes to the Financial Statements

23 Accounting Policies (continued)

Income from investments in associates

The item “Income from investments in associates” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments as well as extra payments and repayment under the onaccount taxation scheme.

Tax on profit 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 recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with its Danish Group entities. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the management company according to current rates applicable to intereset allowances, and jointly taxed companies havind paid too little tax pay, as a maximum, a surcharge according to the current rates applicable to interest surcharges to the management company.

Balance Sheet

Intangible assets

Goodwill

Goodwill is amortised on a straight-line basis over the estimated useful life of 10 years determined on the basis of Management’s experience with the individual business areas and the business case for the acquired business.

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	5-10 years

Notes to the Financial Statements

23 Accounting Policies (continued)

Other fixtures and fittings, tools and equipment	2-6 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of property, plant and equipment and investments are reviewed on an annual basis to determine whether there is any indication of impairment.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Assets for which a separate value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Investments in associates

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

The item“Investments in associates” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

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 the associates.

Associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Notes to the Financial Statements

23 Accounting Policies (continued)

Inventories

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

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value. Provisions are made for bad debts on the basis of objective evidence that a receivable or a group of receivables are impaired. Provisions are made to the lower of the net realisable value and the carrying amount.

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

Prepayments comprise prepaid expenses concerning subsequent financial reporting years.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Notes to the Financial Statements

23 Accounting Policies (continued)

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of typically 1-5 years. Provisions are measured and recognised based on experience with guarantee work. The company makes provisions for warranty obligations on the basis of a risk assesment of the nature of delivery.

Provisions expected to be settled after more than one year after the balance sheet date are measured at the net present value of the expected payments. Other provisions are measured at net realisable value.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised 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 recognised in the income statement in financial income and expenses.

Notes to the Financial Statements

23 Accounting Policies (continued)

Financial debts

Loans are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$