

**M Seals A/S**  
Bybjergvej 13, 3060 Espergærde

Company reg. no. 10 60 11 34

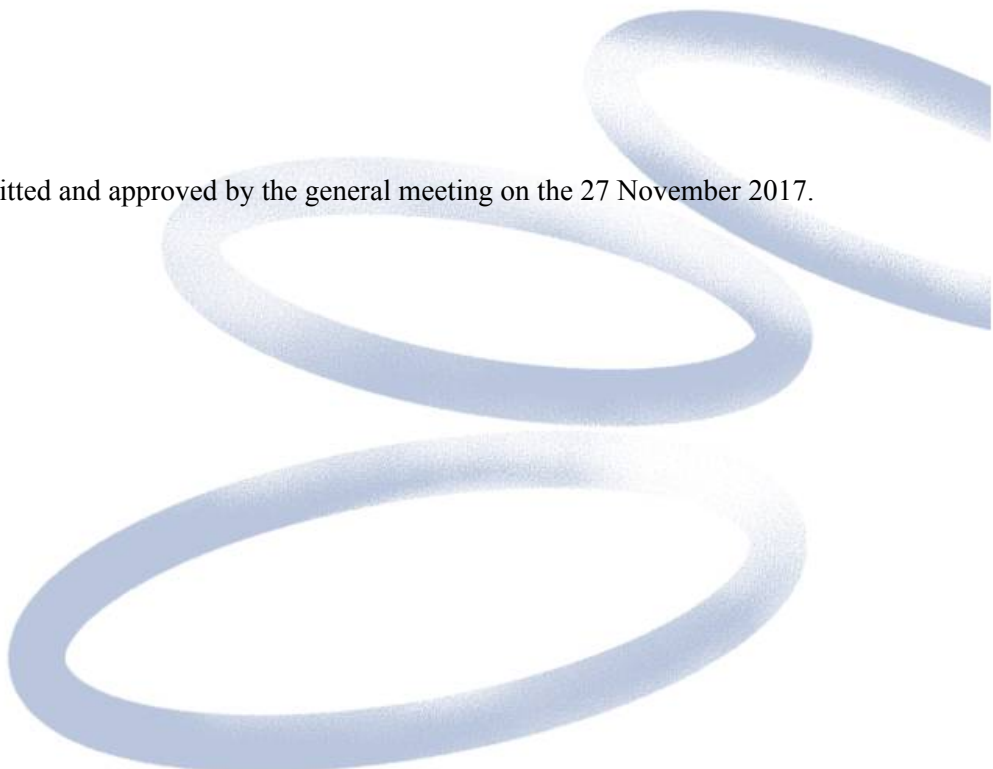
**Annual report**

**2016/17**

The annual report have been submitted and approved by the general meeting on the 27 November 2017.

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Thomas Baag Petersen  
Chairman of the meeting



## Contents

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	<u>Page</u>
<b>Reports</b>	
Management's report	1
Independent auditor's report	2
<b>Management's review</b>	
Company data	5
Financial highlights	6
Management's review	7
<b>Annual accounts 1 October 2016 - 30 September 2017</b>	
Profit and loss account	8
Balance sheet	9
Statement of changes in equity	11
Notes	12
Accounting policies used	17

Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points remain unchanged from the Danish version of the document. This means that for instance DKK 146.940 is the same as the English amount of DKK 146,940, and that 23,5 % is the same as the English 23.5 %.

## **Management's report**

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The board of directors and the managing director have today presented the annual report of M Seals A/S for the financial year 1 October 2016 to 30 September 2017.

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

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position as on 30 September 2017 and of the company's results of its activities in the financial year 1 October 2016 to 30 September 2017.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Espergærde, 24 November 2017

### **Managing Director**

Thomas Baag Petersen  
CEO

### **Board of directors**

Bruce McKenzie Thompson

Thomas Baag Petersen

Jette Stade

## **Independent auditor's report**

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### **To the shareholders of M Seals A/S**

#### **Opinion**

We have audited the financial statements of M Seals A/S for the financial year 01.10.2016 - 30.09.2017, 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 30.09.2017 and of the results of its operations and cash flows for the financial year 01.10.2016 - 30.09.2017 in accordance with the Danish Financial Statements Act.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 annual accounts**

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**

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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 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.

## **Independent auditor's report**

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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.

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.

Copenhagen, 24 November 2017

### **Deloitte**

Statsautoriseret Revisionspartnerselskab  
Company reg. no. 33 96 35 56

**Henrik Kjelgaard**

State Authorised Public Accountant

## **Company data**

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**The company**

M Seals A/S  
Bybjergvej 13  
3060 Espergærde

Company reg. no. 10 60 11 34  
Established: 30 December 1986  
Domicile: Helsingør  
Financial year: 1 October - 30 September

**Board of directors**

Bruce McKenzie Thompson  
Thomas Baag Petersen  
Jette Stade

**Managing Director**

Thomas Baag Petersen, CEO

**Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab

**Parent company**

Diploma PLC, London

**Subsidiary**

M Seals AB, Sweden

## Financial highlights

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DKK in thousands.	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>	<u>2012/13</u>
<b>Profit and loss account:</b>					
Gross profit	36.118	35.484	30.558	29.068	29.253
Results from operating activities	17.606	17.103	13.413	12.000	13.213
Net financials	8.347	5.508	5.917	5.131	4.580
Results for the year	22.031	18.859	16.143	14.158	14.399
<b>Balance sheet:</b>					
Balance sheet sum	67.522	52.057	66.910	52.269	61.811
Investments in tangible fixed assets represent	951	187	0	67	1.839
Equity	44.944	31.551	46.831	38.173	44.643
<b>Key figures in %:</b>					
Solvency ratio	66,6	60,6	70,0	73,0	72,2
Return on equity	57,6	48,1	38,0	34,2	35,1

The calculation of key figures and ratios follow the Danish Association of Finance Analysts' recommendations.



## **Management's review**

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### **The principal activities of the company**

The main activity has, as in previous years, consisted of trade with sealing and seal components.

### **Development in activities and financial matters**

Management find the revenue in line with the expectation in the Danish operation with a strong growth in the export and a less good performance in the domestic sale.

The Swedish operation has perform better than budget and has successfully executed a 5 year growth strategy plan. The cost has been controlled according to expectation without suffering any initiatives for future growth, which has contributed to an excellent year end result.

### **Special risks**

Operating risks:

Due to the uncertain economic situation in Europe, there is a risk of declining sales, however, the risk is considered to be small due to the Company's split in customer segment as well as in the large geographical spread of M Seals customers.

Financial risks:

Sales to and from foreign countries imply that earnings, cash flows and equity are affected by the exchange rate changes in USD, EUR and SEK, respectively. It is not company policy to hedge currency risks and no forward exchange contract is entered into or speculative foreign exchange positions. M Seals strives to decrease the credit risk on receivables. A credit rating of customers is performed before sale. Since the Company generally deals with relatively large, well-established customers, there is no credit risk on trade receivables.

### **Environmental issues**

M Seals ensures continuously to remain a social and environmentally responsible company, not only internally but also by selecting suppliers with a strong focus on the environment. This is expected to be supported by obtaining the ISO14000 certification in the coming financial year.

### **Know how resources**

In order to be able to provide a high level quality to the customers, it is crucial to M Seals to continuously developing the QA and inspection facility by investing in advanced equipment and in education of the employees.

### **The expected development**

It is expected that the company will continue the positive development both regards to top and bottom line in the coming financial year. The company have a strong pipeline of new projects which support the expected growth for 2017/18.

### **Events after balance sheet date**

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

## **Profit and loss account 1 October - 30 September**

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All amounts in DKK.

<u>Note</u>	<u>2016/17</u>	<u>2015/16</u>
<b>Gross profit</b>	<b>36.118.351</b>	<b>35.484.419</b>
1 Staff costs	-18.176.289	-17.927.444
Depreciation and writedown relating to tangible fixed assets	<u>-336.122</u>	<u>-453.884</u>
<b>Operating profit</b>	<b>17.605.940</b>	<b>17.103.091</b>
Income from equity investment in group enterprise	8.236.599	5.498.080
Other financial income from group enterprises	23.633	18.763
Other financial income	139.959	132.622
2 Other financial costs	<u>-53.054</u>	<u>-141.254</u>
<b>Results before tax</b>	<b>25.953.077</b>	<b>22.611.302</b>
3 Tax on ordinary results	<u>-3.921.930</u>	<u>-3.752.657</u>
<b>4 Results for the year</b>	<b><u>22.031.147</u></b>	<b><u>18.858.645</u></b>

## Balance sheet 30 September

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All amounts in DKK.

<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Fixed assets</b>		
5 Plant and machinery	959.763	100.514
6 Other fixtures and fittings, tools and equipment	561.566	806.406
Tangible fixed assets in total	<u>1.521.329</u>	<u>906.920</u>
7 Equity investment in group enterprise	9.321.706	6.453.870
8 Deposits	431.892	431.225
Financial fixed assets in total	<u>9.753.598</u>	<u>6.885.095</u>
<b>Fixed assets in total</b>	<b><u>11.274.927</u></b>	<b><u>7.792.015</u></b>
<b>Current assets</b>		
Manufactured goods and trade goods	22.554.221	21.930.184
Inventories in total	<u>22.554.221</u>	<u>21.930.184</u>
Trade debtors	15.964.283	17.733.562
Amounts owed by group enterprises	12.583.472	1.383.423
9 Prepayments	891.407	672.022
Debtors in total	<u>29.439.162</u>	<u>19.789.007</u>
Available funds	4.253.716	2.545.411
<b>Current assets in total</b>	<b><u>56.247.099</u></b>	<b><u>44.264.602</u></b>
<b>Assets in total</b>	<b><u>67.522.026</u></b>	<b><u>52.056.617</u></b>

## Balance sheet 30 September

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All amounts in DKK.

<b>Equity and liabilities</b>			
<u>Note</u>		<u>2017</u>	<u>2016</u>
<b>Equity</b>			
	Contributed capital	500.000	500.000
	Reserves for net revaluation as per the equity method	9.240.666	6.372.830
	Results brought forward	24.703.734	16.178.186
	Proposed dividend for the financial year	10.500.000	8.500.000
	<b>Equity in total</b>	<b><u>44.944.400</u></b>	<b><u>31.551.016</u></b>
<b>Provisions</b>			
10	Provisions for deferred tax	293.801	240.483
	<b>Provisions in total</b>	<b><u>293.801</u></b>	<b><u>240.483</u></b>
<b>Liabilities</b>			
	Bank debts	0	190.195
	Trade creditors	9.511.658	8.831.540
	Debt to group enterprises	6.242.021	4.701.487
	Corporate tax	3.096.612	3.040.812
	Other debts	3.433.534	3.501.084
	Short-term liabilities in total	<u>22.283.825</u>	<u>20.265.118</u>
	<b>Liabilities in total</b>	<b><u>22.283.825</u></b>	<b><u>20.265.118</u></b>
	<b>Equity and liabilities in total</b>	<b><u>67.522.026</u></b>	<b><u>52.056.617</u></b>
<b>11 Mortgage and securities</b>			
<b>12 Contingencies</b>			
<b>13 Related parties</b>			

## Statement of changes in equity

All amounts in DKK.

	Contributed capital	Reserves for net revaluation as per the equity method	Results brought forward	Proposed dividend for the financial year	In total
Equity 1 October 2015	500.000	6.862.688	5.368.323	34.100.000	46.831.011
Distributed dividend	0	0	0	-34.100.000	-34.100.000
Exchange rate adjustments	0	-38.640	0	0	-38.640
Distributed dividends from group enterprises	0	-5.949.298	5.949.298	0	0
Share of results	0	5.498.080	4.860.565	8.500.000	18.858.645
Equity 1 October 2016	500.000	6.372.830	16.178.186	8.500.000	31.551.016
Distributed dividend	0	0	0	-8.500.000	-8.500.000
Exchange rate adjustments	0	-137.763	0	0	-137.763
Distributed dividends from group enterprises	0	-5.231.000	5.231.000	0	0
Share of results	0	8.236.599	3.294.548	10.500.000	22.031.147
	<b>500.000</b>	<b>9.240.666</b>	<b>24.703.734</b>	<b>10.500.000</b>	<b>44.944.400</b>

## Notes

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All amounts in DKK.

	<u>2016/17</u>	<u>2015/16</u>
<b>1. Staff costs</b>		
Salaries and wages	15.552.067	15.314.448
Pension costs	2.376.638	2.362.818
Other costs for social security	<u>247.584</u>	<u>250.178</u>
	<b><u>18.176.289</u></b>	<b><u>17.927.444</u></b>
Average number of employees	<u>32</u>	<u>32</u>
With reference to section 98B(3) of the Danish Financial Statement Act, the fee for the Management has not been disclosed.		
	<u>2016/17</u>	<u>2015/16</u>
<b>2. Other financial costs</b>		
Financial costs, group enterprises	51.399	45.156
Other financial costs	<u>1.655</u>	<u>96.098</u>
	<b><u>53.054</u></b>	<b><u>141.254</u></b>
<b>3. Tax on ordinary results</b>		
Tax of the results for the year, parent company	3.868.612	3.828.812
Adjustment for the year of deferred tax	<u>53.318</u>	<u>-76.155</u>
	<b><u>3.921.930</u></b>	<b><u>3.752.657</u></b>
<b>4. Proposed distribution of the results</b>		
Reserves for net revaluation as per the equity method	8.236.599	5.498.080
Dividend for the financial year	10.500.000	8.500.000
Allocated to results brought forward	<u>3.294.548</u>	<u>4.860.565</u>
<b>Distribution in total</b>	<b><u>22.031.147</u></b>	<b><u>18.858.645</u></b>

## Notes

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All amounts in DKK.

	<u>30/9 2017</u>	<u>30/9 2016</u>
<b>5. Plant and machinery</b>		
Cost opening balance	2.441.325	2.366.325
Additions during the year	927.531	75.000
<b>Cost closing balance</b>	<b><u>3.368.856</u></b>	<b><u>2.441.325</u></b>
Depreciation and writedown opening balance	-2.340.811	-2.253.963
Depreciation for the year	-68.282	-86.848
<b>Depreciation and writedown closing balance</b>	<b><u>-2.409.093</u></b>	<b><u>-2.340.811</u></b>
<b>Book value closing balance</b>	<b><u>959.763</u></b>	<b><u>100.514</u></b>
<b>6. Other fixtures and fittings, tools and equipment</b>		
Cost opening balance	4.656.183	5.111.013
Additions during the year	23.000	111.989
Disposals during the year	0	-566.819
<b>Cost closing balance</b>	<b><u>4.679.183</u></b>	<b><u>4.656.183</u></b>
Depreciation and writedown opening balance	-3.849.777	-3.959.560
Depreciation for the year	-267.840	-367.036
Depreciation, amortisation and writedown for the year, assets disposed of	0	476.819
<b>Depreciation and writedown closing balance</b>	<b><u>-4.117.617</u></b>	<b><u>-3.849.777</u></b>
<b>Book value closing balance</b>	<b><u>561.566</u></b>	<b><u>806.406</u></b>

## Notes

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All amounts in DKK.

	<u>30/9 2017</u>	<u>30/9 2016</u>
<b>7. Equity investment in group enterprise</b>		
Acquisition sum opening balance	81.040	81.040
<b>Cost closing balance</b>	<b>81.040</b>	<b>81.040</b>
Revaluations opening balance	6.372.830	6.862.688
Translation by use of the exchange rate valid on balance sheet date	-137.763	-38.640
Results for the year before goodwill amortisation	8.236.599	5.498.080
Dividend	-5.231.000	-5.949.298
<b>Revaluation closing balance</b>	<b>9.240.666</b>	<b>6.372.830</b>
<b>Book value closing balance</b>	<b>9.321.706</b>	<b>6.453.870</b>

### The financial highlights for the enterprise according to the latest approved annual report

	Share of ownership	Equity DKK	Results for the year DKK
M Seals AB, Sweden	100 %	9.321.706	8.236.599

	<u>30/9 2017</u>	<u>30/9 2016</u>
<b>8. Deposits</b>		
Cost opening balance	431.892	431.225
<b>Cost closing balance</b>	<b>431.892</b>	<b>431.225</b>
<b>Book value closing balance</b>	<b>431.892</b>	<b>431.225</b>

### 9. Prepayments

Prepayments comprise incurred costs relating to subsequent financial years.



## Notes

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All amounts in DKK.

	<u>30/9 2017</u>	<u>30/9 2016</u>
<b>10. Provisions for deferred tax</b>		
Provisions for deferred tax opening balance	240.483	316.638
Deferred tax of the results for the year	<u>53.318</u>	<u>-76.155</u>
	<b><u>293.801</u></b>	<b><u>240.483</u></b>

### 11. Mortgage and securities

The company has no mortgage or securities at 30 September 2017.

### 12. Contingencies

#### Contingent liabilities

	<u>DKK in thousands</u>
Rental agreements	690
Leases	<u>556</u>
<b>Contingent liabilities in total</b>	<b><u>1.246</u></b>

## Notes

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All amounts in DKK.

### 13. Related parties

#### Controlling interest

Diploma PLC	Majority shareholder
Charterhouse Square	
London EC1M 6AX	
England	

#### Other related parties

Thomas Baag Petersen	CEO / Board member
Bruce McKenzie Thompson	Board member
Jette Stade	Board member
Diploma PLC and all of its related entities	

#### Transactions

There has been no transactions with related parties not conducted on market terms.

#### Consolidated annual accounts

The company is included in the consolidated annual accounts of Diploma PLC, London.

The foreign consolidated financial statements are available at:

<http://www.diplomaplc.com>

## **Accounting policies used**

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The annual report for M Seals A/S is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class C enterprises (medium sized enterprises).

The accounting policies used are unchanged compared to last year, and the annual accounts are presented in Danish kroner (DKK).

No consolidated annual accounts have been prepared, cf. section 112(1) of the Danish Financial Statements Act. The annual accounts of M Seals A/S and its group enterprises are included in the consolidated annual accounts for Diploma PLC, London, reg. no. 3899848.

### **Recognition and measurement in general**

Income is recognised in the profit and loss account concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs, these including depreciation, amortisation, writedown, provisions, and reversals which are due to changes in estimated amounts previously recognised in the profit and loss account are recognised in the profit and loss account.

Assets are recognised in the balance sheet when the company is liable to achieve future, financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

At the first recognition, assets and liabilities are measured at cost. Later, assets and liabilities are measured as described below for each individual accounting item.

At recognition and measurement, such predictable losses and risks are taken into consideration, which may appear before the annual report is presented, and which concerns matters existing on the balance sheet date.

### **Translation of foreign currency**

Transactions in foreign currency are translated by using the exchange rate prevailing at the date of the transaction. Differences in the rate of exchange arising between the rate at the date of transaction and the rate at the date of payment are recognised in the profit and loss account as an item under net financials.

Debtors, creditors, and other monetary items in foreign currency are translated by using the closing rate. The difference between the closing rate and the rate at the time of the occurrence or the recognition in the latest annual accounts of the amount owed or the liability is recognised in the profit and loss account under financial income and expenses.

Fixed assets and other non-monetary assets acquired in foreign currency and which are not considered to be investment assets purchased in foreign currencies are measured at the exchange rate on the transaction date.

## **Accounting policies used**

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In case the foreign group enterprises and associated enterprises meet the criteria for being independent units, the profit and loss accounts are translated by using an average exchange rate for the period in question, and the balance sheet items are translated by using the closing rate. Differences arising in connection with the translation of the equity of foreign group enterprises at the beginning of the year to the closing rate are recognised directly in the equity. The same goes for differences arising in connection with translation of the profit and loss accounts from average exchange rate to the closing rate.

### **The profit and loss account**

#### **Gross profit**

The gross profit comprises the net turnover, changes in inventories of finished goods and work in progress, work performed for own purposes and capitalised, other operating income, and external costs.

The net turnover is recognised in the profit and loss account if delivery and risk transfer to the buyer have taken place before the end of the year, and if the income can be determined reliably and is expected to be received. The net turnover is recognised exclusive of VAT and taxes and with the deduction of any discounts granted in connection with the sale.

Costs of sales includes costs for the purchase of raw materials and consumables less discounts and changes in inventories.

Other external costs comprise costs for distribution, sales, advertisement, administration, premises, loss on debtors, and operational leasing costs.

#### **Staff costs**

Staff costs include salaries and wages including holiday allowances, pensions and other costs for social security etc. for staff members. Staff costs are less public reimbursements.

#### **Depreciation, amortisation and writedown**

Depreciation, amortisation and writedown comprise depreciation, amortisation and writedown for the year and gains and losses on disposal of intangible and tangible fixed assets.

#### **Net financials**

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

#### **Results from equity investment in group enterprise**

After full elimination of intercompany profit or loss and deduction of amortisation of consolidated goodwill, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

## **Accounting policies used**

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### **Tax of the results for the year**

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

### **The balance sheet**

#### **Tangible fixed assets**

Tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

The basis of depreciation is cost with deduction of any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the book value, the amortisation discontinues.

If the amortisation period or the residual value is changed, the effect on amortisation will in the future be recognised as a change in the accounting estimates.

The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use.

The cost of a total asset is divided into separate components. These components are depreciated separately, the useful lives of each individual components differing.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

Plant and machinery	3-5 years
Other fixtures and fittings, tools and equipment	3-7 years
Leasehold improvements	3-7 years

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or loss is recognised in the profit and loss account under depreciation.

#### **Leasing contracts**

At the first recognition in the balance sheet, leasing contracts concerning tangible fixed assets by which the company holds all essential risks and advantages attached to the proprietary right (financial leasing) are measured either at fair value or at the present value of the future leasing services, whichever value is lower. When calculating the present value, the internal interest rate of the leasing contract or alternatively the borrowing rate of the enterprise is used as discount rate. Afterwards, financially leased assets are treated in the same way as other similar tangible assets.

## **Accounting policies used**

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The capitalised residual leasing liability is recognised in the balance sheet as a liability, and the interest part of the leasing contract is recognised in the profit and loss account over the term of the contract.

All other leasing contracts are considered operational leasing. Payments in connection with operational leasing and other rental agreements are recognised in the profit and loss account over the term of the contract. The company's total liabilities concerning operational leasing and rental agreements are recognised under contingencies etc.

### **Financial fixed assets**

#### **Equity investment in group enterprise**

Equity investment in group enterprise is recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

Group enterprises with negative equity are recognised without any value, and to the extent they are considered irrevocable, amounts owed by these companies are written down by the parent's share of the equity. If the negative equity exceeds the debtors, the residual amount is recognised under liability provisions to the extent the parent has a legal or actual liability to cover the negative equity of the subsidiary.

To the extent the equity exceeds the cost, the net revaluation of equity investment in group enterprise is transferred to the reserves under the equity for net revaluation as per the equity method. Dividend from group enterprise expected to be decided before the approval of this annual report are not subject to a limitation of the revaluation reserves. The reserves are adjusted by other equity movements in group enterprise.

#### **Inventories**

Inventories are measured at cost on basis of measured average prices. In case the net realisable value is lower than the cost, writedown takes place at this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

The net realisable value for inventories is recognised as the market price with deduction of completion costs and selling costs. The net realisable value is determined taking into consideration the negotiability, obsolescence, and development of the expected market price.

#### **Debtors**

Debtors are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

## **Accounting policies used**

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### **Prepayments**

Prepayments recognised under assets comprise incurred costs concerning the next financial year.

### **Available funds**

Available funds comprise cash at bank and in hand.

### **Equity**

#### **Reserves for net revaluation as per the equity method**

Reserves for net revaluation as per the equity method comprise net revaluation of equity investments in subsidiaries and associates in proportion to cost.

The reserves may be eliminated in case of losses, realisation of equity investments or changes in the financial estimates.

It is not possible to recognise the reserves with a negative amount.

### **Dividend**

Dividend expected to be distributed for the year is recognised as a separate item under the equity. Proposed dividend is recognised as a liability at the time of approval by the general meeting (the time of declaration).

### **Corporate tax and deferred tax**

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

### **Liabilities**

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