
Howden Axial Fans ApS

Industrivej 23, DK-4700 Næstved

Annual Report for 1 January - 31 December 2016

CVR No 15 52 42 43

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
29/5 2017

Kenneth Ladefoged
Petersen
Chairman

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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 2016.

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 2016 of the Company and of the results of the Company operations for 2016.

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, 29 May 2017

Executive Board

Allan Jan Formann Kristensen

Board of Directors

James Bennett Fairbairn
Chairman

James McParland

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 2016, 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the 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.

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:

Independent Auditor's Report

- 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.

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

Independent Auditor's Report

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, 29 May 2017

Ernst & Young

Godkendt Revisionspartnerselskab

CVR No 30 70 02 28

Brian Stubtoft

state authorised public accountant

Company Information

The Company

Howden Axial Fans ApS
Industrivej 23
DK-4700 Næstved

Telephone: + 45 Telefon
Facsimile: + 45 Telefax
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

James Bennett Fairbairn, Chairman
James McParland
Mark Paul Lehman
Fionnuala Mary Barrie
Elias Zabaneh
Tekon Özçay
Bjarne Børge Starzec

Executive Board

Allan Jan Formann Kristensen

Auditors

Ernst & Young
Godkendt Revisionspartnerselskab
Osvold Helmuths Vej 4
P O Box 250
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:

	2016 DKKk	2015 DKKk	2014 DKKk	2013 DKKk	2012 DKKk
Key figures					
Profit/loss					
Revenue	581,690	620,808	432,903	677,367	552,745
Profit/loss before financial income and expenses	74,745	86,132	65,352	83,774	72,920
Net financials	3,723	9,089	6,365	9,028	3,194
Net profit/loss for the year	61,180	76,832	53,967	66,184	97,705
Balance sheet					
Balance sheet total	701,838	611,874	500,646	470,256	481,163
Equity	440,713	381,659	303,844	272,294	197,040
Investment in property, plant and equipment	0	530	-329	68	182
Number of employees	114	121	133	147	135
Ratios					
Gross margin	26.3%	26.9%	33.7%	25.5%	28.4%
Profit margin	12.8%	13.9%	15.1%	12.4%	13.2%
Return on assets	10.6%	14.1%	13.1%	17.8%	15.2%
Solvency ratio	62.8%	62.4%	60.7%	57.9%	41.0%
Return on equity	14.9%	22.4%	18.7%	28.2%	69.1%

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.

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. The process to form a larger and stronger global axial fan business continued with adding Howden Axial Fans GmbH in Germany to the Group. Howden Axial Fans ApS is now one of three legal entities in the axial fan business group within Howden.

In 2016 there was again focus on Howdens long-term strategic objectives, 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 (centrifuges 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 achieved good results in 2016, 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 2016 - 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 and new business area with more focus with be Tunnel and Wind tunnel market, where we already in 2016 started receiving some good orders and see more potential.

The South East Asia market is the most active single market for Howden Axial Fans and we are focused on continued positioning with our key customers as the leading supplier of axial fans. We expect and hope also in 2017 that the market will develop positively in may again be some years of lower activity.

Management's Review

Throughout 2016, 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 2017-2019. We have continued to buy machined parts in Howdens factory in Weihai / China - which also provides a great flexibility and improved competitive position - and in 2017 we also plan to start manufacturing in Hossur/India - mainly for the Indian domestic market.

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 2016. The new cutting edge technology (M5 / P150), which we introduced in 2007/2008, continued again in 2016 and combined with the acquired technologies during end of 2015, 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 2017 - and in addition new NPD projects will be started up

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

- New Equipment Sales
- Product Management
- Quality Assurance
- Engineering
- Aftermarket
- Operations
- Finance, Admin, HR & IT

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. During 2016 the dollar has been strong and this has had some positive effect - however as US market is down - the impact has not been that significant.

Expectations for the coming year 2017

In 2017 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 all countries in Far East/South East Asia - as well as getting Wind Tunnel orders from Japan/China/US - and Tunnel orders in Europe.

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 1-2 years and need to be exploited to the maximum, and we also in 2017 will launch new product related initiatives which would give us an advantage in 2018-2020.

Management's Review

Development (including research) of our products and business systems

The company makes continuous development and technological maintenance of its products. During 2012-2016 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 process continued during 2016 and the gained intellectual property will be further invested in the fans.

To further strengthen the business area, Aftermarket, we have in 2016 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 beginning of 2016 and it has been further developed and fine-tuned within the remainder of 2017.

Furthermore, we have in 2016 continued implementation of CBS / LEAN in Howden Axial Fans, and improved use of our business system Microsoft Dynamics AX even more.

External environment

In 2016, we focused on the external environment, especially in connection with our action plans in connection with ISO 14001. In this regard, we are very focused on environmental initiatives in 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 subcontractors 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.

Corporate Social Responsibility (CSR)

Howden Axial Fans ApS has again in 2016 focused on initiatives that can prevent any form of bribery and corruption, and has continued to develop the policy implemented during 2015/2016 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, we again have performed a review and update of contracts with the agents used worldwide again to prevent any type of corruption.

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

Management's Review

ISO 9001, ISO 14001 and ISO 18001. In 2016 we managed again to avoid any severe work related accidents in staff and this is also the goal for 2017. 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 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. Howden Axial Fans will intend to come back to the 2017 level by maintaining all the initiated positive measures and develop 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.

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 or women in 2017 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 four Executive Board members is a woman, and among the broader management team - totaling 9 members - two of these are women. In total this equivalent to 23% women, why target figure pt. almost is met.

Income Statement 1 January - 31 December

	Note	2016 DKKK	2015 DKKK
Revenue	1,2	581,690	620,808
Other operating income		6,289	5,706
Expenses for raw materials and consumables	2	-347,488	-367,857
Other external expenses		-87,451	-91,913
Gross profit/loss		153,040	166,744
Staff expenses	3	-78,113	-80,514
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-182	-98
Profit/loss before financial income and expenses		74,745	86,132
Income from investments in associates		417	290
Financial income	5	4,005	13,031
Financial expenses	6,2	-699	-4,232
Profit/loss before tax		78,468	95,221
Tax on profit/loss for the year	7	-17,288	-18,389
Net profit/loss for the year		61,180	76,832

Balance Sheet 31 December

Assets

	Note	2016 DKKk	2015 DKKk
Other fixtures and fittings, tools and equipment		405	586
Property, plant and equipment	8	405	586
Investments in associates	9	5,126	4,709
Other receivables	10	375	375
Fixed asset investments		5,501	5,084
Fixed assets		5,906	5,670
Finished goods and goods for resale		16,496	7,165
Inventories		16,496	7,165
Trade receivables		93,420	69,830
Contract work in progress	11	117,198	59,492
Receivables from group enterprises		457,070	462,614
Other receivables		6,081	1,401
Deferred tax asset	15	0	395
Corporation tax		0	104
Prepayments	12	3,577	3,542
Receivables		677,346	597,378
Cash at bank and in hand		2,090	1,661
Currents assets		695,932	606,204
Assets		701,838	611,874

Balance Sheet 31 December

Liabilities and equity

	Note	2016 DKKk	2015 DKKk
Share capital		1,500	1,500
Retained earnings		439,213	380,159
Equity	13	440,713	381,659
Provision for deferred tax	15	1,177	0
Other provisions	16	34,447	20,460
Provisions		35,624	20,460
Trade payables		103,971	86,246
Contract work in progress, liabilities	11	43,010	34,760
Payables to group enterprises		44,561	68,221
Corporation tax		6,570	0
Other payables	17	27,389	20,528
Short-term debt		225,501	209,755
Debt		225,501	209,755
Liabilities and equity		701,838	611,874
Distribution of profit	14		
Contingent assets, liabilities and other financial obligations	18		
Related parties	19		
Fee to auditors appointed at the general meeting	20		
Subsequent events	21		
Accounting Policies	22		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKKk	DKKk	DKKk
Equity at 1 January	1,500	380,159	381,659
Net adjustment of hedge instruments	0	-2,726	-2,726
Tax on adjustment of hedging instruments for the year	0	600	600
Net profit/loss for the year	0	61,180	61,180
Equity at 31 December	1,500	439,213	440,713

Notes to the Financial Statements

	<u>2016</u> DKKK	<u>2015</u> DKKK
1 Revenue		
Geographical segments		
Revenue, domestic markets	10,282	11,872
Revenue, export markets	<u>571,408</u>	<u>608,936</u>
	<u>581,690</u>	<u>620,808</u>
2 Fair value hedging		<u>2016</u> DKKK
Fair value hedging of receivables recognised in revenue		
Value adjustment of forward exchange contract		-5,358
Exchange adjustment of receivables		<u>5,358</u>
Net		<u>0</u>
Fair value hedging of payables recognised in expenses for raw materials and consumables		
Value adjustment of forward exchange contract		92
Exchange adjustment of payables		<u>-92</u>
Net		<u>0</u>
3 Staff expenses	<u>2016</u> DKKK	<u>2015</u> DKKK
Wages and salaries	72,222	74,307
Pensions	5,125	5,402
Other social security expenses	<u>766</u>	<u>805</u>
	<u>78,113</u>	<u>80,514</u>
Including remuneration to the Executive Board of:		
Executive Board	<u>1,976</u>	
	<u>1,976</u>	
Average number of employees	<u>114</u>	<u>121</u>

Remuneration to the Executive Board in 2015 has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

Notes to the Financial Statements

	2016 <u>DKKK</u>	2015 <u>DKKK</u>
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation of property, plant and equipment	182	98
	<u>182</u>	<u>98</u>
5 Financial income		
Interest received from group enterprises	3,872	4,377
Other financial income	0	-10
Exchange gains	133	8,664
	<u>4,005</u>	<u>13,031</u>
6 Financial expenses		
Other financial expenses	699	4,232
	<u>699</u>	<u>4,232</u>
7 Tax on profit/loss for the year		
Current tax for the year	15,116	22,777
Deferred tax for the year	1,572	-22
Adjustment of tax concerning previous years	0	-4,064
	<u>16,688</u>	<u>18,691</u>
which breaks down as follows:		
Tax on profit/loss for the year	17,288	18,389
Tax on changes in equity	-600	302
	<u>16,688</u>	<u>18,691</u>

Notes to the Financial Statements

8 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	DKKk
Cost at 1 January	10,396
Cost at 31 December	10,396
Impairment losses and depreciation at 1 January	9,810
Depreciation for the year	181
Impairment losses and depreciation at 31 December	9,991
Carrying amount at 31 December	405

	2016	2015
	DKKk	DKKk
9 Investments in associates		
Cost at 1 January	11,640	11,640
Cost at 31 December	11,640	11,640
Value adjustments at 1 January	-6,931	-6,220
Net profit/loss for the year	417	289
Dividends received	0	-1,000
Value adjustments at 31 December	-6,514	-6,931
Carrying amount at 31 December	5,126	4,709

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

Notes to the Financial Statements

10 Other fixed asset investments

	Other receiv- ables <u>DKKk</u>
Cost at 1 January	<u>375</u>
Cost at 31 December	<u>375</u>
Carrying amount at 31 December	<u>375</u>

11 Contract work in progress

	<u>2016</u> DKKk	<u>2015</u> DKKk
Selling price of work in progress	254,241	157,102
Payments received on account	<u>-180,053</u>	<u>-132,370</u>
	<u>74,188</u>	<u>24,732</u>
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	117,198	59,492
Contract work in progress recognised in liabilities	<u>-43,010</u>	<u>-34,760</u>
	<u>74,188</u>	<u>24,732</u>

12 Prepayments

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

13 Equity

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

14 Distribution of profit

	<u>2016</u> DKKk	<u>2015</u> DKKk
Retained earnings	<u>61,180</u>	<u>76,832</u>
	<u>61,180</u>	<u>76,832</u>

Notes to the Financial Statements

	<u>2016</u> DKKK	<u>2015</u> DKKK
15 Provision for deferred tax		
Provision for deferred tax at 1 January	-395	-373
Amounts recognised in the income statement for the year	2,172	-324
Amounts recognised in equity for the year	-600	302
Provision for deferred tax at 31 December	<u>1,177</u>	<u>-395</u>
 16 Other provisions		
Warranty commitments and other commitments in connection with delayed delivery	<u>34,447</u>	<u>20,460</u>
	<u>34,447</u>	<u>20,460</u>
 The provisions are expected to mature as follows:		
Within 1 year	<u>34,447</u>	<u>20,460</u>
	<u>34,447</u>	<u>20,460</u>

Notes to the Financial Statements

17 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 and JPY and to hedge future purchase of goods in USD, KRW, SEK and CAD. 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:

	2016 DKKk	2015 DKKk
Liabilities	9,977	8,416

In addition to the fair value of unsettled derivative financial instruments, derivative financial instruments of DKK -4,291k 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 11,142k.

Sale and purchase of goods in USD has been hedged for a period of 1-33 months for an amount of USD 44,305k corresponding to approx 80% of the expected sales and purchases in USD in the period.

Sale and purchase of goods in JPY, KRW, SEK and CAD has been hedged for a period of 1-11 months for an amount corresponding to DKK 11,795k and approx 80% of the expected sales and purchases in those currencies in the period.

18 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	347	878
Between 1 and 5 years	0	192
After 5 years	0	0
	<u>347</u>	<u>1,070</u>
Rent obligations, period of non-terminability 4 months	750	750

Guarantee obligations

Guarantee obligations amount to DKK 154,319k (2015: DKK 155,058k).

Notes to the Financial Statements

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

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.

19 Related parties

Basis

Controlling interest

Howden Holdings ApS, Industrivej 23, Næstved,
Denmark

Parent Company

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act. All transactions have been made on an arm's length basis.

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.

Notes to the Financial Statements

	<u>2016</u> DKKK	<u>2015</u> DKKK
20 Fee to auditors appointed at the general meeting		
Audit fee to EY	<u>225</u>	<u>115</u>
	<u>225</u>	<u>115</u>

21 Subsequent events

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

Notes to the Financial Statements

22 Accounting Policies

The Annual Report of Howden Axial Fans ApS for 2016 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.

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

Notes to the Financial Statements

22 Accounting Policies (continued)

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 Company's internal financial reporting system.

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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

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/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 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 interest allowances, and jointly taxed companies having paid too little tax pay, as a maximum, a surcharge according to the current rates applicable to interest surcharges to the management company.

Notes to the Financial Statements

22 Accounting Policies (continued)

Balance Sheet

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
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.

Notes to the Financial Statements

22 Accounting Policies (continued)

tion 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.

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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

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 assessment 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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

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