Ovako Group AB

Interim Report for First Quarter 2013

First quarter 2013

- Net sales amounted to EUR 220 (277) million, a decrease of 20 percent compared to the first quarter of 2012.
- Order intake increased by 41 percent compared to the previous quarter, and by 1 percent compared to the first quarter of 2012.
- Operating profit (EBIT) was EUR 4 (21) million, corresponding to 1,7 (7,6) percent of net sales.
- Net profit for the quarter was EUR -4 (9) million.
- Cash flows from operating activities amounted to EUR -15 (17) million.

(Amounts in brackets in this report refer to the corresponding period in the previous year.)

Group key figures

		2013 Q1	2012 Q1	2012 Full year
Net sales	EURm	**220**	277	937
Operating profit before depreciation (“EBITDA”)	EURm	**15**	32	66
% of net sales	%	**6,7 %**	11,5 %	7,0 %
Operating profit (“EBIT”)	EURm	**4**	21	20
Operating margin (% of net sales)	%	**1,7 %**	7,6 %	2,1 %
Net profit/loss	EURm	**-4**	9	-4
Earnings per share	EUR	**-74**	187	-74
Cash flow from operating activities	EURm	**-15**	17	87
Net debt/equity ratio	%	**145 %**	128 %	130 %
Return on capital employed (“ROCE”)	%	**1 %**	14 %	4 %
Full time employees at end of period (“FTE”)	No.	**3 001**	3 129	3 040

Comments from the CEO

"Ovako delivered positive operating results for the first quarter. Despite a low level of invoicing, which was due to weak order intake during the end of 2012 and negative currency effects, Ovako achieved an operating margin of 2 percent. A significant contribution to the positive results came from the group's cost-cutting programme, which has a target of EUR 25 million for 2013. The interim target was exceeded during the quarter and savings of EUR 8 million were achieved.

Order intake improved by 41 percent compared to the relatively weak previous quarter, and by 1 percent compared to the first quarter of 2012. Key customer groups have now completed their inventory adjustments and we estimate that the order intake now reflects the underlying rate of production of our customers. The improved order intake is also a result of strengthened market shares in spring steel and bearing steel. Orders are expected to positively affect invoicing in the second quarter.

The development of new applications for Ovako’s IQ Steel, such as advanced gear applications, continued during the quarter. There is significant growth potential for IQ Steel outside fuel injection systems.

During the quarter, Ovako’s presence in Eastern Europe, Italy and China continued to strengthen. The strategic plan is essentially being carried out despite cutbacks and the economic situation.

Short-term outlook

Sales and earnings for the second quarter are expected to be better than in the first quarter of 2013 as a result of improved order intake. This is in large part due to key customer groups having now completed their inventory adjustments. The cyclical recovery is marked by continued uncertainty."

Tom Erixon
President and CEO

Market development

The production rate in the European engineering industry remained low in the first quarter, falling back approximately 5 percent compared with the previous year and approximately 1 percent from the previous quarter. The market for engineering steel declined during full year 2012, and preliminary figures based on the export and import statistics indicate continued decline in the first quarter of 2013. Ovako's external deliveries for full year 2012 ended at 694 thousand tonnes, which, adjusted for the interruption in Imatra, was a decrease of 17 percent compared with the year before. During the first quarter of 2013, Ovako's deliveries have evolved as the market in general, -19 percent from the previous year.

Ovako's order intake was stronger, with an increase of 41 percent over the previous quarter and an increase of 1 percent year on year. Ovako's improved order intake is considered to have been positively affected by orders received being a reflection of the underlying rate of production of our customers.

Steel production in the first quarter amounted to 219 thousand tonnes, a decrease of 6 percent compared to the first quarter of 2012.

Net sales and profit for the first quarter 2013

Consolidated sales amounted to EUR 220 (277) million, a decrease of 20 percent compared to the first quarter of 2012. The external sales volume during the quarter decreased to 170 (209) thousand tonnes, a reduction of 19 percent. Compared with the fourth quarter of 2012, the sales volume in the first quarter of 2013 was up 13 percent, mainly attributable to seasonal variation.

Operating profit before depreciation and amortisation (EBITDA) was EUR 15 (32) million. Developments compared to the previous year are explained primarily by lower sales volumes, EUR -21 million, and mix changes, EUR -4 million. The weak volume trend was partly offset by reduced fixed costs of EUR 8 million. Costs relating to electricity price hedges were EUR 3 million lower than in the previous year. The strengthening of the Swedish krona had a negative impact on operating profit of EUR -4 million.

Total depreciation and amortisation during the period amounted to EUR 11 (11) million. The operating profit (EBIT) for the first quarter was EUR 4 (21) million.

Net financial income for the period amounted to EUR -9 (-8) million, of which foreign exchange effects EUR -2 (-1) million.

Profit before tax for the period amounted to EUR -5 (13) million and net profit was EUR -4 (9) million.

Cash flow and financing

The level of activity during the quarter has risen compared to the weak end of 2012. The higher invoicing has lead to an increase in trade receivables of EUR 24 million, and in total working capital has increased by EUR 22 million since the start of the year. Cash flows from operating activities during the first quarter of 2013 amounted to EUR -15 (17) million and cash flows before financing activities amounted to EUR -22 (9) million.

Interest-bearing debt of EUR 5 million was amortised during the first quarter, which means that total amortisation since September 2010 amounts to EUR 48 million. Utilisation of loans under senior facilities limits at 31 March 2013 was EUR 262 (December 2012: 267) million. Total interest-bearing net debt amounted to EUR 235 (December 2012: 212) million. Equity amounted to EUR 163 (December 2012: 164) million. The net debt/equity ratio therefore amounted to 145 percent, compared to 130 percent at 31 December 2012. Equity during the year was affected by EUR 3 (-3) million from items recognised in other comprehensive income.

The group's liquidity buffer at 31 March 2013 amounted to EUR 86 (December 2012: 114) million, comprising cash and cash equivalents of EUR 15 (December 2012: 43) million and unutilised contracted loan commitments of EUR 71 (December 2012: 71) million.

Capital expenditure

Capital expenditure during the first quarter of 2013 amounted to EUR 7 (8) million and was composed of ongoing expenditure on investments in progress.

Parent company

The consolidated figures in the interim report are presented at the consolidated level of Ovako Group AB. The parent company, Ovako Group AB (corporate registration number 556813-5361), directly and indirectly holds 100 percent of the shares in all subsidiaries in the group, including the subsidiary Ovako AB.

Net profit for Ovako Group AB amounted to EUR 0,1 (0,1) million.

Most significant risks and uncertainty factors

For information regarding the most significant risks and uncertainty factors, please refer to the description in the annual report for 2012. The company does not consider there have been any material changes during the reporting period in the risks and factors of uncertainty presented in the annual report.

The current macroeconomic uncertainty may, however, influence the development of the business.

Related party transactions

The group is under the controlling influence of Triako Holdco AB, the parent company of Ovako Group AB. Triako Holdco AB is under the controlling influence of Triton Fund III. There are no material transactions with companies in which Triton Fund III has significant or controlling influence.

Accounting policies

The interim report for the group has been prepared in accordance with IAS 34 Interim Reporting, with the exception of segment reporting, see below. The interim report for the parent has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RFR 2 (Accounting for Legal Entities).

The group applies the International Financial Reporting Standards (IFRS) as adopted by the EU, and the Swedish Annual Accounts Act. The accounting policies applied in this interim report are the same as those applied in the consolidated annual accounts for 2012 with the exception of the following new and amended standards and interpretations applicable from 1 January 2013:

Amendments to IAS 19 Employee Benefits: The group has already previously taken account of the Swedish special payroll tax payable on pensions in accounting for pension costs and pension liabilities under IAS 19, but the provision has not been recognised as part of the pension liability. The amendment to IAS 19 therefore means that EUR 6.2 million at 31 December 2012 and EUR 4.6 million at 31 March 2012 have been reclassified from accrued expenses to provisions in the balance sheet. The change in the discount rate in the calculation of return on plan assets (according to the amended IAS 19) has not had any material impact on the financial statements since the plan assets are small.

IFRS 13, Fair Value Measurement: This standard has been introduced to establish uniform definitions and methodologies for measuring fair value, but has not resulted in any change in the valuation of the group's financial assets and liabilities. Additional disclosures are provided on page 9.

Amendments to IFRS 7 Financial Instruments: Disclosures: The amendment relates to new disclosure requirements for offsetting financial assets and liabilities. These are presented on page 9. In conjunction with this, presentation of derivative assets and liabilities has been reviewed, which means that the values of derivatives that mature later than 12 months from the closing date have been reclassified to non-current assets and liabilities respectively.

The term "IFRS" in this document includes the application of IAS and IFRS, as well as the interpretations of these standards as published by IASB's Standards Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

Segment reporting in accordance with IAS 34 is not disclosed as this is not mandatory for companies whose equity securities are not publicly traded.

This report has not been reviewed by the company's independent auditor.

Stockholm, 22 May 2013

Tom Erixon
President and CEO

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR million	2013 Q1	2012 Q1	2012 Full Year
NET SALES	**220,2**	276,9	937,1
Cost of goods sold	**-203,2**	-241,2	-869,7
GROSS PROFIT	**17,0**	35,7	67,4
Sales and administrative expenses	**-14,1**	-15,2	-57,8
Other operating income	**0,8**	0,5	10,3
OPERATING PROFIT/LOSS	**3,7**	21,0	19,9
Financial income	**0,1**	0,1	0,5
Financial expenses	**-8,6**	-8,3	-33,2
PROFIT/LOSS BEFORE TAX	**-4,8**	12,8	-12,8
Taxes	**1,1**	-3,4	9,1
NET PROFIT/LOSS FOR THE PERIOD	**-3,7**	9,4	-3,7
Of which attributable to			
Owners of the parent	**-3,7**	9,4	-3,7
Non-controlling interests	**-**	-	-

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Q1 2013	Q1 2012	2012 Full Year
Net profit/loss for the period	**-3,7**	9,4	-3,7
Items that will be reclassified to profit or loss			
Exchange differences in translating foreign operations	**1,2**	0,1	1,3
Cash flow hedges	**2,0**	-3,7	-2,0
Income tax relating to cash flow hedges	**-0,4**	1,0	0,1
	2,8	-2,6	-0,6
Items that will not be reclassified to profit or loss			
Actuarial gains and losses	**-**	-	-9,5
Income tax relating to actuarial gains and losses	**-**	-	2,4
	-	-	-7,1
Other comprehensive income, net of tax	**2,8**	-2,6	-7,7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-0,9**	6,8	-11,4

KEY FIGURES

EUR million	2013 Q1	2012 Q1	2012 Full Year
Sales volume – kton	**170**	209	694
Net Sales per ton - € / ton	**1 294**	1 324	1 350
Operating profit before depreciation (”EBITDA”)	**14,8**	32,0	66,0
as % of Net Sales	**6,7 %**	11,5 %	7,0 %
Depreciation	**-6,5**	-6,1	-25,4
Operating profit before amortization of surplus values (”EBITA”)	**8,3**	25,9	40,6
as % of Net Sales	**3,8 %**	9,3 %	4,3 %
Amortization of surplus values	**-4,6**	-4,9	-20,7
Operating profit (“EBIT”)	**3,7**	21,0	19,9
Operating margin (% of Net Sales)	**1,7 %**	7,6 %	2,1 %
Number of shares	**50 000**	50 000	50 000
Earnings per share (EUR)	**-74**	187	-74

CONDENSED CONSOLIDATED BALANCE SHEET

EUR million	**2013 31 Mar**	2012 31 Mar	2012 31 Dec
Property, plant and equipment	350,8	348,3	353,9
Intangible assets	2,9	3,1	3,1
Derivative assets	0,4	0,5	0,6
Other financial assets	1,9	1,6	1,8
Deferred tax assets	13,9	19,7	15,1
Non-current assets	**369,9**	373,2	374,5
Inventories	205,8	220,0	202,4
Trade and other receivables	134,0	155,5	110,2
Current tax assets	3,4	5,1	2,8
Derivative assets	0,4	1,7	0,3
Cash and cash equivalents	15,4	39,0	42,6
Current assets	**359,0**	421,3	358,3
ASSETS	**728,9**	794,5	732,8
Equity	**162,7**	186,3	163,6
Non-current interest-bearing liabilities	241,1	277,4	240,0
Derivative liabilities	7,2	9,0	8,9
Deferred tax liabilities	53,5	76,8	55,8
Other provisions	91,2	88,0	96,8
Other liabilities	0,4	0,3	0,3
Non-current liabilities	**393,4**	451,5	401,8
Current interest-bearing liabilities	9,5	0,1	14,9
Derivative liabilities	2,0	8,1	3,6
Trade and other payables	148,5	140,3	136,0
Current tax liabilities	0,3	1,8	0,4
Other current liabilities	12,5	6,4	12,5
Current liabilities	**172,8**	156,7	167,4
EQUITY AND LIABILITIES	**728,9**	794,5	732,8

KEY FIGURES

EUR million	**2013 Q1**	2012 Q1	2012 Full Year
Equity	**162,7**	186,3	163,6
Net debt	**235,2**	238,5	212,3
Net debt/equity ratio (%)	**145 %**	128 %	130 %
Return on Capital Employed (%)	**1 %**	14 %	4 %

Ovako Group AB

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	2013 Q1	2012 Q1	2012 Full Year
Operating profit	**3,7**	21,0	19,9
Adjustment for depreciation and amortization	**11,1**	11,0	46,1
Adjustment for other non-cash items	**-1,2**	-0,3	3,3
Interest paid	**-5,4**	-6,4	-21,0
Tax paid	**-1,4**	-15,6	-15,2
Change in working capital	**-21,6**	7,4	53,8
Cash flow from operations	**-14,8**	17,1	86,9
Investments in non-current assets	**-7,4**	-7,8	-48,7
Cash flow from investing activities	**-7,4**	-7,8	-48,7
Cash flow before financing activities	**-22,2**	9,3	38,2
Repayment of loans	**-5,4**	-2,9	-28,9
Other	**0,0**	0,0	0,0
Cash flow from financing activities	**-5,4**	-2,9	-28,9
Cash flow for the period	**-27,6**	6,4	9,3
Cash and cash equivalents at the beginning of period	**42,6**	32,7	32,7
Translation difference on cash and cash equivalents	**0,4**	-0,1	0,6
Cash and cash equivalents end of period	**15,4**	39,0	42,6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent				
2013 **EUR million**	Share capital	Translation reserve	Cash flow hedge reserves	Retained earnings	**Total equity**
Opening balance at 1 Jan	**0,0**	**2,6**	**-7,9**	**168,9**	**163,6**
Comprehensive income					
Profit for the period	-	-	-	-3,7	**-3,7**
Other comprehensive income	-	1,2	1,6	-	**2,8**
Comprehensive income	**-**	**1,2**	**1,6**	**-3,7**	**-0,9**
Closing balance at 31 Mar	**0,0**	**3,8**	**-6,3**	**165,2**	**162,7**

	Equity attributable to owners of the parent				
2012 **EUR million**	Share capital	Translation reserve	Cash flow hedge reserves	Retained earnings	**Total equity**
Opening balance at 1 Jan	**0,0**	**1,3**	**-6,0**	**184,2**	**179,5**
Comprehensive income					
Profit for the period	-	-	-	9,4	**9,4**
Other comprehensive income	-	0,1	-2,7	-	**-2,6**
Comprehensive income	**-**	**0,1**	**-2,7**	**9,4**	**6,8**
Closing balance at 31 Mar	**0,0**	**1,4**	**-8,7**	**193,6**	**186,3**

PARENT COMPANY CONDENSED INCOME STATEMENT

EUR million	**2013 Q1**	2012 Q1	2012 Full year
NET SALES	**-**	-	0,0
Selling and administrative expenses	**0,0**	0,0	-0,1
OPERATING PROFIT/LOSS	**0,0**	0,0	-0,1
Interest income from group companies	**0,1**	0,1	0,5
PROFIT BEFORE TAX	**0,1**	0,1	0,4
Group contribution	**-**	-	-0,4
Taxes	**0,0**	0,0	-0,1
NET PROFIT/LOSS FOR THE PERIOD	**0,1**	0,1	-0,1

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

EUR million	**2013 Q1**	2012 Q1	2012 Full year
Net profit/loss for the period	**0,1**	0,1	-0,1
Other comprehensive income	**-**	-	-
Other comprehensive income, net of tax	**-**	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**0,1**	0,1	-0,1

PARENT COMPANY CONDENSED BALANCE SHEET

EUR million	**2013 31 Mar**	2012 31 Mar	2012 31 Dec
Shares in subsidiaries	**139,8**	139,8	139,8
Receivables from subsidiaries	**22,7**	22,3	22,7
Deferred tax	**-**	0,1	-
Non-current assets	**162,5**	162,2	162,5
Receivables from subsidiaries	**12,9**	7,1	12,8
Current assets	**12,9**	7,1	12,8
ASSETS	**175,4**	169,3	175,3
Equity	**162,8**	162,9	162,7
Other current liabilities	**12,6**	6,4	12,6
Current liabilities	**12,6**	6,4	12,6
EQUITY AND LIABILITIES	**175,4**	169,3	175,3

FINANCIAL INSTRUMENTS DISCLOSURE - GROUP

Financial assets and liabilities that are offset or subject to a legally enforceable framework agreement for netting or similar agreement:

Financial assets and liabilities subject to offset consist of derivatives covered by legally binding master netting agreements. The carrying amounts of such assets and liabilities amount to EUR 0,8 (31 December 2012: 0,9) million and EUR -5,0 (-7,3) million respectively. No offset has been done, the amount that could have been offset is EUR 0,8 (0,9) million.

Fair value of financial instruments:

Ovako's financial instruments include derivatives, unlisted equities, loans, accounts receivable and cash and cash equivalents, interest-bearing liabilities, trade payables and other liabilities. Derivatives are measured at fair value in Level 2 as defined by IFRS 7, ie fair value determined using valuation techniques with observable market data, either directly (such as prices) or indirectly (derived from prices). Other financial instruments are measured at amortised cost. Interest-bearing liabilities are recognised net of deferred financing fees. The table below shows the carrying amounts and fair values of financial instruments.

	31 Mar 2013		31 Dec 2012	
MEUR	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Derivatives	0,8	0,8	0,9	0,9
Financial non-current assets	1,8	1,8	1,7	1,7
Accounts receivable	112,2	112,2	84,6	84,6
Cash and cash equivalents	15,4	15,4	42,6	42,6
Total assets	**130,2**	**130,2**	**129,8**	**129,8**
Derivatives	9,2	9,2	12,5	12,5
Interest-bearing liabilities	250,6	262,1	254,9	267,6
Trade and other payables	102,7	102,7	97,6	97,6
Total liabilities	**362,5**	**374,0**	**365,0**	**377,7**

DEFINITIONS OF KEY FINANCIAL FIGURES

Net sales	Sales less deduction for value added tax, discounts and returns
Gross profit	Net sales minus cost of goods sold
EBITDA	Earnings before interest, taxes, depreciation, amortisation and impairments
EBITA	Earnings before interest, taxes, amortisation of surplus values from acquisitions and impairments
Operating profit ("EBIT")	Profit before interest and taxes
Operating margin	Operating profit as a percentage of net sales
Net debt	Interest-bearing liabilities (excluding pension liabilities) minus cash and cash equivalents
Net debt/equity ratio	(Net debt/equity) x 100
Earnings per share before and after dilution	Net profit for the period/weighted average number of shares during the period
Return on capital employed ("ROCE")	EBIT rolling 12 months/equity plus financial liabilities (average of opening and closing balances for the period).