

**M Seals A/S**  
**Central Business Registration No**  
**10601134**  
**Bybjergvej 13**  
**3060 Espergærde**

**Annual report 2015/16**

The Annual General Meeting adopted the annual report on 16.12.2016

## **Chairman of the General Meeting**

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Name: Thomas Baag Petersen

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## **Entity details**

### **Entity**

M Seals A/S  
Bybjergvej 13  
3060 Espergærde

Central Business Registration No: 10601134

Founded: 30.12.1986

Registered in: Helsingør

Financial year: 01.10.2015 - 30.09.2016

### **Board of Directors**

Bruce McKenzie Thompson

Thomas Baag Petersen

Jette Stade

### **Executive Board**

Thomas Baag Petersen, CEO

### **Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

Postboks 1600

0900 København 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 M Seals A/S for the financial year 01.10.2015 - 30.09.2016.

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 30.09.2016 and of the results of its operations for the financial year 01.10.2015 - 30.09.2016.

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.

Espergærde, 16.12.2016

### **Executive Board**

Thomas Baag Petersen  
CEO

### **Board of Directors**

Bruce McKenzie Thompson

Thomas Baag Petersen

Jette Stade

## **Independent auditor's reports**

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

#### **Report on the financial statements**

We have audited the financial statements of M Seals A/S for the financial year 01.10.2015 - 30.09.2016, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

#### **Management's responsibility 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's financial position at 30.09.2016 and of the results of its operations for the financial year 01.10.2015 - 30.09.2016 in accordance with the Danish Financial Statements Act.

## **Independent auditor's reports**

### **Statement on the management commentary**

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

Copenhagen, 16.12.2016

### **Deloitte**

Statsautoriseret Revisionspartnerselskab

Henrik Kjelgaard  
State Authorised Public Accountant

CVR-nr. 33963556

## Management commentary

	<u>2015/16</u> <u>DKK'000</u>	<u>2014/15</u> <u>DKK'000</u>	<u>2013/14</u> <u>DKK'000</u>	<u>2012/13</u> <u>DKK'000</u>	<u>2011/12</u> <u>DKK'000</u>
<b>Financial high-lights</b>					
<b>Key figures</b>					
Gross profit	35,484	30,558	29,068	29,253	28,712
Operating profit/loss	17,103	13,413	12,000	13,213	13,641
Net financials	5,508	5,917	5,131	4,580	4,261
Profit/loss for the year	18,859	16,143	14,158	14,399	14,395
Total assets	52,057	66,910	52,269	61,811	49,804
Investments in property, plant and equipment	187	0	67	1,839	309
Equity	31,551	46,831	38,173	44,643	37,436
<b>Ratios</b>					
Return on equity (%)	48.1	38.0	34.2	35.1	43.6
Solvency ratio (%)	60.6	70.0	73.0	72.2	75.2

## Management commentary

### Primary activities

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

### Development in activities and finances

Management finds the result very satisfactory with a double digit growth both on the top and bottom line particularly taking the trading environment in consideration. Positive is also that the company has been able to grow in all trading areas. With the sale increase in Europe both this year and the year before it is confirmed that the strategy to put more resources into this area is followed and executed in line with the expectation.

### Outlook

The outlook for the coming financial year is a slightly increase in sale of 3-4%. Management believes that there will not be a significant improvement in the economic environment and does not expect increase from current customers, but with a good pipeline of projects, the outlook looks promising.

### Particular risks

#### Business 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.

### Intellectual capital resources

In order to be able to provide quality to the customers, it is crucial to M Seals to continuously develop QA and quality control facilities. The objective is that M Seals provides high professional and ethical standards with a focus on quality and service. Likewise, maintaining high employee satisfaction and loyalty by means of motivation, involvement and education.

### Environmental performance

M Seals ensures continuously to remain a social and environmentally responsible organisation, not only internally but also by selecting suppliers with a strong focus on the environment and that are socially responsible.



## **Management commentary**

### **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.

## **Accounting policies**

### **Reporting class**

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises.

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

### **Consolidated financial statements**

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

### **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. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

## **Accounting policies**

### **Income statement**

#### **Gross profit or loss**

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, 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.

#### **Costs of raw materials and consumables**

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary write-downs of the relevant inventories.

#### **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.

#### **Amortisation, depreciation and impairment losses**

Depreciation and impairment losses relating to property, plant and equipment comprise 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 property, plant and equipment.

#### **Income from investments in group enterprises**

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

#### **Other financial income**

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

## Accounting policies

### Other financial expenses

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

### Income taxes

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

### Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and 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:

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

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

### Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus or minus unamortised positive, or negative, goodwill and minus or plus unrealised intra-group profits or losses.

Group enterprises with negative equity are measured at DKK 0, and any receivables from these enterprises are written down by the Parent's share of such negative equity value if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

## Accounting policies

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

### Receivables

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

### Inventories

Inventories are measured at the lower of cost using weighted average prices and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods consists of costs of raw materials, consumables.

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

### Prepayments

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

### Cash

Cash comprises cash in hand and bank deposits.

### Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. 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.

## Accounting policies

### Income tax receivable or payable

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.

### Cash flow statement

Referring to section 86(4) of the Danish Financial Act, M Seals A/S has not prepared any cash flow statement.

### Financial highlights

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

<b>Ratios</b>	<b>Calculation formula</b>	<b>Ratios reflect</b>
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The Entity's return on capital invested in the Entity by the owners.
Solvency ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the Entity.

## Income statement for 2015/16

	<u>Notes</u>	<u>2015/16 DKK</u>	<u>2014/15 DKK</u>
<b>Gross profit</b>		<b>35,484,419</b>	<b>30,557,711</b>
Staff costs	1	(17,927,444)	(16,664,213)
Depreciation, amortisation and impairment losses		<u>(453,884)</u>	<u>(480,839)</u>
<b>Operating profit/loss</b>		<b>17,103,091</b>	<b>13,412,659</b>
Income from investments in group enterprises		5,498,080	5,805,504
Other financial income	2	151,385	309,080
Other financial expenses	3	<u>(141,254)</u>	<u>(197,476)</u>
<b>Profit/loss from ordinary activities before tax</b>		<b>22,611,302</b>	<b>19,329,767</b>
Tax on profit/loss from ordinary activities	4	<u>(3,752,657)</u>	<u>(3,186,596)</u>
<b>Profit/loss for the year</b>		<b><u>18,858,645</u></b>	<b><u>16,143,171</u></b>
<b>Proposed distribution of profit/loss</b>			
Dividend for the financial year		8,500,000	34,100,000
Reserve for net revaluation according to the equity method		5,498,080	5,805,504
Retained earnings		<u>4,860,565</u>	<u>(23,762,333)</u>
		<b><u>18,858,645</u></b>	<b><u>16,143,171</u></b>

**Balance sheet at 30.09.2016**

	<u>Notes</u>	<u>2015/16 DKK</u>	<u>2014/15 DKK</u>
Plant and machinery		100,514	112,362
Other fixtures and fittings, tools and equipment		806,406	1,151,453
<b>Property, plant and equipment</b>	<b>5</b>	<b><u>906,920</u></b>	<b><u>1,263,815</u></b>
Investments in group enterprises		6,453,870	6,943,728
Other receivables		431,225	431,225
<b>Fixed asset investments</b>	<b>6</b>	<b><u>6,885,095</u></b>	<b><u>7,374,953</u></b>
<b>Fixed assets</b>		<b><u>7,792,015</u></b>	<b><u>8,638,768</u></b>
Manufactured goods and goods for resale		21,930,184	19,446,994
<b>Inventories</b>		<b><u>21,930,184</u></b>	<b><u>19,446,994</u></b>
Trade receivables		17,757,597	16,053,694
Receivables from group enterprises		1,359,388	17,305,268
Prepayments	7	672,022	687,242
<b>Receivables</b>		<b><u>19,789,007</u></b>	<b><u>34,046,204</u></b>
<b>Cash</b>		<b><u>2,545,411</u></b>	<b><u>4,777,678</u></b>
<b>Current assets</b>		<b><u>44,264,602</u></b>	<b><u>58,270,876</u></b>
<b>Assets</b>		<b><u>52,056,617</u></b>	<b><u>66,909,644</u></b>



**Balance sheet at 30.09.2016**

	<u>Notes</u>	<u>2015/16 DKK</u>	<u>2014/15 DKK</u>
Contributed capital		500,000	500,000
Reserve for net revaluation according to the equity method		6,372,830	6,862,688
Retained earnings		16,178,186	5,368,323
Proposed dividend		8,500,000	34,100,000
<b>Equity</b>		<b><u>31,551,016</u></b>	<b><u>46,831,011</u></b>
Provisions for deferred tax		240,483	316,638
<b>Provisions</b>		<b><u>240,483</u></b>	<b><u>316,638</u></b>
Bank loans		190,195	0
Trade payables		8,831,540	7,696,139
Debt to group enterprises		4,699,460	4,528,898
Income tax payable		3,040,812	4,028,992
Other payables		3,503,111	3,507,966
<b>Current liabilities other than provisions</b>		<b><u>20,265,118</u></b>	<b><u>19,761,995</u></b>
<b>Liabilities other than provisions</b>		<b><u>20,265,118</u></b>	<b><u>19,761,995</u></b>
<b>Equity and liabilities</b>		<b><u>52,056,617</u></b>	<b><u>66,909,644</u></b>
Unrecognised rental and lease commitments	8		
Ownership	9		
Consolidation	10		

## Statement of changes in equity for 2015/16

	<b>Contri- buted capi- tal DKK</b>	<b>Reserve for net revalu- ation ac- cording to the equity method DKK</b>	<b>Retained earnings DKK</b>	<b>Proposed dividend DKK</b>	<b>Total DKK</b>
Equity beginning of year	500,000	6,862,688	5,368,323	34,100,000	46,831,011
Ordinary dividend paid	0	0	0	(34,100,000)	(34,100,000)
Exchange rate adjustments	0	(38,640)	0	0	(38,640)
Distributed dividends from group en- terprises	0	(5,949,298)	5,949,298	0	0
Profit/loss for the year	0	5,498,080	4,860,565	8,500,000	18,858,645
<b>Equity end of year</b>	<b>500,000</b>	<b>6,372,830</b>	<b>16,178,186</b>	<b>8,500,000</b>	<b>31,551,016</b>

## Notes

	<b>2015/16</b>	<b>2014/15</b>
	<b>DKK</b>	<b>DKK</b>
<b>1. Staff costs</b>		
Wages and salaries	15,314,448	14,191,435
Pension costs	2,362,818	2,265,340
Other social security costs	250,178	207,438
	<b>17,927,444</b>	<b>16,664,213</b>
Average number of employees	<b>32</b>	<b>30</b>
	<b>2015/16</b>	<b>2014/15</b>
	<b>DKK</b>	<b>DKK</b>
<b>2. Other financial income</b>		
Financial income arising from group enterprises	18,763	185,224
Interest income	20	4,804
Exchange rate adjustments	132,602	119,052
	<b>151,385</b>	<b>309,080</b>
	<b>2015/16</b>	<b>2014/15</b>
	<b>DKK</b>	<b>DKK</b>
<b>3. Other financial expenses</b>		
Financial expenses from group enterprises	45,156	43,856
Interest expenses	5,482	2,689
Exchange rate adjustments	89,091	90,689
Interest regarding tax paid on account	1,525	60,242
	<b>141,254</b>	<b>197,476</b>
	<b>2015/16</b>	<b>2014/15</b>
	<b>DKK</b>	<b>DKK</b>
<b>4. Tax on ordinary profit/loss for the year</b>		
Current tax	3,828,812	3,307,635
Change in deferred tax for the year	(76,155)	(126,075)
Adjustment relating to previous years	0	5,036
	<b>3,752,657</b>	<b>3,186,596</b>

## Notes

	<b>Plant and machinery DKK</b>	<b>Other fix- tures and fittings, tools and equipment DKK</b>
<b>5. Property, plant and equipment</b>		
Cost beginning of year	2,366,325	5,111,013
Additions	75,000	111,989
Disposals	0	(566,819)
<b>Cost end of year</b>	<b>2,441,325</b>	<b>4,656,183</b>
Depreciation and impairment losses beginning of the year	(2,253,963)	(3,959,560)
Depreciation for the year	(86,848)	(367,036)
Reversal regarding disposals	0	476,819
<b>Depreciation and impairment losses end of the year</b>	<b>(2,340,811)</b>	<b>(3,849,777)</b>
<b>Carrying amount end of year</b>	<b>100,514</b>	<b>806,406</b>
	<b>Investments in group enterprises DKK</b>	<b>Other recei- vables DKK</b>
<b>6. Fixed asset investments</b>		
Cost beginning of year	81,040	431,225
<b>Cost end of year</b>	<b>81,040</b>	<b>431,225</b>
Revaluations beginning of year	6,862,688	0
Exchange rate adjustments	(38,640)	0
Share of profit/loss after tax	5,498,080	0
Dividend	(5,949,298)	0
<b>Revaluations end of year</b>	<b>6,372,830</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>6,453,870</b>	<b>431,225</b>

## Notes

	<u>Registered in</u>	<u>Corpo- rate form</u>	<u>Equity interest %</u>	<u>Equity DKK</u>	<u>Profit/loss DKK</u>
Subsidiaries:					
M Seals	Sweden	AB	100.00	6,453,870	5,498,080

### 7. Prepayments

Prepayments comprise incurred costs relating to subsequent financial years.

	<u>2015/16 DKK</u>	<u>2014/15 DKK</u>
<b>8. Unrecognised rental and lease commitments</b>		
Commitments under rental agreements or leases until expiry	<u>1,601,265</u>	<u>1,122,036</u>

### 9. Ownership

The Company has registered the following shareholders to hold more than 5% of the voting share capital or of the nominal value of the share capital:

Diploma PLC, 12 Charterhouse Square, London EC1M 6AX, England

TBP Holding ApS, Kildevej 19, 2960 Rungsted, Denmark

### 10. Consolidation

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

Diploma PLC, London

The foreign consolidated financial statements are available at:

<http://www.diplomaplc.com/media/135827/Annual-Report-Accounts-FY2016.pdf>