
Howden Axial Fans ApS

Industrivej 23, DK-4700 Næstved

Annual Report for 1 January - 31 December 2019

CVR No 15 52 42 43

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/8 2020

Kenneth Ladefoged
Petersen
Chairman of the General
Meeting

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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 2019.

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 2019 of the Company and of the results of the Company operations and cash flows for 2019.

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 August 2020

Executive Board

Kenneth Ladefoged Petersen

Board of Directors

Frederick James Hearle
Chairman

James McParland

Mark Paul Lehman

William Thomson

Tekon Özçay

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 2019, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with 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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 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 August 2020

EY

Godkendt Revisionspartnerselskab

CVR No 30 70 02 28

Christina Maria Davidsen

statsautoriseret revisor

mne34174

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

Frederick James Hearle, Chairman
James McParland
Mark Paul Lehman
William Thomson
Tekon Özcay
Bjarne Børge Starzec

Executive Board

Kenneth Ladefoged Petersen

Auditors

EY
Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
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:

	2019 DKKk	2018 DKKk	2017 DKKk	2016 DKKk	2015 DKKk
Key figures					
Profit/loss					
Revenue	355,426	355,804	582,890	581,690	620,808
Profit/loss before financial income and expenses	36,552	12,272	71,037	74,745	86,132
Net financials	459	1,965	2,612	3,723	9,089
Net profit/loss for the year	26,403	11,147	57,401	61,180	76,832
Balance sheet					
Balance sheet total	434,421	370,933	664,023	701,838	611,874
Equity	239,124	212,243	439,370	440,713	381,659
Investment in property, plant and equipment	2,940	224	1,526	1	-530
Number of employees	152	162	132	114	121
Ratios					
Gross margin	41.4%	33.6%	27.1%	26.3%	26.9%
Profit margin	10.3%	3.4%	12.2%	12.8%	13.9%
Return on assets	8.4%	3.3%	10.7%	10.6%	14.1%
Solvency ratio	55.0%	57.2%	66.2%	62.8%	62.4%
Return on equity	11.7%	3.4%	13.0%	14.9%	22.4%

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 and metro/tunnel market.

Howden Axial Fans ApS refers to an overall group management in Howden Ltd. Glasgow, Scotland, which is part of the American group KPS Capital Partners. (www.kpsfund.com).

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

Howden Axial Fan ApS follow our owner's policies and guidelines as laid out in the Howden Code of Conduct and related policies as well as Howden Global 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

2019 was the first full year with the new Howden regional structure where the operational part of Howden Axial Fans (New Built & Aftermarket Sales, Engineering, Project execution and supporting functions) was integrates in a larger group of Howden units for Fans & Heaters focusing on Europe as the main marked. This is part of a new global organizational strategy with focus on strong Product companies (where Howden Axial Fans is also involved as a Center of Excellence for Axial fans) – 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 continue with the local strategic projects deal, like LEAN, product development, project cost optimization, new market initiatives and the continued expansion of the business area, Aftermarket (spares, retrofits and service).

2019 has in many ways been a transition year for Howden Axial Fans. Organization changes, new regional structure, new products and new business areas has strengthening the platform for the company. The growth in the Aftermarket was back on track after a weak 2018 and the Aftermarket has been a big driver for the very satisfactory result of 50,9 mDKK before tax.

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

- New Equipment Sales, Tunnel & Metro
- New Equipment Sales, Power
- New Equipment Sales, Wind tunnel
- Marketing & Business Development
- Quality Assurance
- Engineering
- Operation
- Aftermarket

Management's Review

- 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. Since 2015 the dollar has been very volatile and that has impacted as well the competitiveness as the profit levels. For 2019 the US dollar exchange rate has been relatively stable and not impacted the result significantly.

Expectations for the coming year 2020

In 2020, 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 via our Howden network.

The sales in 2020 is expected to be at the same level as in 2019 but the profit will increase due to growth in the aftermarket segment. Aftermarket including Retrofit and Tunnel/Metro are expected to continue the growth in accordance with the strategic initiatives also for the coming years.

The Covid-19 crisis started in March 2020 came unexpected for all. Not able to travel nor meet customers or suppliers and even not able to work physically together with colleagues have initiated new ways of working. All necessary measures to address and mitigate the impact of the crisis have been implemented in Howden Axial Fans and therefore the expectation is that the crisis will not have a significant impact on the result for 2020. However, it cannot be avoided that customers decision-making process regarding bigger investments may pull out due to Covid-19.

Development (including research) of our products and business systems

Recent years decline in especially power (coal fired) driven by strong environmental legislation/policies adopted by most EU countries has driven our product developments. While power has decreased other industrial markets not least within Tunnel & Metro (urbanization combined with increasing need for effective transportation of goods/vehicle transportation) has experienced significant growth. Our focus have been to expand and develop new products specifically for T&M applications – jet fans and large axial fans – while both product ranges have been subject to continuous improvement initiatives to improve supply chain and VAVE (Value Adding Value Engineering).

While new build market for power plants have declined our installed base of power axials have seen increased requirements for retrofit solutions and service. To strengthen this opportunity further we have had several development initiatives on retrofit solutions including turning gear brake, acid resistant hydraulic hoses and hydraulic regulating systems for competitor fans.

In 2019, we have delivered the first digitization solution - 'Uptime' – for a power plant in the Philippines. The DDA (data driven advantage) concept have required substantial research and development and we expect, as markets increasingly adopt this type of technology, a substantial market opportunity for our product in the future. We have more customized solutions in the pipeline for 2020.

Management's Review

Corporate Social Responsibility (CSR)

Howden Axial Fans ApS strives to operate in a responsible manner in every aspect of its business. Following the business model, described initially, where Howden Axial Fans ApS operates within the global market, the risks with regards to our social responsibility primarily relates to our impact on the environment, our work environment and the risk of bribery and anticorruption. For the same reason, this is the focus when it comes to our social responsibility. Below we have further described our policies, goals, actions and accomplishments in these areas.

External environment

In 2019, we focused on the external environment, especially in connection with our action plans in connection with our ISO 14001 certification. In this regard, we focused on environmental initiatives in product development and our household including reducing local consumption of electricity, heating, water, paper etc.

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.

In our Aftermarket we are focused on retrofit solutions optimising efficiency and hereby reducing the energy consumption of fans and thus reduce emissions from power plants.

We incorporate environmental parameters in our selection process of new partners and suppliers.

In the Howden EHS Charter the environmental policy is to “ensure our operation are sustainable”. The action shall focus on “reducing our environmental impact from our activities through a structured environment and sustainability improvement programme.” For Howden Axial Fans ApS this mean we aim to reduce our Energy use with 10%, water consumption with 3% and the goal for our use of chemicals is to face out the use of the top three hazardous chemicals. We lowered our energy consumption in our workshop area for lighting with 74% by shifting to Led-lights and at the same time improved the working environment due to much better and brighter light. In 2019 we faced out the use of cellulose and acetone. In 2020/21 we will face out the use of R22 cooling agent in our ventilation and climate system.

Later in 2020 Howden Global will roll out a structured and systematic environmental approach to meet the sustainability goals in 2021.

Howden Axial Fan do not have an explicit CO2 or Climate policy but we have integrated 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.

Bribery and anticorruption

Howden Axial Fans ApS has again in 2019 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 "Anti 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

Management's Review

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 2019.

Social responsibility (climate, work environment and human rights)

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. To us, this is also what constitutes securing human rights - that we act responsible in respect of employees, in respect of the community and in respect of ensuring that our business partners act with responsibility – please also see the section on bribery and anticorruption. Howden Axial Fans currently has the three main ISO certificates in the industry, namely ISO 9001, ISO 14001 and ISO 18001. In 2019 we managed again to avoid any severe work related accidents in staff and this is also the goal for 2020. 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. 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 and basketball in Næstved. 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

The risk related to anti-harassment and discrimination is considered low. 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, new hires 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 general we consider the risk related to harassment and discrimination for low. In 2019 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 2020 will be represented by less than 20%.

Today, two out of the eight members of the management team are women. This is equivalent to 20%

Management's Review

female representation in the management team.

At the board of directors whereof four members are elected by the owner there are no woman represented for the time being. The only woman at the board has left Howden during 2020 and is not yet replaced.

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 ratio 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.

Subsequent events

Except for the Covid-19 outbreak described in Expectations for the coming year 2020, no events with a material impact on the assessment of the economy of Howden Axial Fans ApS have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2019 DKKK	2018 DKKK
Revenue	2,3	355,426	355,804
Other operating income		16,670	8,304
Expenses for raw materials and consumables	3	-130,128	-153,831
Other external expenses		-94,753	-90,699
Gross profit/loss		147,215	119,578
Staff expenses	4	-107,254	-103,867
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	5	-3,409	-3,439
Profit before financial income and expenses		36,552	12,272
Income from investments in associates		992	516
Financial income	6	1,479	3,008
Financial expenses		-2,012	-1,559
Profit before tax		37,011	14,237
Tax on profit for the year	7	-10,608	-3,090
Net profit/loss for the year		26,403	11,147

Balance Sheet 31 December

Assets

	Note	2019 DKKk	2018 DKKk
Goodwill		19,818	22,375
Intangible assets	8	19,818	22,375
Land and buildings		7,053	0
Other fixtures and fittings, tools and equipment		515	923
Property, plant and equipment	9	7,568	923
Investments in associates	10	0	5,471
Other receivables	11	0	375
Fixed asset investments		0	5,846
Fixed assets		27,386	29,144
Finished goods and goods for resale		12,489	12,063
Inventories		12,489	12,063
Trade receivables		59,930	68,136
Contract work in progress	12	66,907	35,789
Receivables from group enterprises		239,937	176,956
Other receivables		12,413	16,000
Deferred tax asset	13	6,453	10,550
Corporation tax		1,020	6,224
Prepayments	14	1,319	2,012
Receivables		387,979	315,667
Cash at bank and in hand		6,567	14,059
Currents assets		407,035	341,789
Assets		434,421	370,933

Balance Sheet 31 December

Liabilities and equity

	Note	2019 DKKk	2018 DKKk
Share capital		1,500	1,500
Retained earnings		237,624	210,743
Equity	15	239,124	212,243
Other provisions	17	8,718	10,215
Provisions		8,718	10,215
Other payables		3,838	0
Long-term debt	18	3,838	0
Trade payables		83,525	80,144
Contract work in progress, liabilities	12	11,624	12,475
Payables to group enterprises		61,978	30,534
Other payables	18,19	25,614	25,322
Short-term debt		182,741	148,475
Debt		186,579	148,475
Liabilities and equity		434,421	370,933
Subsequent events	1		
Distribution of profit	16		
Contingent assets, liabilities and other financial obligations	22		
Related parties	23		
Fee to auditors appointed at the general meeting	24		
Accounting Policies	25		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKKk	DKKk	DKKk
Equity at 1 January	1,500	210,743	212,243
Net adjustment of hedge instruments	0	478	478
Net profit/loss for the year	0	26,403	26,403
Equity at 31 December	1,500	237,624	239,124

Cash Flow Statement 1 January - 31 December

	Note	2019 DKKK	2018 DKKK
Net profit/loss for the year		26,403	11,147
Adjustments	20	13,559	4,564
Change in working capital	21	<u>-78,330</u>	<u>18,350</u>
Cash flows from operating activities before financial income and expenses		-38,368	34,061
Financial income		1,484	3,002
Financial expenses		<u>-2,017</u>	<u>-1,841</u>
Cash flows from ordinary activities		-38,901	35,222
Corporation tax paid		<u>-1,308</u>	<u>-11,652</u>
Cash flows from operating activities		-40,209	23,570
Purchase of property, plant and equipment		-2,940	-225
Sale of fixed asset investments etc		<u>375</u>	<u>0</u>
Cash flows from investing activities		-2,565	-225
Raising of loans from group enterprises		31,444	220,149
Raising of other long-term debt		3,838	0
Dividend paid		<u>0</u>	<u>-237,596</u>
Cash flows from financing activities		35,282	-17,447
Change in cash and cash equivalents		-7,492	5,898
Cash and cash equivalents at 1 January		<u>14,059</u>	<u>8,161</u>
Cash and cash equivalents at 31 December		6,567	14,059
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		<u>6,567</u>	<u>14,059</u>
Cash and cash equivalents at 31 December		6,567	14,059

Notes to the Financial Statements

1 Subsequent events

Except for the Covid-19 outbreak described in Expectations for the coming year 2020, no events with a material impact on the assessment of the economy of Howden Axial Fans ApS have occurred after the balance sheet date.

	<u>2019</u> DKkk	<u>2018</u> DKkk
2 Revenue		
Geographical segments		
Revenue, domestic markets	10,815	18,484
Revenue, export markets	<u>344,611</u>	<u>337,320</u>
	<u>355,426</u>	<u>355,804</u>

3 Fair value hedging

Fair value hedging of receivables recognised in revenue

Value adjustment of forward exchange contract	0	-4,765
Exchange adjustment of receivables	<u>0</u>	<u>4,765</u>
Net	<u>0</u>	<u>0</u>

Fair value hedging of payables recognised in expenses for raw materials and consumables

Value adjustment of forward exchange contract	0	204
Exchange adjustment of payables	<u>0</u>	<u>-204</u>
Net	<u>0</u>	<u>0</u>

All hedging-contracts have been settled in 2019 due to a change in the hedging policy.

Notes to the Financial Statements

	2019 <u>DKKK</u>	2018 <u>DKKK</u>
4 Staff expenses		
Wages and salaries	98,256	94,884
Pensions	8,359	8,369
Other social security expenses	639	614
	<u>107,254</u>	<u>103,867</u>
Average number of employees	<u>152</u>	<u>162</u>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
5 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	2,557	2,557
Depreciation of property, plant and equipment	852	882
	<u>3,409</u>	<u>3,439</u>
6 Financial income		
Interest received from group enterprises	669	1,317
Other financial income	11	174
Exchange rate gains	799	1,517
	<u>1,479</u>	<u>3,008</u>
7 Tax on profit for the year		
Current tax for the year	5,772	1,289
Deferred tax for the year	4,097	1,602
Adjustment of tax concerning previous years	739	7
	<u>10,608</u>	<u>2,898</u>
which breaks down as follows:		
Tax on profit/loss for the year	10,608	3,090
Tax on changes in equity	0	-192
	<u>10,608</u>	<u>2,898</u>

Notes to the Financial Statements

8 Intangible assets

	Goodwill DKKk
Cost at 1 January	25,571
Cost at 31 December	25,571
Impairment losses and amortisation at 1 January	3,196
Amortisation for the year	2,557
Impairment losses and amortisation at 31 December	5,753
Carrying amount at 31 December	19,818

9 Property, plant and equipment

	Land and buildings DKKk	Other fixtures and fittings, tools and equipment DKKk
Cost at 1 January	0	12,497
Additions for the year	7,186	311
Cost at 31 December	7,186	12,808
Impairment losses and depreciation at 1 January	0	11,574
Depreciation for the year	133	719
Impairment losses and depreciation at 31 December	133	12,293
Carrying amount at 31 December	7,053	515

10 Investments in associates

	2019 DKKk	2018 DKKk
Cost at 1 January	11,640	11,640
Additions for the year	2,500	0
Disposals for the year	-14,140	0
Cost at 31 December	0	11,640

Notes to the Financial Statements

	2019 <u>DKKK</u>	2018 <u>DKKK</u>
10 Investments in associates (continued)		
Value adjustments at 1 January	-6,169	-6,685
Net profit/loss for the year	992	516
Transfers for the year	5,177	0
Value adjustments at 31 December	<u>0</u>	<u>-6,169</u>
Carrying amount at 31 December	<u>0</u>	<u>5,471</u>
11 Other fixed asset investments		Other receiv- ables <u>DKKk</u>
Cost at 1 January		375
Disposals for the year		<u>-375</u>
Cost at 31 December		<u>0</u>
Carrying amount at 31 December		<u>0</u>
	2019 <u>DKKK</u>	2018 <u>DKKK</u>
12 Contract work in progress		
Selling price of work in progress	100,342	110,797
Payments received on account	<u>-45,059</u>	<u>-87,483</u>
	<u>55,283</u>	<u>23,314</u>
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	66,907	35,789
Contract work in progress recognised in liabilities	<u>-11,624</u>	<u>-12,475</u>
	<u>55,283</u>	<u>23,314</u>

Notes to the Financial Statements

	2019 <u>DKKK</u>	2018 <u>DKKK</u>
13 Deferred tax asset		
Deferred tax asset at 1 January	10,550	12,152
Amounts recognised in the income statement for the year	-4,097	-1,794
Amounts recognised in equity for the year	<u>0</u>	<u>192</u>
Deferred tax asset at 31 December	<u>6,453</u>	<u>10,550</u>

The deferred tax asset primarily concerns temporary differences between the carrying amount and tax base of goodwill, work in progress and warranty provisions.

14 Prepayments

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

15 Equity

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

	2019 <u>DKKK</u>	2018 <u>DKKK</u>
16 Distribution of profit		
Retained earnings	<u>26,403</u>	<u>11,147</u>
	<u>26,403</u>	<u>11,147</u>

17 Other provisions

Warranty commitments and other commitments in connection with delayed delivery

<u>8,718</u>	<u>10,215</u>
<u>8,718</u>	<u>10,215</u>

The provisions are expected to mature as follows:

Within 1 year	<u>8,718</u>	<u>10,215</u>
	<u>8,718</u>	<u>10,215</u>

Notes to the Financial Statements

18 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2019 DKKk	2018 DKKk
Other payables		
After 5 years	0	0
Between 1 and 5 years	3,838	0
Long-term part	3,838	0
Other short-term payables	25,614	25,322
	29,452	25,322

19 Derivative financial instruments

At the balance sheet date, the fair value of unsettled derivative financial instruments amounts to:

	2019 DKKk	2018 DKKk
Liabilities	0	-1,581

In addition to the fair value of unsettled derivative financial instruments, derivative financial instruments of DKK 623k have been settled concerning sale and purchase goods.

All hedging-contracts have been settled in 2019 due to a change in the hedging policy.

20 Cash flow statement - adjustments

Financial income	-1,479	-3,008
Financial expenses	2,012	1,559
Depreciation, amortisation and impairment losses, including losses and gains on sales	3,410	3,439
Income from investments in associates	-992	-516
Tax on profit for the year	10,608	3,090
	13,559	4,564

Notes to the Financial Statements

	2019 DKKK	2018 DKKK
21 Cash flow statement - change in working capital		
Change in inventories	-426	624
Change in receivables	-81,616	53,108
Change in other provisions	-1,497	-7,675
Change in trade payables, etc	4,731	-26,837
Fair value adjustments of hedging instruments	478	-870
	-78,330	18,350

22 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	104	104
Between 1 and 5 years	64	82
After 5 years	0	0
	168	186
Rent obligations, period of non-terminability between 3-12 months	4,222	5,223

Guarantee obligations

Guarantee obligations amount to DKK 66,976k (2018: DKK 120,661k).

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.

Notes to the Financial Statements

23 Related parties

Basis

Controlling interest

Howden Holdings ApS, Industrivej 23, Næstved,
Denmark

Parent Company

KPS Capital Partners LP, 485 Lexington Avenue, Fl 31,
New York 10017, 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 160.9
Purchase of goods and services, mDKK 57.4
Interest income, mDKK 0.1
Management fee and Trademark fee, cost, mDKK 9.6
Royalty, income, mDKK 5.1
Product license fee expense, mDKK 16.7
Cash Management Agreement, mDKK 14.4

Receivables, mDKK 121.5
Payables, mDKK 49.1
Loan receivables, mDKK 113.5
Loan payables, mDKK 11.5

24 Fee to auditors appointed at the general meeting

Audit fee to EY
Other services

	2019 DKKK	2018 DKKK
	113	113
	603	603
	716	716

Notes to the Financial Statements

25 Accounting Policies

The Annual Report of Howden Axial Fans ApS for 2019 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 2019 are presented in Danish kroner.

Business combinations

Business acquisitions carried through on or after 1 July 2018

Acquisitions of subsidiaries are accounted for using the purchase method under which the identifiable assets and liabilities of the entity acquired are measured at fair value at the time of acquisition.

The time of acquisition is the time when the Group obtains control of the entity acquired.

The cost of the entity acquired is the fair value of the consideration agreed, including consideration contingent on future events. Transaction costs directly attributable to the acquisition of subsidiaries are recognised in the income statement as incurred.

Positive differences between the cost of the entity acquired and identifiable assets and liabilities are recognised as goodwill in intangible assets in the balance sheet and are amortised in the income statement on a straight-line basis over their estimated useful lives. Where the differences are negative, they are recognised immediately in the income statement.

Where the purchase price allocation is not final, positive and negative differences from acquired subsidiaries due to changes to the recognition and measurement of identifiable net assets may be adjusted for up to 12 months after the time of acquisition. These adjustments are also reflected in the value of goodwill or negative goodwill, including in amortisation already made.

Where cost includes contingent consideration, this is measured at fair value at the time of acquisition. Contingent consideration is subsequently measured at fair value. Any value adjustments are recognised in the income statement.

In respect of step acquisitions, any previously held investments in the entity acquired are remeasured at fair value at the time of acquisition. The difference between the carrying amount of the investment previously held and the fair value is recognised in the income statement.

Business acquisitions carried through before 1 July 2018

Subject to some exemptions, acquisitions carried through before 1 July 2018 are accounted for under the same accounting policies as those applying to business combinations carried through on or after 1 July 2018. The most material exemptions are:

Notes to the Financial Statements

25 Accounting Policies (continued)

- Identifiable assets and liabilities of the entity acquired are recognised only if they are probable.
- Identifiable contingent liabilities of the entity acquired are not recognised in the consolidated balance sheet.
- Where the purchase price allocation is not final, positive and negative differences due to changes to the recognition and measurement of the acquired net assets may 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.
- Transaction costs directly attributable to the acquisition of subsidiaries are included as part of cost.
- After the initial recognition, adjustment of contingent consideration is recognised directly with its counter entry in initial purchase price, thus correcting the value of goodwill or negative goodwill.
- In respect of step acquisitions, the carrying amount of the existing investments is recognised in cost.

Uniting of interests

Intragroup business combinations are accounted for under the uniting-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 uniting-of-interests method is applied at the date of acquisition, and comparative figures have not been restated.

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.

Notes to the Financial Statements

25 Accounting Policies (continued)

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

The Company has chosen IAS 39 as interpretation for 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 Company's internal financial reporting system.

Income Statement

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition.

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

Notes to the Financial Statements

25 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

25 Accounting Policies (continued)

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 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.

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:

Buildings	25 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	2-6 years

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

25 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

25 Accounting Policies (continued)

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value.

The Company has chosen IAS 39 as interpretation for impairment write-down provisions of financial receivables.

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.

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

Notes to the Financial Statements

25 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

25 Accounting Policies (continued)

Cash Flow Statement

The cash flow statement shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

The cash flow statement cannot be immediately derived from the published financial records.

Notes to the Financial Statements

25 Accounting Policies (continued)

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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$