

Registered Number: 01029071

**Hydro Building Systems UK Limited**  
**(Formerly Sapa Building Systems Limited)**

**Report and Financial Statements**



## Corporate Information

### Directors

N K Sissons  
K Cookson  
M Robinson  
N Eley  
P Strong  
S Biosca  
S Helsen  
S Viner

### Secretary

S Viner

### Auditors

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol  
BS1 6BX

### Bankers

Handelsbanken  
1145 Regent Court  
The Square  
Gloucester Business Park  
Gloucester  
GL3 4AD

Allied Irish Banks PLC  
62 St Brigid's Road  
Artane  
Dublin 5

### Registered Office

5300 Severn Drive  
Tewkesbury  
Gloucestershire  
GL20 8SF

## Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2017.

### Review of the business and outlook

Hydro Building Systems UK Limited is a leader in the UK fenestration industry, offering architects, specifiers, developers, fabricators, installers and householders a wide range of innovative aluminium system solutions.

The company's key financial performance indicators during the year were as follows:

	2017 £000	2016 £000	Change %
Turnover	56,881	48,136	18.1%
Profit after tax	1,207	2,592	-53.4%
Shareholder's funds	25,274	13,969	81.0%

Turnover has increased by £8,745,000 during the year in line with market growth and the asset purchase of Sapa Building Systems (Wakefield) Limited, in the previous year. Ongoing focus continues in both residential and commercial sectors. Shareholders' funds have also increased in line with the business growth. The profit for the year after taxation amounted to £1,207,000 (2016 – £2,592,000). The profit was impacted by £1.5m of settlement losses for the Defined Benefit Pension Scheme as shown in note 17, page 25.

The outlook for 2018/19 is positive but economic uncertainty persists as a result of the 2016 EU referendum ('Brexit') which took place in June 2016.

### Significant events during the year

On 10 July 2017, Norsk Hydro ASA (Hydro) announced that, subject to regulatory approval, it would buy Orkla ASA's 50% share of Hydro Extruded Solutions AS (formerly Sapa AS) (Sapa), and became the sole owner of the Sapa business. On 22 September 2017 Hydro and Orkla issued a press release that regulatory approval had been obtained and closure of the transaction occurred on 2 October 2017. Both parties agree that this is the best way forward to continue to develop Sapa and its strong position in the market. Sapa will be integrated as a separate area within Hydro, called Extruded Solutions.

On 1 December 2017, following the ownership change on 2 October 2017, the company changed its name from Sapa Building Systems Limited to Hydro Building Systems UK Limited.

### Principal risks and uncertainties

The directors continually review and evaluate the risks that the company is facing. The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk along with competitive risk and legislation risk.

The full business implications of Brexit remain uncertain, which will be the case for some time, and any risks arising will be a key focus area for management in the next financial year. Currency fluctuations, trading arrangements, employment issues and other risks that become apparent over time will be monitored by management and mitigation put in place where possible.

#### *Exposure to price, credit, liquidity and cashflow risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made and monitoring of current customers. The amount of exposure to any individual counterparty is subject to a limit, which is reviewed periodically.

## Strategic Report (continued)

The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The company does not use derivative financial instruments to manage interest costs.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage interest rate costs.

Aluminium pricing in the global market is the principal continuing risk for the company. Sales to customers outside the UK are made in Euro and conversion to sterling is made in the month of transaction with a further exchange gain/loss upon transfer of monies to the UK. The sourcing of certain items is from European suppliers, and these items are purchased in Euro.

### *Competitive risks*

The company is exposed to commodity price risk and exchange rate fluctuations. Exposures to these risks are monitored, reported and mitigated according to policies and procedures set by Sapa AS, our parent undertaking.

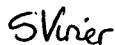
### *Legislative risks*

The company is exposed to several legislative risks. The company complies with the Health & Safety at Work Act 1974 to cover the health and safety of all employees, Regulatory Reform (Fire Safety) Order 2005, Environment Act 1995, The Waste (England and Wales) Regulations along with all subsequent amendments. There are further acts that the company complies with in relation to the operation within the UK.

## Strategy

The company objective is to achieve growth and returns in line with the expectations of its shareholders. This is to be achieved by a combination of continuous investment in product ranges which are customer and project focused, ongoing investment in new equipment and technology to reduce costs, continued investment in our workforce through training and job development and new strategic initiatives.

This report was approved by the board on 26<sup>th</sup> September 2018 and signed on its behalf by:



S. Viner  
Secretary

Date 26<sup>th</sup> September 2018

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

### Directors

The current directors are shown on page 1. The directors who served the company during the year and to the date of this report were as follows:

N K Sissons  
K Cookson  
M Robinson  
N Eley  
P Strong  
S Biosca  
S Helsen  
S Viner

### Results and dividends

The profit for the year after taxation amounted to £1,207,000 (2016 – £2,592,000). The directors do not recommend a final dividend (2016 – £nil).

### Research and development

The company continues to invest in research and development and thereby launch and update new systems which are evidence of the company's commitment to maintaining its position of a key innovator in the industry.

### Future developments

The continuing investment and launch of new advanced products for the commercial and residential sectors continues to underpin sales. Consequently, the directors believe that the future developments of the business remain strong with increased brand support.

### Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, liquidity and cash flow risk are described in these statutory financial statements.

The Company has considerable financial resources together with contracts with a number of customers. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the reports and financial statements.

### Disabled employees

Wherever possible it is company policy to employ disabled persons, to offer continuity of employment to employees who become disabled, and to provide career and training opportunities commensurate with their abilities.

## Directors' report (continued)

### Employee involvement

The success of the company depends largely on its employees and the company continues to keep them informed on matters affecting them. Investment in on the job training and all aspects of health and safety is key. We undertake regular team briefing sessions which provide a two-way communication flow and result in greater understanding from all employees regarding the aims and goals of the company. Regular staff appraisals are performed and the company retains its 'Investors in People' award.

### Matters covered in the company strategic report

The Directors have chosen to disclose information on the company's principal activity, review of business, future developments of the business and principal risks and uncertainties, required by the Companies Act 2006 to be included within the Directors' Report, within the Strategic Report.

### Health and safety at work Act 1974

It is the company's policy that all possible steps will be taken at all times to ensure the health and safety of persons and to prevent damage to the company's property. In accordance with the Act, a comprehensive policy statement together with health and safety rules has been issued within the company to all its employees. Regular Health and Safety committee meetings, including both employee and company representatives, ensure the development and implementation of health and safety standards.

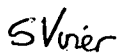
### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information required by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries with fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

Ernst & Young LLP were appointed as auditor of the Company for the year ended 31 December 2017. Ernst and Young LLP are not seeking reappointment as auditors for the next reporting period.

This report was approved by the board of directors on 26<sup>th</sup> September 2018 and was signed on its behalf by



S. Viner  
Secretary

Date 26<sup>th</sup> September 2018

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report, Strategic report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of Hydro Building Systems UK Limited (formerly Sapa Building Systems Limited)**

## **Opinion**

We have audited the financial statements of Hydro Building Systems UK Limited for the year ended 31 December 2017 which comprise the Income statement, Statement of comprehensive income, Statement of changes in equity, Statement of financial position and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# **Independent auditors' report (continued)**

**to the members of Hydro Building Systems UK Limited (formerly Sapa Building Systems Limited)**

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

# Independent auditors' report (continued)

to the members of Hydro Building Systems UK Limited (formerly Sapa Building Systems Limited)

## 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Christopher Gilbert (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

Date: 27 September 2018

## Income Statement

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Turnover</b>	3	56,881	48,136
Cost of sales		(37,473)	(31,187)
<b>Gross profit</b>		19,408	16,949
Distribution costs		(2,314)	(1,861)
Administration Expenses		(15,840)	(11,646)
<b>Operating Profit</b>	4	1,254	3,442
Interest receivable	7	3	4
Interest payable	8	(18)	(8)
Other finance cost – pensions	17	(10)	141
<b>Profit on ordinary activities before taxation</b>		1,229	3,579
Tax charge	9	(22)	(987)
<b>Profit for the financial year</b>		1,207	2,592

All amounts relate to continuing activities.

The notes on pages 13-27 form part of the financial statements.

## Statement of comprehensive income

for the year ended 31 December 2017

		2017 £'000	2016 £'000
Profit for the year		1,207	2,592
Other comprehensive income that will not be reclassified to the income statement:			
Re-measurement on defined benefit scheme gain/(loss)	17	12,505	(4,299)
Deferred tax on Re-measurement of defined benefit scheme liabilities	9	(2,407)	860
Total other comprehensive profit/(loss) for the year		10,098	(3,439)
Total comprehensive (expense)/income for the year		11,305	(847)

## Statement of changes in equity

for the year ended 31 December 2017

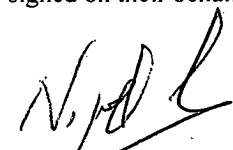
	<i>Called up Share Capital £'000</i>	<i>Capital Contribution £'000</i>	<i>Retained Earnings £'000</i>	<i>Total Equity £'000</i>
<b>At 1 January 2016</b>	1,420	-	10,374	11,794
Profit for year	-	-	2,592	2,592
Pension scheme contributed from Sapa UK Limited	-	3,685	-	3,685
Deferred tax liability on pension scheme contributed	-	(663)	-	(663)
Other comprehensive loss for the year	-	-	(3,439)	(3,439)
Transfer of pension scheme contributed to retained earnings	-	(3,022)	3,022	-
<b>At 1 January 2017</b>	1,420	-	12,549	13,969
Profit for the year:	-	-	1,207	1,207
Other comprehensive profit for the year	-	-	10,098	10,098
<b>At 31 December 2017</b>	1,420	-	23,854	25,274

## Statement of Financial Position

at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	10	325	209
Tangible assets	11	2,640	2,366
Investments	19	-	-
		<u>2,965</u>	<u>2,575</u>
<b>Current assets</b>			
Stocks	12	5,406	5,479
Debtors	13	11,687	12,791
Cash at bank and in hand		<u>7,410</u>	<u>6,068</u>
		24,503	24,338
<b>Creditors:</b> amounts falling due within one year	14	<u>(11,405)</u>	<u>(12,320)</u>
<b>Net current assets</b>		<u>13,098</u>	<u>12,018</u>
<b>Total assets less current liabilities</b>		<u>16,063</u>	<u>14,593</u>
Provisions for liabilities	15	(1,457)	(170)
Defined benefit pension plan surplus/(deficit)	17	<u>10,668</u>	<u>(454)</u>
<b>Net assets</b>		<u>25,274</u>	<u>13,969</u>
<b>Capital and reserves</b>			
Called up share capital	16	1,420	1,420
Retained earnings		<u>23,854</u>	<u>12,549</u>
<b>Total Equity</b>		<u>25,274</u>	<u>13,969</u>

These financial statements were approved and authorised for issue by the board of directors and were signed on their behalf by:



N K Sissons

Director

Date 26/09/18

## Notes to the financial statements

at 31 December 2017

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Hydro Building Systems UK Limited (the "Company") for the year ended 31 December 2017 were authorised for issue by the board of directors on 26<sup>th</sup> September 2018 and the statement of financial position was signed on the board's behalf by N K Sissons.

Hydro Building Systems UK Limited is a company limited by shares incorporated and domiciled in England and Wales. The address of the registered office is 5300 Severn Drive, Tewkesbury, Gloucestershire, GL20 8SF. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 and 3.

The company's financial statements are presented in sterling, which is also the company's functional currency, and all values rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary whose results are included in the consolidated accounts of Norsk Hydro ASA, a company incorporated in Norway. Therefore, the accounts present information about the company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention.

### 2. Accounting policies

#### 2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The company has taken advantage of the following disclosure exemptions under FRS 101.

- (a) The requirement of IFRS 7 Financial Instruments: Disclosures
- (b) The requirement of paragraph 91-99 of IFRS 13 Fair Value Measurement
- (c) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: Paragraph 79 (a)(iv) of IAS 1;
- (d) The requirements of paragraph 10 (d), 10 (f), 39 (c) and 134 – 136 of IAS 1 Presentation of Financial Statements
- (e) The requirements of IAS 7 Statement of Cash Flows. The company is exempt from preparing cash flow statement as a group cash flow statement is prepared by its parent company, Sapa AS.
- (f) The requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting estimates and errors
- (g) The requirement of paragraph 17 of IAS 24 Related Party Disclosures
- (h) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member, and
- (i) The requirement of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 Impairment of Assets

## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### **2.2 Judgments and key sources of estimation uncertainty**

The preparation of financial statements require management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amount of assets and liabilities recognised at the statement of financial position date:

##### **Deferred tax asset**

Management judgement is required to determine the amount of deferred tax assets that may be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Deferred tax has been recognised as it is anticipated that the company will have sufficient taxable profits against which these assets will reverse.

##### **Pension and other post-employment benefits**

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. The company engages suitably qualified actuaries to compile this information and engages investment managers to manage the assets of the scheme in the most effective manner.

#### **2.3 Significant accounting policies**

##### **a) Turnover**

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding trade discounts, rebates, value added tax and other sales taxes.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

##### **b) Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

All tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives at the following rates:

Leasehold property	–	over the life of the lease
Plant and equipment	–	10% - 50%
Office equipment and fittings	–	20% - 50%

## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### b) *Tangible fixed assets (continued)*

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the income statement.

#### c) *Intangible assets*

Intangible assets include Licences and IT Systems. Intangible assets are amortised over a period of three to five years.

#### d) *Stocks*

Stocks are stated at the lower of cost and estimated net realisable value. Cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

#### e) *Income taxes*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- (i) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- (ii) Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### f) *Foreign currencies*

Transactions in foreign currency are initially recorded by applying spot exchange rate at date of transactions. Foreign currency balances are translated at the rates of exchange ruling at the statement of financial position date. All differences arising on translation are taken to the income statement.

#### g) *Research and development*

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.



## Notes to the financial statements

at 31 December 2017

### 2. Accounting policies (continued)

#### *h) Operating leases*

The cost of all operating leases is charged to the income statement on a straight-line basis over the term of the lease.

#### *i) Provisions for liabilities*

Provisions are recognised when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefit that can be reasonably estimated.

#### *j) Pensions*

##### *(i) Defined benefit pension scheme*

The company participates in the Sapa Holdings Limited Pension and Life Assurance Scheme, a funded defined benefit pension scheme under which contributions are made to a separately administered trust fund. As required by FRS101 the scheme is accounted for in these financial statements in line with IAS 19 'Employee Benefits'. On 1 January 2016 Hydro Building Systems UK Limited became the Principal Employer of the Sapa Holdings Limited Pension and Life Assurance Scheme as stated in note 17.

The liability/asset recognised in the Statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the Statement of financial position date less the fair value of plan assets at the Statement of financial position date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in the income statement employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the income statement as a 'finance cost'.

##### *(ii) Defined contribution pension scheme*

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

## Notes to the financial statements

at 31 December 2017

### 3. Turnover

Turnover is attributable to one continuing activity: the marketing and manufacture of aluminium systems for the home improvement and commercial markets.

An analysis of turnover by geographical market is given below:

	2017 £000	2016 £000
United Kingdom	52,542	45,888
Europe	4,321	2,230
Rest of World	18	18
	<u>56,881</u>	<u>48,136</u>

### 4. Operating profit

This is stated after charging/(crediting):

	2017 £000	2016 £000
Auditors' remuneration – audit services	31	33
Depreciation of intangible and tangible fixed assets	604	488
Goodwill written off	-	104
Research and development	580	598
Operating lease rentals: – plant and machinery	622	660
– land and buildings	1,137	1,078
Foreign exchange (Gain)/loss	(122)	82

### 5. Directors' remuneration

	2017 £000	2016 £000
Remuneration	670	678
Company contributions paid to defined contribution pension schemes	28	30
	<u>698</u>	<u>708</u>
<i>In respect of the highest paid director:</i>		
Remuneration	160	141
Pension contributions to the defined benefit pension scheme	45	44
	<u>205</u>	<u>185</u>
Defined benefit scheme – accrued pension at year end	<u>43</u>	<u>40</u>

Retirement benefits are accruing to 2 directors under the company's defined benefit scheme (2016 – 2).

The remuneration of S Helsen and S Biosca was paid for by Norsk Hydro ASA. Their services to Hydro Building Systems UK Limited are of a non-executive nature and their remuneration was deemed to be wholly attributable to their services to Norsk Hydro ASA. Accordingly, the above details include no remuneration in respect of the aforementioned directors.

## Notes to the financial statements

at 31 December 2017

### 6. Staff costs

	2017 £000	2016 £000
Wages and salaries	7,555	6,510
Social security costs	909	742
Other pension costs	604	545
	<u>9,068</u>	<u>7,797</u>

The average monthly number of employees during the year was made up as follows:

	2017 No.	2016 No.
Production	86	80
Office and administration	121	101
	<u>207</u>	<u>181</u>

### 7. Interest Receivable

	2017 £000	2016 £000
Bank interest	3	4
	<u>3</u>	<u>4</u>

### 8. Interest Payable

	2017 £000	2016 £000
Bank interest	18	8
	<u>18</u>	<u>8</u>

### 9. Tax

(a) Tax charged in the income statement

	2017 £000	2016 £000
<b>Current tax:</b>		
Corporation Tax	467	633
Overseas Tax	-	46
Adjustment to tax charge in respect of previous years	27	7
Total current tax	<u>494</u>	<u>686</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(466)	368
Adjustment to tax charge in respect of previous years	(6)	(67)
Total deferred tax (credit)/charge	<u>(472)</u>	<u>301</u>
<b>Tax expense in the income statement</b>	<u>22</u>	<u>987</u>

## Notes to the financial statements

at 31 December 2017

### 9. Tax (continued)

#### (b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 19.25% (2016 – 20%). The differences are reconciled below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	1,229	3,579
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25 % (2016 – 20%)	236	716
<i>Effects of:</i>		
Expenses not deductible for tax purposes	32	33
Deferred tax rate changes	(257)	49
Movement in un-provided deferred tax	(10)	9
Other tax adjustments and reliefs	-	173
Adjustment to tax charge in respect of previous years	21	7
<b>Total tax expenses reported in the income statement</b>	<b>22</b>	<b>987</b>

#### (c) Deferred tax

The deferred tax (liability)/ asset is as follows:

	2017 £000	2016 £000
Accelerated capital allowances	360	414
Short term timing differences	(1,747)	134
	<b>(1,387)</b>	<b>548</b>

Movements in the deferred tax account are as follows:

	2017 £000	2016 £000
At 1 January	548	363
Charged to income statement in the current year	466	(368)
Adjustment to tax charge in respect of previous years	6	67
Deferred tax on pension scheme (debited)/credited to other comprehensive income	(2,407)	860
Deferred tax assets transferred from Sapa Building Systems (Wakefield) Limited	-	289
Deferred tax liability on the pension scheme transferred from Sapa UK Limited	-	(663)
<b>At 31 December 2017</b>	<b>(1,387)</b>	<b>548</b>

## Notes to the financial statements

at 31 December 2017

### 9. Tax (continued)

From 1 April 2016, the corporation tax rate was 20%. Further reductions in the UK corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted and consequently deferred tax has been recognised at a rate of 17% (2016 - 20%).

### 10. Intangible assets

	Software Costs £'000	Total £000
Cost:		
At 1 January 2017	2,464	2,464
Additions	198	198
At 31 December 2017	2,662	2,662
Depreciation:		
At 1 January 2017	2,255	2,255
Charge for the year	82	82
At 31 December 2017	2,337	2,337
Net book value:		
At 31 December 2017	325	325
At 1 January 2017	209	209

## Notes to the financial statements

at 31 December 2017

### 11. Tangible fixed assets

	<i>Short-leasehold property £000</i>	<i>Plant and machinery £000</i>	<i>Total £000</i>
Cost:			
At 1 January 2017	891	7,129	8,020
Disposals	(1)	(1,123)	(1,124)
Additions	40	767	807
At 31 December 2017	930	6,773	7,703
Depreciation:			
At 1 January 2017	620	5,034	5,654
Disposals	(1)	(1,112)	(1,113)
Charge for the year	73	449	522
At 31 December 2017	692	4,371	5,063
Net book value:			
At 31 December 2017	238	2,402	2,640
At 1 January 2017	271	2,095	2,366

### 12. Stocks

	<i>2017 £000</i>	<i>2016 £000</i>
Raw materials and consumables	763	988
Work in progress	341	396
Finished goods and goods for resale	4,153	3,955
Tooling Inventory	149	140
	<u>5,406</u>	<u>5,479</u>

In the directors opinion, there were no significant differences between replacement cost and the amount at which stocks were stated in the financial statements. During the year the amount of stock recognised as an expense in the income statement was £32,236,963 (2016: £25,816,400).

## Notes to the financial statements

at 31 December 2017

### 13. Debtors

	2017	2016
	£000	£000
Trade debtors	10,914	11,690
Amounts owed by fellow subsidiaries	159	116
Other debtors	38	1
Prepayments and accrued income	576	436
Deferred tax asset	-	548
	<u>11,687</u>	<u>12,791</u>

### 14. Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Trade creditors	5,021	5,057
Amounts owed to fellow subsidiaries	3,759	3,855
Amounts owed to parent	266	191
Other taxes and social security costs	608	953
Other creditors	202	245
Accruals	1,082	1,386
Corporation tax	467	633
	<u>11,405</u>	<u>12,320</u>

### 15. Provision for liabilities

	Restructuring £000	Dilapidations £000	Total £000
At 1 January 2017	100	70	170
Utilised in the year	(100)	-	(100)
	-	70	70
Deferred tax liability (see note 9c)			<u>1,387</u>
			<u>1,457</u>

**Restructuring** The restructuring provision is in relation to the integration of the activities between Hydro Building Systems UK Limited and their sister company Sapa Building Systems (Wakefield) Limited. The timing of this expenditure was completed during 2017.

#### Dilapidations

A dilapidations provision is held for leasehold properties which require remediation work to be performed to return the property to its original state. The provision for these costs has been accrued over the life of the lease and is dependent on the length of the lease. Leases vary in length between 1 and 5 years.

## Notes to the financial statements

at 31 December 2017

### 16. Issued share capital

		2017		2016
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	1,420,320	<u>1,420</u>	1,420,320	<u>1,420</u>

### 17. Pensions

On 1 January 2016 Hydro Building Systems UK Limited became the principal employer of the final salary defined benefit pension scheme, Sapa Holdings Limited Pension & Life Assurance scheme, under which contributions are made to a separately administered trust fund, and the auto enrolment compliant scheme, a defined contribution scheme. The Sapa Holdings Limited Pension & Life Assurance Scheme was closed to new members on 1 July 1997.

The contributions paid into the defined benefit scheme during the year were as follows:

	2017	2016
	<i>£000</i>	<i>£000</i>
Defined Benefit Scheme – Contributions	312	312

The pension scheme assets are held in a separate Trustee administered fund to meet long term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation.

A full actuarial valuation was carried out as at 6 April 2015 by a qualified actuary and the valuation was updated to 31 December 2017 to reflect current conditions. Full actual valuations are carried out every three years.

The updated valuation showed the market value of the scheme assets amounted to £102,280,000 (2016 - £108,935,000) and the actuarial value was sufficient to cover 111% (2016- 99%) of the benefit that had accrued to members after allowing for the effects of assumed future salary increases.

In 2017 a surplus of £10,668,000 (2016 - deficit of £454,000) has been recognised in respect of the defined benefit pension plan.

The assets and liabilities of the scheme at 31 December are:

	2017	2016
	<i>£'000</i>	<i>£'000</i>
Scheme assets at fair value		
UK equities	8,295	7,306
Overseas equities	23,548	24,869
Emerging market equities	11,035	8,427
Corporate bonds	34,564	34,641
Index linked gilts	17,231	18,787
Diversified growth funds	-	13,260
Trustees bank balance	10,650	774
Uncleared settlements	(3,892)	-
Value of insured annuities	849	871
Fair value of scheme assets	<u>102,280</u>	<u>108,935</u>
Present value of scheme liabilities	<u>(91,612)</u>	<u>(109,389)</u>
<b>Defined benefit pension plan surplus/(deficit)</b>	<u><b>10,668</b></u>	<u><b>(454)</b></u>



## Notes to the financial statements

at 31 December 2017

### 17. Pensions (continued)

The pension scheme has not invested in any of the Company's own financial instruments nor in properties or other assets used by the Company.

The Scheme has undertaken a Flexible Retirement Offer (FRO) exercise during the year. The offer window closed in December 2017 so that all transfers which had been formally approved by the Company prior to the year-end have been accounted for in the valuation. Under the exercise members were given the opportunity to transfer their benefits out of the Scheme. The difference between the liability removed from the Scheme and the enhanced transfer value has been accounted for as a settlement in the valuation.

The Scheme also undertook a Pension Increase Exchange Exercise (PIE) during the year. Under this exercise the members were given the option to exchange some of their increasing pension for a higher non-increasing pension. The offer window closed in December 2017 with the higher pension due to be put into payment in February 2018. The difference in accounting reserve for members before and after the offer has been allowed for as a past service credit in the valuation.

The movements in the schemes assets and liabilities recognised in the statement of financial position were:

	2017	2016
	£'000	£'000
Net (liability)/asset at 1 January	(454)	3,685
Employer contributions received	312	312
Expense recognised in the income statement	(1,695)	(152)
Re-measurement gains/(losses) in OCI	12,505	(4,299)
Net asset/(liability) at 31 December	<u>10,668</u>	<u>(454)</u>

The amounts recognised in the Income Statement and in the Statement of Comprehensive Income for the year are analysed as follows:

	2017	2016
	£'000	£'000
<i>Recognised in the income statement</i>		
Current service cost	348	293
Past service credit	(132)	-
Settlement losses	1,469	-
Net interest on defined benefit surplus	10	(141)
Total expense recognised in the statement of comprehensive income	<u>1,695</u>	<u>152</u>
<i>Taken to the statement of comprehensive income</i>		
Return on plan assets (excluding amounts included in net interest expense)	7,531	15,048
Actuarial gain/(loss) arising from changes in financial assumptions	2,096	(21,794)
Actuarial gain arising from changes in demographic assumptions	2,064	1,134
Actuarial gain arising from changes from scheme experience	814	1,313
Gain/(Loss) recognised in the statement of comprehensive income	<u>12,505</u>	<u>(4,299)</u>

## Notes to the financial statements

at 31 December 2017

### 17. Pensions (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2017 £'000	2016 £'000
As at 1 January	109,389	89,215
Current service cost	348	293
Past service cost	(132)	-
Settlements	(12,123)	-
Interest cost	2,760	3,215
Contributions by scheme participants	40	40
Actuarial (gain)/loss arising from changes in financial assumptions	(2,096)	21,794
Actuarial (gain) arising from changes in demographic assumptions	(2,064)	(1,134)
Actuarial (gain) arising from changes from scheme experience	(814)	(1,313)
Benefits paid	(3,696)	(2,721)
<b>Defined benefit obligation at 31 December</b>	<b>91,612</b>	<b>109,389</b>

Changes in the fair value of plan assets are analysed as follow:

	2017 £'000	2016 £'000
As at 1 January	108,935	92,900
Interest income on plan assets	2,750	3,356
Return on scheme assets excluding interest income	7,531	15,048
Contributions by employer	312	312
Contributions by employee	40	40
Benefits paid	(3,696)	(2,721)
Settlements	(13,592)	-
<b>Fair value of plan assets at 31 December</b>	<b>102,280</b>	<b>108,935</b>

Pension contributions are determined with the advice of independent qualified actuaries, on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective statement of financial position dates.

	2017 %	2016 %
Main assumptions:		
RPI inflation	3.20	3.45
Discount rate	2.45	2.55
Future salary increases	3.20	3.95
Statutory revaluation (CPI inflation)	2.10	2.45
Future pension increases (RPI min 3% p.a., max 5% p.a.)	3.65	3.80
Future pension increases (RPI max 5% p.a.)	3.10	3.25
Mortality before and after retirement – base table	90% S2PMA for Males, 85% S2PFA for Female	
Mortality before and after retirement – future improvements	Year of birth projections with CMI 2016 improvements (for 2016- using CMI 2015 improvements) from 2008 with 1.25% p.a. long- term trend rate	

## Notes to the financial statements

at 31 December 2017

### 17. Pensions (continued)

#### *Sensitivity Analysis*

Based on the assumptions set out above, the impact on the defined obligation of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below:

	£'000
Value of defined benefit obligation at 31 December 2017	91,612
Discount rate increased by 0.5% p.a	83,598
Discount rate reduced by 0.5% p.a	100,759
Inflation increased by 0.5% p.a	97,156
Inflation reduced by 0.5% p.a	85,673
Salary assumption increased by 0.5% p.a	92,079
Salary assumption decreased by 0.5% p.a	91,169
Life expectancy increased by 1 year	95,256

The above analyses assumption changes if they occur in isolation, except in the case of inflation where any change is assumed to have a corresponding impact on salary increases and inflation linked pension increases. In practice, some assumptions are likely to be correlated.

The most recently completed actuarial valuation of the company's main retirement benefits scheme was carried out as at 5 April 2015. As a result of that valuation in April 2015 employer contributions were raised from 33.8% to 39.1% with employee contributions remaining at 5%.

The company contributions to the defined contribution pension scheme are charged to the income statement in the year they become payable, 2017: £340,000, (2016: £279,000). Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

### 18. Other financial commitments

At 31 December 2017, the company had commitments due under non-cancellable operating leases as set out below:

	2017		2016	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Future minimum lease payments due:				
not later than one year	1,173	422	1,136	149
after one year but not more than five years	3,304	186	1,173	802
more than five years	-	-	3,159	-
	<u>4,477</u>	<u>608</u>	<u>5,468</u>	<u>951</u>

The company has entered into commercial leases on certain properties and other tangible assets. These leases have an average duration of between 1 and 5 years and contain varied terms specific to each lease, such as break options, renewal options and rent reviews. There are no restrictions placed upon the lessee by entering these leases.

## Notes to the financial statements

at 31 December 2017

### **19. Ultimate parent undertaking and controlling party**

The company is a wholly owned subsidiary of Hydro Holdings UK Limited (formerly Sapa Aluminium Holdings UK Limited). The ultimate controlling party from 2 October 2017 is Norsk Hydro ASA and prior to that was Hydro Extruded Solutions AS (formerly Sapa AS), both companies being incorporated in Norway.

The parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the company became a member on 2 October 2017 is Norsk Hydro ASA, prior to that it was Hydro Extruded Solutions AS.

Copies of financial statements for both Norsk Hydro ASA and Hydro Extruded Solutions AS can be obtained from the registered office address for both companies, Drammensveien 264, N-0283 Oslo, Norway.