OVAKO

Interim Report for First Quarter 2014

First quarter 2014

- Sales volume increased by 20 percent compared with the same period last year, and net sales by 12 percent. The lower increase in sales relative to volume is due to lower scrap and alloy surcharges as a consequence of lower raw materials prices
- Order intake increased by 9 percent compared to the corresponding period last year
- Production volume increased by 22 percent compared to the corresponding period last year
- Operating profit before depreciation and amortisation (EBITDA) amounted to EUR 30 (15) million. The main reason for the improvement in earnings is the increased volumes
- Operating profit (EBIT) amounted to EUR 18 (4) million
- Cash flows from operating activities amounted to EUR 5 (-15) million

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

Group key figures

		2014 Q1	2013 Q1	2013 Full year
Sales volumes	kton	**204**	170	675
Net sales	EURm	**246**	220	850
Operating profit before depreciation (EBITDA)	EURm	**30**	15	47
% of net sales	%	**12.2 %**	6.7 %	5.5 %
Operating profit ("EBIT")	EURm	**18**	4	-1
Operating margin (% of net sales)	%	**7.3 %**	1.7 %	0.0 %
Net profit/loss	EURm	**8**	-4	-21
Earnings per share	EUR	**162**	-74	-412
Cash flow from operating activities	EURm	**5**	-15	20
Net debt/equity ratio	%	**141 %**	145 %	160 %
Return on capital employed (ROCE)	%	**4 %**	1 %	0 %
Full time employees at end of period (FTE)	No.	**2 973**	3 001	2 995

Comments from the CEO

"Ovako's sales continued to strengthen during the first quarter of this year, and have now experienced a positive trend since September last year. The volume increase of 20 percent over the same quarter in 2013 is a result of both higher production rates among our customers and new business won during 2013. The marketing investments made over the past two years have clearly contributed to the growth. The proportion of orders with short lead times remains relatively high, and we believe that our customers' inventory levels have not increased significantly. The order book has strengthened slightly in the quarter.

Although the business situation has improved, we are maintaining a strong focus on implementation of the efficiency programme that was announced late last year. The implementation is proceeding according to plan, with the goal of achieving EUR 17 million in savings during 2014.

Capacity utilisation in the steel mills has generally been high during the quarter. Implemented productivity improvements mean that further increases in volume can be handled within current shift patterns and staffing levels in most production areas. The announced workforce reduction of approximately 100 people is still necessary to ensure long-term efficiency, and is expected to be fully completed in 2014.

The earnings improvement compared with the first quarter of last year was driven mainly by good productivity and increased sales volumes. An improved product mix also contributed to the results, and this mix effect is also reflected in the order book.

The preparations for a new continuous casting machine in Smedjebacken are now in an intensive phase. The installation will be carried out during an extended summer break. The new casting machine will give Smedjebacken a broader range of dimensions and will contribute to the ongoing quality work. This is the final phase of a three-year investment programme in Smedjebacken, with the rebuilding of the scrap yard, a new high-tech de-dusting plant, adaptations of the rolling mill and increased cutting capacity. To assure the delivery service from Smedjebacken and Boxholm during and after the summer, there will be a planned build-up of inventory in the second quarter.

Safety is our top priority. All operational managers, including the CEO, are participating actively in safety work during April, with risk analysis and preventive actions in focus. On April 28, Ovako will participate in “The World Safety Day", in coordination with The World Steel Association.

Short-term outlook

Order intake has been stable during the first quarter, and the European economy is showing signs of a continued slightly positive trend. Delivery volume in the second quarter is expected to be somewhat higher than in the same quarter last year. The price trend for the remainder of the year is expected to be slightly positive.”

Market development

The positive trend in end-customer demand that was first but barely visible in late second quarter of 2013 gradually strengthened from September 2013 and into the beginning of 2014. Eurostat EU industrial production index improved by 1.8 percent in the fourth quarter of 2013 compared to the same quarter 2012, and the last reported three months (December – February) also showed an improvement of 1.8 percent compared to same period twelve months earlier. One driver of the positive development up until January this year has been Motor vehicles, with growth of 10 percent over the last reported three months, according to the same index and compared to the same period twelve months earlier.

The turning point for European merchant bar (of which engineering steel bar is a sub component) came, according to The European Steel Association Eurofer, in the third quarter 2013, with the first report of positive year on year supply growth. Germany has been the main driver of the development and started to grow already in second quarter, whereas the Nordic countries lagged and started to grow one quarter later. According to Eurofer, the last reported three months (October – December) showed an increase in EU merchant bar supply of 13 percent compared to the same period twelve months earlier. Germany was particularly strong, with growth of 14 percent for the last reported three months, whereas the lagging Nordic countries accounted for growth of 12 percent according to the same source and reference periods.

Ovako, with a majority of sales in the Nordic countries and in Germany, has had similar development as the merchant bar supply development at large. Order intake and deliveries have gradually improved since September 2013, and remain strong. Growth in sales volume for the fourth quarter 2013 compared to the same period in the previous year was 13 percent. For the first quarter 2014, sales volume and order intake compared to last year improved by 20 percent and 9 percent respectively.

Net sales and profit for the first quarter 2014

Consolidated sales amounted to EUR 246 (220) million, an increase of 12 percent compared to same quarter last year. The sales volume during the quarter amounted to 204 (170) thousand tonnes, an increase of 20 percent. The relatively lower increase in sales is largely explained by lower scrap and alloy surcharges as a consequence of lower raw materials prices.

Operating profit before depreciation and amortisation (EBITDA) amounted to EUR 30 (15) million. Earnings have been positively impacted compared to last year, mainly due to higher sales volumes, but lower electricity prices have also had a favourable effect.

Total depreciation and amortisation during the period amounted to EUR 12 (11) million, and operating profit (EBIT) for the quarter was EUR 18 (4) million.

Net financial income for the period amounted to EUR -7 (-9) million. Net financial income for the previous year was negatively impacted by EUR 2 million through currency effects.

Profit before tax for the period amounted to EUR 11 (-5) million, and net profit was EUR 8 (-4) million. Return on capital employed (ROCE) increased to 4 (1) percent.

Cash flow and financing

Cash flows from operating activities during the first quarter of 2014 amounted to EUR 5 (-15) million, and cash flows before financing activities amounted to EUR -3 (-22) million. Despite a considerably higher rate of production and increased delivery volumes, working capital is on level with last year, but due to seasonality, working capital has increased since year-end.

Utilisation of loans under the senior facilities agreement amounted to EUR 264 (December 2013: 272) million, including utilisation of EUR 30 (December 2013: 20) million of a revolving credit included in the financing agreement. Total interest-bearing net debt amounted to EUR 245 (December 2013: 242) million. Equity amounted to EUR 174 (December 2013: 151) million. The net debt/equity ratio therefore amounted to 141 percent (December 2013: 160).

The group's liquidity buffer amounted to EUR 60 (December 2013: 71) million, comprising cash and cash equivalents of EUR 19 (December 2013: 21) million and unutilised contracted loan commitments of EUR 41 (December 2013: 50) million.

Capital expenditure

Capital expenditure during the first quarter of 2014 amounted to EUR 8 (7) million.

Other information

It was announced in January that Karin Lagerstedt Woolford had been appointed as the new director of human resources for the group and as a member of the group management, from 1 February 2014.

Parent company

The consolidated figures in the 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.

Net profit for Ovako Group AB for the quarter 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 2013. 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 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. 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. Segment information is presented based on the company management's perspective, and operating segments are identified based on the internal reporting to Ovako's chief operating decision maker. Ovako has identified the CEO as its chief operating decision maker, and the internal reporting used by this person to review operations and make decisions about resource allocation is the basis for segmentation. Ovako has combined its segments (business units) into one reportable operating segment in accordance with the rules for aggregation.

The accounting policies applied in this interim report are the same as those applied in the consolidated annual accounts for 2013 with the exception of the following new and amended standards and interpretations applicable from 1 January 2014:

Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities: This standard clarifies existing application issues relating to the requirements for offsetting financial assets and financial liabilities. The amendments enter into force on 1 January 2014 and have not had any material impact on the submitted report for Ovako.

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosures of Involvement with Other Entities; IAS 27 Separate Financial Statements (amended 2011); and IAS 28 Investments in Associates and Joint Ventures (amended 2011): These standards start to apply within the EU to financial years beginning on 1 January 2014 or later. They have not had any material impact on the consolidated financial statements for Ovako.

IFRS 9 Financial Instruments: This standard is intended to replace IAS 39 Financial Instruments: Recognition and Measurement, and deals with the classification and measurement of financial instruments. It will probably affect Ovako's recognition of financial assets and financial liabilities. The date of entry into force is not yet decided, but will not be earlier than 1 January 2017. A complete position on how Ovako's accounting will be affected will be taken once all aspects of the project are published in the final version. The EU has indefinitely postponed approval of the standard.

A number of standards, amendments to standards, and interpretations other than those noted above enter into force for reporting periods beginning after 1 January 2014. The group does not plan early adoption of these standards and they are not expected to have any material impact on the result and financial position of the Group.

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).

Stockholm, 24 April 2014
Tom Erixon
President and CEO

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR million	2014 Q1	2013 Q1	2013 Full year
NET SALES	**245.9**	220.2	849.9
Cost of goods sold	**-214.3**	-203.2	-806.6
GROSS PROFIT	**31.6**	17.0	43.3
Selling expenses	**-5.6**	-5.4	-22.0
Administrative expenses	**-9.0**	-8.7	-32.0
Other operating income	**1.0**	0.8	10.1
OPERATING PROFIT/LOSS	**18.0**	3.7	-0.6
Financial income	**0.2**	0.1	0.6
Financial expenses	**-7.1**	-8.6	-26.8
PROFIT/LOSS BEFORE TAX	**11.1**	-4.8	-26.8
Taxes	**-3.0**	1.1	6.2
NET PROFIT/LOSS FOR THE PERIOD	**8.1**	-3.7	-20.6
Of which attributable to			
Owners of the parent	**8.1**	-3.7	-20.6
Non-controlling interests	**-**	-	-

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	2014 Q1	2013 Q1	2013 Full year
Net profit/loss for the period	**8.1**	-3.7	-20.6
Items that will be reclassified to profit or loss			
Exchange differences	**0.0**	1.2	-1.9
Cash flow hedges	**-0.8**	2.0	2.6
Tax attributable to cash flow hedges	**0.2**	-0.4	-0.6
	-0.6	2.8	0.1
Items that will not be reclassified to profit or loss			
Revaluation of pension obligations, net	**-**	-	13.0
Tax attributable to revaluation of pension obligations	**-**	-	-2.9
	-	-	10.1
Other comprehensive income, net of tax	**-0.6**	2.8	10.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**7.5**	-0.9	-10.4

KEY FIGURES

EUR million	2014 Q1	2013 Q1	2013 Full year
Operating profit before depreciation ("EBITDA")	**29.9**	14.8	46.5
Depreciation	**-7.1**	-6.5	-27.7
Operating profit before amortisation of surplus values ("EBITA")	**22.8**	8.3	18.8
Amortization of surplus values	**-4.8**	-4.6	-19.4
Operating profit ("EBIT")	**18.0**	3.7	-0.6
Number of shares	**50 000**	50 000	50 000
Earnings per share (EUR)	**162**	-74	-412

CONDENSED CONSOLIDATED BALANCE SHEET

EUR million	**2014 31 Mar**	2013 31 Mar	2013 31 Dec
Property, plant and equipment	**343.4**	350.8	347.4
Intangible assets	**7.2**	2.9	7.4
Other financial assets	**1.9**	1.9	1.9
Derivative assets	**0.9**	0.4	1.0
Deferred tax assets	**11.6**	13.9	11.7
Non-current assets	**365.0**	369.9	369.4
Inventories	**202.3**	205.8	198.7
Trade and other receivables	**145.7**	134.0	108.7
Current tax assets	**1.3**	3.4	1.4
Derivative assets	**2.0**	0.4	2.1
Cash and cash equivalents	**19.0**	15.4	20.6
Current assets	**370.3**	359.0	331.5
ASSETS	**735.3**	728.9	700.9
Equity	**173.9**	162.7	150.7
Non-current interest-bearing liabilities	**222.0**	241.1	221.5
Derivative liabilities	**2.8**	7.2	3.0
Deferred tax liabilities	**49.4**	53.5	47.7
Other provisions	**81.3**	97.4	82.1
Other liabilities	**0.4**	0.4	0.3
Non-current liabilities	**355.9**	399.6	354.6
Current interest-bearing liabilities	**41.6**	9.5	40.7
Derivative liabilities	**8.3**	2.0	7.7
Trade and other payables	**155.2**	142.3	131.3
Current tax liabilities	**0.4**	0.3	0.3
Other current liabilities	**0.0**	12.5	15.6
Current liabilities	**205.5**	166.6	195.6
EQUITY AND LIABILITIES	**735.3**	728.9	700.9

KEY FIGURES

EUR million	**2014 Q1**	2013 Q1	2013 Full year
Equity	**173.9**	162.7	150.7
Net debt	**244.6**	235.2	241.6
Net debt/equity ratio (%)	**141 %**	145 %	160 %
Return on Capital Employed (%)	**4 %**	1 %	0 %

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	**2014 Q1**	2013 Q1	2013 Full year
Operating profit	**18.0**	3.7	-0.6
Adjustment for depreciation and amortization	**11.9**	11.1	47.1
Adjustment for other non-cash items	**-0.1**	-1.2	2.4
Interest paid	**-6.0**	-5.4	-25.0
Tax paid	**-0.8**	-1.4	0.1
Change in working capital	**-18.0**	-21.6	-4.2
Cash flow from operations	**5.0**	-14.8	19.8
Acquisition of businesses	**-**	-	-0.7
Investments in non-current assets	**-7.5**	-7.4	-45.1
Cash flow from investing activities	**-7.5**	-7.4	-45.8
Cash flow before financing activities	**-2.5**	-22.2	-26.0
Repayment of loans	**-9.0**	-5.4	-15.1
Use of credit	**10.0**	-	20.0
Other	**0.0**	0.0	0.0
Cash flow from financing activities	**1.0**	-5.4	4.9
Cash flow for the period	**-1.5**	-27.6	-21.1
Cash and cash equivalents at the beginning of period	**20.6**	42.6	42.6
Translation differences on cash and cash equivalents	**-0.1**	0.4	-0.9
Cash and cash equivalents at the end of period	**19.0**	15.4	20.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent				
2014	Share	Translation	Cash flow	Retained	**Total**
EUR million	capital	reserve	hedge reserves	earnings	**equity**
Opening balance at 1 Jan	**0.0**	**0.7**	**-5.9**	**155.9**	**150.7**
Comprehensive income					
Profit for the period	-	-	-	8.1	**8.1**
Other comprehensive income	-	0.0	-0.6	-	**-0.6**
Comprehensive income	**-**	**0.7**	**-6.5**	**164.0**	**158.2**
Shareholders' contribution	**-**	**-**	**-**	**15.7**	**15.7**
Closing balance at 31 Mar	**0.0**	**0.7**	**-6.5**	**179.7**	**173.9**

	Equity attributable to owners of the parent				
2013	Share	Translation	Cash flow	Retained	**Total**
EUR million	capital	reserve	hedge reserves	earnings	**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

PARENT COMPANY CONDENSED INCOME STATEMENT

EUR million	**2014 Q1**	2013 Q1	2013 Full year
NET SALES	**-**	-	-
Administrative expenses	**0.0**	0.0	-0.2
OPERATING PROFIT/LOSS	**0.0**	0.0	-0.2
Interest income from group companies	**0.1**	0.1	0.5
PROFIT BEFORE TAX	**0.1**	0.1	0.3
Group contribution	**-**	-	-0.3
Taxes	**0.0**	0.0	0.0
NET PROFIT/LOSS FOR THE PERIOD	**0.1**	0.1	0.0

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

EUR million	**2014 Q1**	2013 Q1	2013 Full year
Net profit/loss for the period	**0.1**	0.1	0.0
Other comprehensive income	**-**	-	-
Other comprehensive income, net of tax	**-**	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**0.1**	0.1	0.0

PARENT COMPANY CONDENSED BALANCE SHEET

EUR million	**2014 31 Mar**	2013 31 Mar	2013 31 Dec
Shares in subsidiaries	**139.8**	139.8	139.8
Receivables from subsidiaries	**23.2**	22.7	22.6
Non-current assets	**163.0**	162.5	162.4
Receivables from subsidiaries	**15.9**	12.9	16.3
Current assets	**15.9**	12.9	16.3
ASSETS	**178.9**	175.4	178.7
Equity	**178.5**	162.8	162.7
Other current liabilities	**0.4**	12.6	16.0
Current liabilities	**0.4**	12.6	16.0
EQUITY AND LIABILITIES	**178.9**	175.4	178.7
Pledged collateral	**None**	None	None
Contingent liabilities	**None**	None	None

FINANCIAL INSTRUMENTS DISCLOSURE - GROUP

Fair value of financial instruments:

Ovako's financial instruments include derivatives, unlisted equities, loan receivables, 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 13 i.e. 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 prepaid financing fees. The table below shows the carrying amounts and fair values of financial instruments.

	31 Mar 2014		31 Mar 2013		31 Dec 2013	
MEUR	**Carrying value**	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Derivatives	**2.9**	**2.9**	0.8	0.8	3.1	3.1
Financial non-current assets	**1.8**	**1.8**	1.8	1.8	1.8	1.8
Accounts receivable	**127.0**	**127.0**	112.2	112.2	87.8	87.8
Cash and cash equivalents	**19.0**	**19.0**	15.4	15.4	20.6	20.6
Total assets	**150.7**	**150.7**	130.2	130.2	113.3	113.3
Derivatives	**11.1**	**11.1**	9.2	9.2	10.7	10.7
Interest-bearing liabilities	**263.6**	**273.3**	250.6	262.1	262.2	272.3
Trade and other payables	**100.2**	**100.2**	102.7	102.7	99.5	99.5
Total liabilities	**374.9**	**384.6**	362.5	374.0	372.4	382.5

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 electricity derivatives, interest derivatives and currency derivatives covered by legally binding master netting agreements.

	31 Mar 2014		31 Mar 2013		31 Dec 2013	
MEUR	**Financial assets**	**Financial liabilities**	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Gross amount,derivatives	**2.9**	**11.1**	0.8	9.2	3.1	10.7
Amount offset	**-**	**-**	-	-	-	-
Disclosed in balance sheet	**2.9**	**11.1**	0.8	9.2	3.1	10.7
Amounts included in an offset agreement	**-2.5**	**-2.5**	-0.8	-0.8	-2.3	-2.3
Net after amounts included in an offset agreement	**0.4**	**8.6**	0.0	8.4	0.8	8.4

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).

For more information, please contact:
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Ovako is a leading European producer of engineering steel for customers in the bearing, transportation and manufacturing industries. Our production is based on recycled steel and includes steel in the form of bars, tubes and pre-components. Ovako is represented in more than 30 countries and has sales offices in Europe, North America and Asia. Sales in 2013 amounted to EUR 850 million and the company had 2,995 employees. For further information please visit us at www.ovako.com

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THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

REVIEW REPORT

Ovako Group AB, org. nr 556813-5361

The Board of Directors

Introduction

We have reviewed the condensed interim report for Ovako Group AB as at March 31, 2014 and for the three months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Reports Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden.

The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material aspects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, 24 April 2014

Ernst & Young AB

Heléne Siberg Wendin
Authorized Public Accountant