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Pettinaroli A/S Northern Europe

Mandal Allé 21
5500 Middelfart
Central Business Registration No 58495913

Annual report 2016

The Annual General Meeting adopted the annual report on 23.03.2017

Chairman of the General Meeting

Name: Kim Svaneborg Pedersen

Contents

Entity details

Entity
Pettinaroli A/S Northern Europe
Mandal Allé 21
5500 Middelfart

Central Business Registration No: 58495913
Founded: 31.05.1976
Registered in: Middelfart
Financial year: 01.01.2016 - 31.12.2016

Board of Directors
Ugo Giovanni Pettinaroli, Chairman
Morten Lorentzen
Kim Svaneborg Pedersen
Jørgen Pedersen
Giulio Pettinaroli
Maria Pia Pettinaroli
Laura Fortis
Bent Juul Jørgensen

Executive Board
Kim Svaneborg Pedersen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Tværkajen 5
Postboks 10
5100 Odense C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Pettinaroli A/S Northern Europe for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

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

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

Middelfart, 23.03.2017

Executive Board

Kim Svaneborg Pedersen

Board of Directors

Ugo Giovanni Pettinaroli Chairman	Morten Lorentzen	Kim Svaneborg Pedersen
Jørgen Pedersen	Giulio Pettinaroli	Maria Pia Pettinaroli
Laura Fortis	Bent Juul Jørgensen	

Independent auditor's report

To the shareholders of Pettinaroli A/S Northern Europe

Opinion

We have audited the financial statements of Pettinaroli A/S Northern Europe for the financial year 01.01.2016 - 31.12.2016, which comprise the 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 Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 exits. 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 Entity’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 Entity’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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary
Management is responsible for the management commentary.

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

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

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

Independent auditor's report

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

Odense, 23.03.2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Per Krause Therkelsen
State Authorised Public Accountant

Management commentary

	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000	2012 DKK'000
Financial highlights					
Key figures					
Gross profit	12,706	13,040	11,780	12,454	14,394
Operating profit/loss	1,798	3,500	1,460	1,591	5,082
Net financials	(449)	(538)	(628)	(759)	(535)
Profit/loss for the year	1,030	2,248	625	605	3,403
Total assets	38,419	42,279	40,062	41,181	49,546
Investments in property, plant and equipment	37	277	554	503	652
Equity	3,868	4,638	2,890	2,765	4,960
Average invested capital incl goodwill	40,349	41,171	40,622	45,364	44,530
Cash flows from (used in) operating activities	452	1,370	2,579	(779)	4,704
Cash flows from (used in) investing activities	(37)	(297)	(554)	(490)	(248)
Cash flows from (used in) financing activities	(1,800)	(500)	(500)	(2,800)	(1,441)
Ratios					
Return on invested capital incl goodwill (%)	4.5	8.5	3.7	3.6	11.5
Return on equity (%)	24.2	59.7	22.1	15.7	85.5
Equity ratio (%)	10.1	11.0	7.2	6.7	10.0

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2010" issued by the Danish Society of Financial Analysts.

Ratios	**Calculation formula**	**Ratios**
Return on invested capital incl goodwill (%)	$\frac{\text{EBITA x 100}}{\text{Average invested capital incl goodwill}}$	The return generated by the entity on the investors' funds.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.

EBITA (Earnings Before Interest, Tax and Amortisation) is defined as operating profit plus the year's amortisation of and impairment losses relating to intangible assets including goodwill.

Management commentary

Invested capital including goodwill is defined as net working capital plus the carrying amount of equipment and intangible assets as well as accumulated amortisation of intangible assets including goodwill, and less other provisions and long-term operating liabilities. Accumulated impairment losses relating to goodwill are not added.

Net working capital is defined as inventories, receivables and other operating current assets net of trade payables and other short-term operating liabilities. Income taxes receivable and payable as well as cash are not included in net working capital.

Management commentary

Primary activities

The company's principal activities have, like in previous years, comprised sale of Italian heating and plumbing components in a number of North European countries. The Company acts as sales and distribution centre for Fratelli Pettinaroli S.p.A. in Northern Europe.

Development in activities and finances

During 2014 and 2015 a revised strategy was developed by the board of directors to enhance business by focusing on a core product strategy. This strategy plan was presented late October 2015 where the implementation started. The budget of 2016 reflected this plan and the investments that came with it.

However, the implementation was more difficult than anticipated and 2016 became a year of chances instead of a year with the new revised strategy. Several presumptions were not met. Recruitment took 3-4 month longer than anticipated due to lack of qualified applicants for the open positions. Second, the closing of the renewable energy department happened end of 2016 and not end of 2015 due to failed negotiations with Stiebel Eltron on finding a new partner to take over our responsibilities. The closing happened end of 2016 resulting in several extra expenses not planned in the budget. Last, management was changed as the sales director left Pettinaroli A/S and left a void in the sales department until the new sales manager assumed the position end of the year.

All these events were kept under control in a change management process carried out by the management team. Unfortunately the many events also removed a bit of focus on the primary task – to sell the Pettinaroli line of products. Focus was regained mid of 4th quarter 2016 and at the end of the year, we were back on track according to the strategy plan. The board of directors have been fully informed of all the events and were aware of the unforeseen factors effecting the result of 2016.

We achieved a positive result but not close to our expectations. Even though the management is satisfied with the result in light of things happened and confident that we are now back on track and aligned with the planned strategy. The result of 2017 is expected to be not less than the one of 2015 – an operational result of between EUR 300.000-400.000, or approx. 3,5% of the gross turnover which is the benchmark of an operation like Pettinaroli A/S.

Due to the change management in 2016 we expect a focused year of consolidation in 2017 with only few chanced affecting the company

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Income statement for 2016

	Notes	2016 DKK	2015 DKK
Gross profit		**12,705,585**	**13,039,938**
Staff costs	1	(10,571,646)	(9,167,526)
Depreciation, amortisation and impairment losses		(335,784)	(372,523)
Operating profit/loss		**1,798,155**	**3,499,889**
Other financial income		156	2,618
Other financial expenses		(449,250)	(540,838)
Profit/loss before tax		**1,349,061**	**2,961,669**
Tax on profit/loss for the year	2	(319,336)	(713,637)
Profit/loss for the year		**1,029,725**	**2,248,032**
Proposed distribution of profit/loss			
Ordinary dividend for the financial year		800,000	1,800,000
Retained earnings		229,725	448,032
		1,029,725	**2,248,032**

Balance sheet at 31.12.2016

	Notes	2016 DKK	2015 DKK
Completed development projects		34,705	44,390
Intangible assets	3	**34,705**	**44,390**
Other fixtures and fittings, tools and equipment		746,296	1,033,001
Leasehold improvements		8,199	10,207
Property, plant and equipment	4	**754,495**	**1,043,208**
Fixed assets		**789,200**	**1,087,598**
Manufactured goods and goods for resale		15,646,529	16,882,884
Inventories		**15,646,529**	**16,882,884**
Trade receivables		18,891,964	20,549,566
Other receivables		74,773	196,647
Income tax receivable		308,936	0
Prepayments		338,985	198,380
Receivables		**19,614,658**	**20,944,593**
Cash		**2,368,494**	**3,363,956**
Current assets		**37,629,681**	**41,191,433**
Assets		**38,418,881**	**42,279,031**

Balance sheet at 31.12.2016

	Notes	2016 DKK	2015 DKK
Contributed capital	5	500,000	500,000
Retained earnings		2,567,797	2,338,072
Proposed dividend		800,000	1,800,000
Equity		**3,867,797**	**4,638,072**
Deferred tax		123,260	120,988
Provisions		**123,260**	**120,988**
Bank loans		414,333	24,150
Trade payables		1,438,734	747,061
Income tax payable		0	250,916
Other payables	6	32,574,757	36,497,844
Current liabilities other than provisions		**34,427,824**	**37,519,971**
Liabilities other than provisions		**34,427,824**	**37,519,971**
Equity and liabilities		**38,418,881**	**42,279,031**
Contingent liabilities	8		

Statement of changes in equity for 2016

	Contributed capital DKK	Retained earnings DKK	Proposed dividend DKK	Total DKK
Equity beginning of year	500,000	2,338,072	1,800,000	4,638,072
Ordinary dividend paid	0	0	(1,800,000)	(1,800,000)
Proposed dividend	0	0	800,000	800,000
Profit/loss for the year	0	229,725	0	229,725
Equity end of year	**500,000**	**2,567,797**	**800,000**	**3,867,797**

Cash flow statement 2016

	Notes	2016 DKK	2015 DKK
Operating profit/loss		1,798,155	3,499,889
Amortisation, depreciation and impairment losses		335,784	372,523
Working capital changes	7	(356,188)	(1,626,790)
Cash flow from ordinary operating activities		**1,777,751**	**2,245,622**
Financial income received		156	2,618
Financial income paid		(449,250)	(540,838)
Income taxes refunded/(paid)		(876,916)	(337,060)
Cash flows from operating activities		**451,741**	**1,370,342**
Acquisition etc of intangible assets		0	(48,425)
Acquisition etc of property, plant and equipment		(37,386)	(277,214)
Sale of property, plant and equipment		0	28,500
Cash flows from investing activities		**(37,386)**	**(297,139)**
Dividend paid		(1,800,000)	(500,000)
Cash flows from financing activities		**(1,800,000)**	**(500,000)**
Increase/decrease in cash and cash equivalents		**(1,385,645)**	**573,203**
Cash and cash equivalents beginning of year		3,339,806	2,766,603
Cash and cash equivalents end of year		**1,954,161**	**3,339,806**
Cash and cash equivalents at year-end are composed of:			
Cash		2,368,494	3,363,956
Securities		(414,333)	(24,150)
Cash and cash equivalents end of year		**1,954,161**	**3,339,806**

Notes

	2016 DKK	2015 DKK
1. Staff costs		
Wages and salaries	8,701,179	7,455,745
Pension costs	1,322,662	1,194,762
Other social security costs	101,882	114,821
Other staff costs	445,923	402,198
	10,571,646	**9,167,526**
Average number of employees	**19**	

	Remuneration of management 2016 DKK
Executive Board	2,440,000
Board of Directors	200,000
	2,640,000

	2016 DKK	2015 DKK
2. Tax on profit/loss for the year		
Tax on current year taxable income	317,064	687,916
Change in deferred tax for the year	2,272	27,474
Effect of changed tax rates	0	(1,753)
	319,336	**713,637**

Notes

	Completed development projects DKK
3. Intangible assets	
Cost beginning of year	257,025
Cost end of year	**257,025**
Amortisation and impairment losses beginning of year	(212,635)
Amortisation for the year	(9,685)
Amortisation and impairment losses end of year	**(222,320)**
Carrying amount end of year	**34,705**

	Other fixtures and fittings, tools and equipment DKK	Leasehold improvements DKK
4. Property, plant and equipment		
Cost beginning of year	3,760,537	20,080
Additions	37,386	0
Cost end of year	**3,797,923**	**20,080**
Depreciation and impairment losses beginning of the year	(2,727,536)	(9,873)
Depreciation for the year	(324,091)	(2,008)
Depreciation and impairment losses end of the year	**(3,051,627)**	**(11,881)**
Carrying amount end of year	**746,296**	**8,199**

	Number	Par value DKK	Nominal value DKK
5. Contributed capital			
A-share	500	1000	500,000
	500		**500,000**

The share capital has not been changed in the past 5 years.

Notes

	2016 DKK	2015 DKK
6. Other payables		
VAT and duties	832,582	707,026
Wages and salaries, personal income taxes, social security costs, etc payable	80,735	26,463
Holiday pay obligation	1,168,242	1,039,387
Other costs payable	30,493,198	34,724,968
	32,574,757	**36,497,844**

	2016 DKK	2015 DKK
7. Change in working capital		
Increase/decrease in inventories	1,236,355	(315,582)
Increase/decrease in receivables	1,638,871	(1,515,344)
Increase/decrease in trade payables etc	(3,231,414)	204,136
	(356,188)	**(1,626,790)**

8. Contingent liabilities

The company has assumed a lease liability which totals DKK 1,084k at the balance sheet date. The lease contract are non-terminable for a period of up to 38 months.

The company has signed a rental contract which is non-terminable for a period of 6 months. The annual rent is DKK 910k.

The company has signed a contract with service providers with non-cancellation period. The remaining obligation at 31.12.2016 amounts a total of DKK 65k.

The Company has been summoned for approx. DKK 2 million for unjustified termination of agreement. Management expects to win the case, and therefore no provision has been made for this.

Accounting policies

Reporting class
The annual report of Pettinaroli A/S Northern Europe has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied for these financial statements are consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Income statement
Gross profit or loss
Gross profit or loss comprises revenue, changes in inventories of finished goods, other operating income, cost of raw materials and consumables and external expenses.

Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Accounting policies

Cost of sales
Cost of sales comprises costs of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

Other external expenses
Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

Staff costs
Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff. Repayments from public authorities are included in staff costs.

Depreciation, amortisation and impairment losses
Amortisation, depreciation and impairment losses relating to intangible assets and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as equipment.

Other financial income
Other financial income comprises dividends etc. received on other investments, interest income, including interest income on payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet
Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

Accounting policies

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is 5 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

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

Equipment	3-10 years
Leasehold improvements	10 years

Equipment are written down to the lower of recoverable amount and carrying amount.

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

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

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

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

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

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

Cash
Cash comprises cash in hand and bank deposits.

Accounting policies

Dividend
The proposed dividend for the financial year is disclosed as a separate item in equity.

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

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

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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

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

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

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

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

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.