

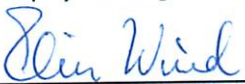
# Sapa Precision Tubing Tønder A/S

Hydrovej 6, 6270 Tønder, Denmark

CVR-no. 37 48 84 10

## Annual report 2016

The annual report has been approved at the company's annual general meeting on 10.04. 2017

As chairman of the annual general meeting 

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### Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today presented the annual report for the financial year 1 January – 31 December 2016 of Sapa Precision Tubing Tønder A/S.

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

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the matters addressed therein.

We recommend the annual report to be approved at the annual general meeting.

Tønder, April 10 2017  
Executive Board



Tommy Seeberg  
Chief executive Officer

Board of Directors:



Sergio Luiz Vendrasco  
Chairman



Tommy Seeberg



Alexander Samsonsen



Viviann Mathiesen  
employee representative



Esben Gottlieb Husted Jensen  
employee representative

## Independent auditors' report

To the shareholder of Sapa Precision Tubing Tønder A/S

### Opinion

We have audited the financial statements of Sapa Precision Tubing Tønder A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

### Independent auditor's report

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence

obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

#### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Esbjerg, 10 April 2017

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Morten Østergaard Koch

State Authorised

Public Accountant

## Management's review

### Company details

|                         |  |
|-------------------------|--|
| Name                    | Sapa Precision Tubing Tønder A/S   |
| Address, zip code, city | Hydrovej 6, 6270 Tønder, Denmark   |
| CVR no.                 | 37 48 84 10  |
| Established             | 12 September 1957  |
| Registered office       | Tønder   |
| Financial year          | 1 January 2016 – 31 December 2016  |
| E-mail                  | ptt@sapagroup.com  |
| Telephone               | +45 74 72 03 04  |
| Telefax                 | +45 74 72 33 13  |
| Board of Directors      | Sergio Luiz Vendrasco, Chairman<br>Tommy Seeberg<br>Alexander Samsonsen<br>Viviann Mathiesen, employee representative<br>Esben Gottlieb Husted Jensen, employee representative |
| Executive Board         | Tommy Seeberg, Chief Executive Officer   |
| Auditors                | Ernst & Young Godkendt Revisionspartnerselskab<br>Havnegade 33, 6700 Esbjerg   |

| DKK'000   | 2016           | 2015           | 2014           | 2013           | 2012           |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>Key figures</b>  |                |                |                |                |                |
| Revenue   | 1,055,979      | 1,040,778      | 887,780        | 831,268        | 840,229        |
| Gross profit  | 323,462        | 302,470        | 274,300        | 256,701        | 235,795        |
| Operating profit/loss from ordinary activities                  | 79,313         | 57,308         | 37,596         | 58,236         | 37,612         |
| Financial income and financial expenses                         | -8,221         | -2,424         | -755           | -294           | -1,744         |
| Profit/loss from ordinary activities                            | 71,092         | 54,884         | 36,841         | 57,942         | 35,868         |
| <b>Profit/loss from ordinary activities after tax</b>           | <b>55,519</b>  | <b>42,114</b>  | <b>27,844</b>  | <b>43,632</b>  | <b>27,316</b>  |
| Non-current assets  | 186,643        | 190,181        | 195,366        | 117,440        | 130,276        |
| Current assets  | 383,328        | 336,351        | 340,814        | 302,751        | 288,135        |
| <b>Total assets</b>   | <b>569,971</b> | <b>526,532</b> | <b>536,180</b> | <b>420,191</b> | <b>418,411</b> |
| Share capital   | 35,000         | 35,000         | 35,000         | 35,000         | 35,000         |
| <b>Equity</b>   | <b>163,802</b> | <b>143,283</b> | <b>301,169</b> | <b>273,325</b> | <b>256,694</b> |
| Provisions  | 2,426          | 2,246          | 1,215          | 2,679          | 2,601          |
| Non-current liabilities other than provisions                   | 201,278        | 201,452        | 1,341          | 1,192          | 32,114         |
| Current liabilities other than provisions                       | 202,465        | 179,551        | 232,455        | 142,995        | 127,002        |
| Cash flows from operating activities                            | 72,720         | 33,405         | 122,390        | 67,419         | 86,150         |
| Cash flows from investing activities                            | -37,550        | -33,626        | -121,995       | -8,133         | -16,608        |
| Portion relating to investment in property, plant and equipment | -37,550        | -33,626        | -121,995       | -8,133         | -16,608        |
| Cash flows from financing activities                            | -35,169        | 221            | -1,047         | -58,658        | -69,201        |
| <b>Total cash flows</b>   | <b>1</b>       | <b>0</b>       | <b>-652</b>    | <b>628</b>     | <b>341</b>     |
| Operating margin  | 7.5 %          | 5.5 %          | 4.2 %          | 7.0 %          | 4.5 %          |
| Return on invested capital                                      | 51.7 %         | 25.8 %         | 13.0 %         | 21.8 %         | 14.2 %         |
| Gross margin  | 30.6 %         | 29.1 %         | 30.9 %         | 30.9 %         | 28.1 %         |
| Current ratio   | 189.3 %        | 187.3 %        | 146.6 %        | 211.8 %        | 226.9 %        |
| Solvency ratio  | 28.9 %         | 27.3 %         | 56.2 %         | 65.0 %         | 61.3 %         |
| Return on equity  | 36.2 %         | 19.0 %         | 9.7 %          | 16.5 %         | 10.3 %         |
| <b>Average number of full-time employees</b>                    | <b>424</b>     | <b>432</b>     | <b>406</b>     | <b>388</b>     | <b>407</b>     |

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

## Operating review

### Main activities

The Company's main activity is development, manufacturing, processing, sale and delivery of precision drawn aluminium tubes, extruded tubes, multiport extrusions and structural parts primarily for the European market.

### Development in activities and financial position

Profit before tax for 2016 was DKK 71,092 thousand, which is satisfactory taking into consideration the market conditions.

### Intellectual capital

The ambition of being market leader and on front of the technological development means that the Company is marked by a dynamic knowledge environment in rapid change, which in particular is important when it comes to gathering and sharing new knowledge. Besides, the knowledge of each employee plays a major role.

In order still to be able to deliver and develop competitive products and solutions it is crucial that the Company can recruit and maintain employees with a high education level. As a goal for this, the composition and the turnover of employees are important indicators. The employee part with high education level is 12%, which is satisfactory. The turnover of employees in 2016 was 10%, which is acceptable.

The critical business processes are development and optimisation of products and processes according to market needs and management of quality and margins. In order to secure that the customer gets the agreed service, it is a demand that the different methods and procedures are documented. Business processes are controlled by KPIs as OTD and PPM. In the financial year, the agreed-upon delivery time was fully complied with. The number of customer claims in relation to the deliveries was reduced to 61 PPM in 2016.

### Particular risks

#### General risks

The Company's major operational risk is related to the ability to be strongly positioned on the markets where the products are sold. During the financial year, the Company has maintained its market shares on the main markets within the European automotive industry.

Furthermore, it is important for the Company all the time to be on front of the technological development within the activity area of the Company. Consequently, the Company has maintained an appropriate investment level of new equipment (2016: DKK 37,939 thousand, 2015: DKK 33,874 thousand).

#### Financial risks

Due to operations, investments and funding, the Company is exposed to changes in exchange rates and interest. The parent company is centrally controlling the financial risks in the Company and coordinates the Company's control of the cash flow, including raising of funds and placing of excess liquidity. The Company is following a financial policy that operates with a low risk profile, so that the exchange rate, the interest and credit risks only arise based on commercial conditions.

The Company's use of derivative financial instruments is regulated through a written policy approved by the board and through internal procedures, which i.a. fix the limits of cover and which derivative financial instruments can be used.

#### Exchange rate risks

The activities are influenced by changes in exchange rates, as the turnover primarily is invoiced in foreign exchange, whereas the costs, including salaries, are paid in DKK. 99% of the Company's turnover comes from other countries than Denmark; primarily European countries.

The Company's foreign exchange risks, which are seen as low, are primarily covered by matching of receipts and outflow in same currency.

#### Credit risks

Credit risks related to financial assets correspond to the values included in the balance sheet. The Company has no major risks concerning a single customer or partner. Risks related to product guarantees towards customers are minimised by insurance



cover. The Company's policy of taking credit risks implies that all major customers and other partners are continuously credit rated.

#### **Liquidity**

It is company policy that the raising of funds and placing of excess liquidity are centrally controlled by the parent company to an appropriate extent. The Company has furthermore a goal for stand-by liquidity in form of excess liquidity and irrevocable credits, which at any time should be at the disposal of the Company.

#### **Environment and working environment**

Sapa Precision Tubing Tønder A/S is an environmentally conscious enterprise striving to reduce its environmental impact from its operations.

The Company has been certified to the ISO 14001 Environmental Management Standard since 1998, and ISO 50.001 certification in 2016.

#### **Working conditions**

Last year we had 2 work-related injuries with subsequent short-time absence.

The Company work continuously on maintaining and improving employee safety through increased employee involvement.

#### **Research and development**

The Sapa Group's precision tubing sector has a common development centre, PTTC, which handles research and development activities in the sector.

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

From the day of the balance sheet and until today there have been no events that have major impact on the evaluation of the annual report.

#### **Outlook**

The growth of the European automotive industry does not seem to increase significantly in 2017, and it is expected that there will be an excess capacity on the market causing a further intensification of the competition.

In the financial year 2013, Hydro's extruding activities were separated out and incorporated in a joint venture company, Sapa, together with the extruding activities in Orkla.

As part of forecast synergies of the merger, it was decided to close down the Belgian tube extruder and to transfer customers and activities to the company in Tønder in spring 2014.

In 2017 the management team expects to report better results than in 2016.

As in previous years, there are some uncertain factors related to the development of the exchange rate. The mentioned expectations are based on an unchanged exchange rate for 2017.

#### **Corporate Social Responsibility (CSR)**

SAPA Precision Tubing Tønder A/S' statement on CSR according to §99a of the Danish Financial Statements Act is given in the ultimate parent company, SAPA AS', Sustainability Report 2016.

#### **Human rights**

Sapa has agreed a Code of Conduct which all employees are to observe and act upon.

The Company is i.a. under an obligation to respect and support human rights for all persons who may be affected by the Company's operations. These human rights are defined in UN's Universal Declaration of Human Rights and related documents.

The Company is obliged to have an inclusive working culture and appreciates and acknowledges that all humans are unique and valuable and must be respected for their individual abilities and opinions.

**Goals and policies for the underrepresented gender**

Sapa's objective is that at least 20% of board members elected by the general assembly shall be women at the latest at the ordinary general assembly of the financial year 2017. Status p.t. is that none of the not employee elected board members are women, because it has not been possible to find suitable female candidates.

At other management levels, including the management team, middle management and department managers, p.t. 35% are female managers, and it is Sapa's objective to secure a more equal distribution.

To fulfil the above mentioned objective the company has started a row of initiatives to promote and support the development of female talents and managers. The initiatives includes among other things career development conversations and plans to promote female talents and incentive to female talents'/managers' participation in networks – as well internal as external. At the recruiting of managers the aim is to attract as well female as male applicants.

## Financial statements 1 January – 31 December

### Income statement

| Notes | DKK'000   | 2016      | 2015      |
|-------|---|-----------|-----------|
| 2     | Revenue   | 1,055,979 | 1,040,778 |
|       | Changes in inventories of finished goods, work in progress and goods for resale | -15,232   | -7,979    |
|       | Other operating income  | 1,977     | 1,675     |
|       | Costs of raw materials and consumables  | -612,551  | -632,534  |
|       | Other external costs  | -106,711  | -99,470   |
|       | <b>Gross profit</b>   | 323,462   | 302,470   |
| 3     | Staff costs   | -198,137  | -201,579  |
| 7,8   | Depreciation and impairment losses  | -41,088   | -38,812   |
|       | Other operating costs   | -4,924    | -4,771    |
|       | <b>Operating profit</b>   | 79,313    | 57,308    |
| 4     | Financial income  | 842       | 2,231     |
| 5     | Financial expenses  | -9,063    | -4,655    |
|       | <b>Profit/loss before tax</b>   | 71,092    | 54,884    |
| 6     | Tax on profit/loss  | -15,573   | -12,770   |
| 15    | <b>Profit/loss for the year</b>   | 55,519    | 42,114    |

## Financial statements 1 January – 31 December

### Balance sheet

| Notes | DKK'000  | 2016                  | 2015                  |
|-------|--|-----------------------|-----------------------|
|       | <b>ASSETS</b>                                    |                       |                       |
|       | <b>Non-current assets</b>                        |                       |                       |
| 7     | <b>Intangible assets</b>                         |                       |                       |
|       | Goodwill   | 31,743                | 46,394                |
|       |  | <u>31,743</u>         | <u>46,394</u>         |
| 8     | <b>Property, plant and equipment</b>             |                       |                       |
|       | Land and buildings                               | 37,566                | 39,829                |
|       | Plant and machinery                              | 90,056                | 98,758                |
|       | Fixtures and fittings, other plant and equipment | 657                   | 151                   |
|       | Property, plant and equipment under construction | 26,621                | 5,049                 |
|       |  | <u>154,900</u>        | <u>143,787</u>        |
|       | <b>Total non-current assets</b>                  | <u>186,643</u>        | <u>190,181</u>        |
|       | <b>Current assets</b>                            |                       |                       |
|       | <b>Inventories</b>                               |                       |                       |
|       | Raw materials and consumables                    | 75,225                | 71,389                |
|       | Work in progress                                 | 20,702                | 24,461                |
|       | Finished goods and goods for resale              | 45,460                | 60,588                |
|       |  | <u>141,387</u>        | <u>156,438</u>        |
|       | <b>Receivables</b>                               |                       |                       |
|       | Trade receivables                                | 86,820                | 116,500               |
|       | Receivables from group enterprises               | 153,044               | 57,288                |
|       | Corporation tax                                  | 0                     | 3,953                 |
|       | Other receivables                                | 957                   | 1,135                 |
|       | Prepayments                                      | 1,111                 | 1,029                 |
|       |  | <u>241,932</u>        | <u>179,905</u>        |
|       | <b>Cash</b>                                      | <u>9</u>              | <u>8</u>              |
|       | <b>Total current assets</b>                      | <u>383,328</u>        | <u>336,351</u>        |
|       | <b>TOTAL ASSETS</b>                              | <u><u>569,971</u></u> | <u><u>526,532</u></u> |

## Financial statements 1 January – 31 December

### Balance sheet

| Notes | DKK'000  | 2016           | 2015           |
|-------|--|----------------|----------------|
|       | <b>EQUITY AND LIABILITIES</b>                            |                |                |
|       | <b>Equity</b>  |                |                |
|       | Share capital  | 35,000         | 35,000         |
|       | Retained earnings  | 98,802         | 73,283         |
|       | Proposed dividends                                       | 30,000         | 35,000         |
|       | <b>Total equity</b>                                      | <b>163,802</b> | <b>143,283</b> |
|       | <b>Provisions</b>  |                |                |
| 9     | Provisions for deferred tax                              | 2,426          | 2,246          |
|       | <b>Liabilities</b>                                       |                |                |
| 10    | <b>Non-current liabilities</b>                           |                |                |
|       | Payables to group enterprises                            | 200,000        | 200,000        |
|       | Bonus  | 1,020          | 1,165          |
|       | Deferred income  | 258            | 287            |
|       |  | <b>201,278</b> | <b>201,452</b> |
|       | <b>Current liabilities</b>                               |                |                |
| 10    | Current portion of non-current liabilities               | 304            | 299            |
|       | Trade payables   | 116,912        | 118,719        |
|       | Payables to group enterprises                            | 12,360         | 24,778         |
|       | Corporation tax  | 15,394         | 0              |
|       | Other payables   | 57,495         | 35,755         |
|       |  | <b>202,465</b> | <b>179,551</b> |
|       | <b>Total liabilities</b>                                 | <b>403,743</b> | <b>381,003</b> |
|       | <b>TOTAL EQUITY AND LIABILITIES</b>                      | <b>569,971</b> | <b>526,532</b> |
| 11    | Guarantees, contingent items, etc.                       |                |                |
| 12    | Charges, collateral and contractual obligations          |                |                |
| 13    | Fees to auditors appointed at the annual general meeting |                |                |
| 14    | Related parties  |                |                |

**Statement of changes in equity**

| DKK'000  | Share capital | Retained earnings | Proposed dividends | Total          |
|--|---------------|-------------------|--------------------|----------------|
| Equity at 1 January 2016                               | 35,000        | 73,283            | 35,000             | 143,283        |
| Dividends paid   | 0             | 0                 | -35,000            | -35,000        |
| Transfer, see "Appropriation of profit/loss" (note 15) | 0             | 25,519            | 30,000             | 55,519         |
| <b>Equity at 31 December 2016</b>                      | <b>35,000</b> | <b>98,802</b>     | <b>30,000</b>      | <b>163,802</b> |

The share capital comprises one share of DKK 35,000 thousand.

**Cash flow statement**

| Notes | DKK'000   | 2016           | 2015           |
|-------|---|----------------|----------------|
|       | Operating profit/loss   | 79,313         | 57,308         |
|       | Depreciation and impairment losses  | 41,453         | 38,826         |
|       | Depreciation, re-invoiced   | -365           | -14            |
|       | Cash generated from operations (operating activities) before changes in working capital | 120,401        | 96,120         |
|       | Changes in inventories  | 15,051         | -4,229         |
|       | Changes in receivables  | -65,979        | 12,645         |
|       | Changes in trade and other payables, etc.   | 7,515          | -48,554        |
|       | Cash generated from operations (operating activities)                                   | 76,988         | 55,982         |
|       | Interest income, etc.   | 842            | 2,231          |
|       | Interest expense, etc.  | -9,063         | -4,655         |
|       | Corporation tax paid  | 3,953          | -4,461         |
|       | Account tax paid  | 0              | -15,692        |
|       | <b>Cash flows from operating activities</b>   | <b>72,720</b>  | <b>33,405</b>  |
|       | Acquisition of property, plant and equipment  | -37,939        | -33,875        |
|       | Disposal of property, plant and equipment   | 389            | 249            |
|       | <b>Cash flows from investing activities</b>   | <b>-37,550</b> | <b>-33,626</b> |
|       | Long term debts   | -169           | 200,221        |
|       | Dividends paid  | -35,000        | -200,000       |
|       | <b>Cash flows financing activities</b>  | <b>-35,169</b> | <b>221</b>     |
|       | <b>Net cash flows from operating, investing and financing activities</b>                | <b>1</b>       | <b>0</b>       |
|       | Opening cash and cash equivalents   | 8              | 8              |
|       | <b>Closing cash and cash equivalents</b>  | <b>9</b>       | <b>8</b>       |

## Notes

### 1 Accounting policies

The annual report of Sapa Precision Tubing Tønder A/S for 2016 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

#### Recognition and measurement

Assets are recognised on the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognised on the balance sheet when the Company has a legal or constructive obligation, and an outflow of economic benefits is probable and the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

When assets and liabilities are recognised and measured, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, while costs are recognised at the amounts relating to the relevant financial year.

#### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the transaction date and the rate at the day of payment and the balance sheet is recognised in the income statement as financial income or financial expenses. Property, plant and equipment and intangible assets, inventories and non-monetary assets acquired in foreign currencies are translated at historical cost.

### Income statement

#### Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place. Revenue is measured ex. VAT and taxes in relation to the sale and is measured at the fair value of the consideration laid down.

#### Other external costs

Costs incurred in distributing goods sold, sale, marketing, administration, premises, bad debts, etc. are recognised as other external costs.

Research costs and costs of development projects not complying with the criteria for recognition on the balance sheet are recognised as other external costs. In addition, provisions for bad debts on contract work in progress are recognised as other external costs.

#### Staff costs

Staff costs include payroll, social security contributions, pensions, etc. for the Company's staff.

#### Other operating income and operating costs

Other operating income and operating costs comprise items secondary to the principal activities of the enterprise, including lease income, licence fees, etc.

#### Extraordinary income and expenses

Extraordinary income and expenses comprise income and expenses arising from events or transactions that are clearly distinct from the ordinary activities, are not within the control of the Company, and are not expected to recur frequently or regularly.



### Financial income and expenses

Financial income and expenses comprise interest income and expense on assets and payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme etc.

### Tax on profit/loss for the year

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement and directly in equity. In addition, the tax expense relating to entries recognised directly in equity is recognised directly in equity.

Current tax payable and receivable is recognised on the balance sheet as tax computed on the taxable income for the year adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against deferred tax liabilities or as net tax assets.

The Company is jointly taxed with its Danish group companies. The current Danish corporation tax is allocated by settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income (full absorption with refunds for tax losses).

### Balance sheet

#### Intangible assets

##### Goodwill

Goodwill is amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is amortised on a straight-line basis over an amortisation period of 5 years.

#### Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub suppliers, and wages and salaries.

The basis of depreciation is cost less estimated residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

|  |             |
|--|-------------|
| Buildings  | 20-30 years |
| Plant and machinery                              | 3-15 years  |
| Fixtures and fittings, other plant and equipment | 3-10 years  |

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as a correction of depreciation and impairment or under other operating income to the extent that the sales price exceeds initial cost.

#### Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

#### **Inventories**

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs. Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation/impairment of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in the cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale

#### **Receivables**

Receivables are measured at amortised cost, which usually corresponds to nominal value. Write-down is made for bad debt losses. Receivables sold as part of factoring agreements are derecognized from the balance sheet if and when rewards and risks have been transferred to the factoring partner.

#### **Prepayments**

Prepayments comprise costs incurred concerning subsequent financial years.

#### **Equity – dividends**

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

#### **Non-current liabilities other than provisions**

Non-current liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the non-current liabilities are measured at amortised cost. Accordingly, the difference between the proceeds and the nominal value to be repaid is recognised in the income statement as a financial expense using the effective interest rate over the term of the loan.

#### **Deferred income**

Deferred income comprises payments received concerning income in subsequent years. Deferred income is recognised at cost.

#### **Cash flow statement**

The cash flow statement, which is presented according to the indirect method, shows the Company's cash flows from operating, investing and financing activities for the year and the cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated as the Company's share of the profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises, activities and investments as well as the acquisition, development, optimisation and disposal, etc. of intangible assets and property, plant and equipment, including the acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related costs as well as the raising of loans, conclusion of lease agreements, repayment of interest-bearing debt, acquisition of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents comprise cash less short-term bank loans.

**Financial ratios**

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

**Financial ratios**

|                            |  |
|----------------------------|--|
| Operating margin           | $\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$                                 |
| Return on invested capital | $\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$                |
| Gross margin               | $\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$                                     |
| Current ratio              | $\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$                            |
| Solvency ratio             | $\frac{\text{Equity year end}}{\text{Total equity and liabilities at year end}}$                 |
| Return on equity           | $\frac{\text{Profit/Loss from ordinary activities after tax} \times 100}{\text{Average Equity}}$ |

|          | DKK'000   | 2016             | 2015             |
|----------|---|------------------|------------------|
| <b>2</b> | <b>Revenue</b>  |                  |                  |
|          | Export markets  | 1,051,516        | 1,035,972        |
|          | Domestic markets  | 4,463            | 4,806            |
|          |   | <u>1,055,979</u> | <u>1,040,778</u> |
| <b>3</b> | <b>Staff costs</b>  |                  |                  |
|          | Payroll   | 177,791          | 180,476          |
|          | Pensions  | 18,275           | 18,410           |
|          | Other social security costs   | 2,071            | 2,693            |
|          |   | <u>198,137</u>   | <u>201,579</u>   |
|          | Remuneration of the Board of Directors and the Executive Board<br>Incl. pension DKK 253 thousand (2015: DKK 268 thousand) | <u>1,795</u>     | <u>2,202</u>     |
|          | Average number of full-time employees   | <u>424</u>       | <u>432</u>       |
| <b>4</b> | <b>Financial income</b>   |                  |                  |
|          | Financial income from group enterprises   | 1                | 30               |
|          | Other financial income  | 841              | 2,201            |
|          |   | <u>842</u>       | <u>2,231</u>     |
| <b>5</b> | <b>Financial expenses</b>   |                  |                  |
|          | Financial expenses to group enterprises   | 5,115            | 3,085            |
|          | Other financial expenses  | 3,948            | 1,570            |
|          |   | <u>9,063</u>     | <u>4,655</u>     |
| <b>6</b> | <b>Tax on profit/loss from ordinary activities</b>  |                  |                  |
|          | Calculated tax on the taxable income for the year   | 15,394           | 11,739           |
|          | Adjustments for the year of deferred tax  | 179              | 1,031            |
|          |   | <u>15,573</u>    | <u>12,770</u>    |

| 7 Intangible assets<br>DKK'000                         | Goodwill      |
|--|---------------|
| Cost at 1 January 2016                                 | 73,254        |
| Additions  | 0             |
| Transferred  | 0             |
| Cost at 31 December 2016                               | 73,254        |
| Impairment losses and amortisation at 1 January 2016   | -26,860       |
| Amortisation   | -14,651       |
| Impairment losses and amortisation at 31 December 2016 | -41,511       |
| <b>Carrying amount at 31 December 2016</b>             | <b>31,743</b> |
| Amortised over   | 5 years       |

| 8 Property, plant and equipment                | Land and<br>buildings | Plant and<br>machinery | Fixtures and<br>fittings, other<br>plant, etc. | Property, plant<br>and equipment<br>under construc-<br>tion | Total          |
|--|-----------------------|------------------------|--|---|----------------|
| DKK'000  |                       |                        |  |   |                |
| Cost at 1 January 2016                         | 145,365               | 521,733                | 2,072  | 5,049   | 674,219        |
| Transferred                                    | 0                     | 5,049                  | 0  | -5,049  | 0              |
| Additions                                      | 1,248                 | 9,469                  | 600  | 26,621  | 37,938         |
| Disposals                                      | -36                   | -15,080                | -1,054   | 0   | -16,170        |
| Cost at 31 December 2016                       | 146,577               | 521,171                | 1,618  | 26,621  | 695,987        |
| Depreciation 1 January 2016                    | -105,536              | -422,975               | -1,921   | 0   | -530,432       |
| Disposals                                      | 32                    | 15,070                 | 1,045  | 0   | 16,147         |
| Depreciation                                   | -3,507                | -23,210                | -85  | 0   | -26,802        |
| Depreciation at 31 December<br>2016            | -109,011              | -431,115               | -961   | 0   | -541,087       |
| <b>Carrying amount at 31<br/>December 2016</b> | <b>37,566</b>         | <b>90,056</b>          | <b>657</b>                                     | <b>26,621</b>   | <b>154,900</b> |

The cost of land and buildings as well as of plant and machinery includes financing costs of DKK 228 thousand and DKK 63 thousand.

Depreciation for the year in the income statement of DKK 41,088 thousand includes profit from disposal of non-current assets of DKK 365 thousand.

|   |  |  |  |              |              |
|---|--|--|--|--------------|--------------|
| <b>9 Provisions for deferred tax</b>                |  |  |  |              |              |
| DKK'000   |  |  |  | <b>2016</b>  | <b>2015</b>  |
| Provisions for deferred tax 1 January 2016          |  |  |  | 2,246        | 1,215        |
| Change in year 2016                                 |  |  |  | 180          | 1,031        |
| Provisions for deferred tax 31 December 2016        |  |  |  | <u>2,426</u> | <u>2,246</u> |
| <b>Specification of provisions for deferred tax</b> |  |  |  |              |              |
| Intangible assets                                   |  |  |  | -2,666       | -1,745       |
| Property, plant and equipment                       |  |  |  | 5,130        | 3,827        |
| Current assets                                      |  |  |  | 487          | 601          |
| Liabilities other than provisions                   |  |  |  | -525         | -437         |
|   |  |  |  | <u>2,426</u> | <u>2,246</u> |

**10 Non-current liabilities**

| DKK'000                       | Total liabilities<br>at 1/1 2016 | Total liabilities<br>at 31/12<br>2016 | Instalment<br>next year | Non-current<br>portion | Unpaid debt<br>after five years |
|-------------------------------|----------------------------------|---------------------------------------|-------------------------|------------------------|---------------------------------|
| Payables to group enterprises | 200,000                          | 200,000                               | 0                       | 200,000                | 0                               |
| Bonus                         | 1,435                            | 1,295                                 | 275                     | 1,020                  | 0                               |
| Deferred income               | 316                              | 287                                   | 29                      | 258                    | 142                             |
|                               | <u>201,751</u>                   | <u>201,582</u>                        | <u>304</u>              | <u>201,278</u>         | <u>142</u>                      |

**11 Guarantees, contingent liabilities, etc.**

None.

**12 Charges, collateral, contractual liabilities, etc.**

The company has issued an owner's mortgage of DKK 30,000 thousand secured upon the property registered under title number 584 Tved Under Tønder. The mortgage is held by the Company.

The Company has entered into operating leases for cars and trucks. The lease liability for the residual lease term 2017-2023 represents DKK 5,492 thousand.

The Company has entered into standard leases for three factory buildings. The period of notice does not exceed 12 months.

The Company has concluded standard business contracts for the purchase and sale of aluminium for delivery in 2017.

The Company is jointly taxed with other Danish companies in the Sapa Group. Together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation unit.

The company has entered into a derivative financial instrument regarding sale of 3,500 tonnes aluminium at market average price for January 2016.

The company has entered into a derivative financial instrument regarding purchase of 3,500 tonnes aluminium at market price for February 2016.

|  |  |  |  |             |             |
|--|--|--|--|-------------|-------------|
| DKK'000  |  |  |  | <b>2016</b> | <b>2015</b> |
| <b>13 Fees to auditors appointed at the annual general meeting</b> |  |  |  |             |             |
| Statutory audit services   |  |  |  | 201         | 269         |
| Tax advisory services  |  |  |  | 0           | 0           |
| Non-audit services   |  |  |  | 0           | 0           |
|  |  |  |  | <u>201</u>  | <u>269</u>  |

**14 Related parties**

Sapa Precision Tubing Tønder A/S' related parties comprise the following:

**Parties exercising control**

The following shareholder is registered in the Company's register of shareholders as holding a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Sapa Extrusion Danmark A/S, Bygmestervej 7, 6270 Tønder, Denmark (parent company)

**Related party transactions**

All transactions with related parties are conducted at market terms.

**Group matters**

Sapa Precision Tubing Tønder A/S is included in the consolidated financial statements of Sapa AS, Oslo, Norway.

The consolidated financial statements are obtainable from Sapa AS, P.O. Box 81, 0101 Oslo, Norway.

|  | DKK'000 | 2016          | 2015          |
|--|---------|---------------|---------------|
| <b>15 Proposed profit appropriation/distribution of loss</b> |         |               |               |
| Dividends  |         | 30,000        | 35,000        |
| Retained earnings  |         | 25,519        | 7,114         |
|  |         | <u>55,519</u> | <u>42,114</u> |