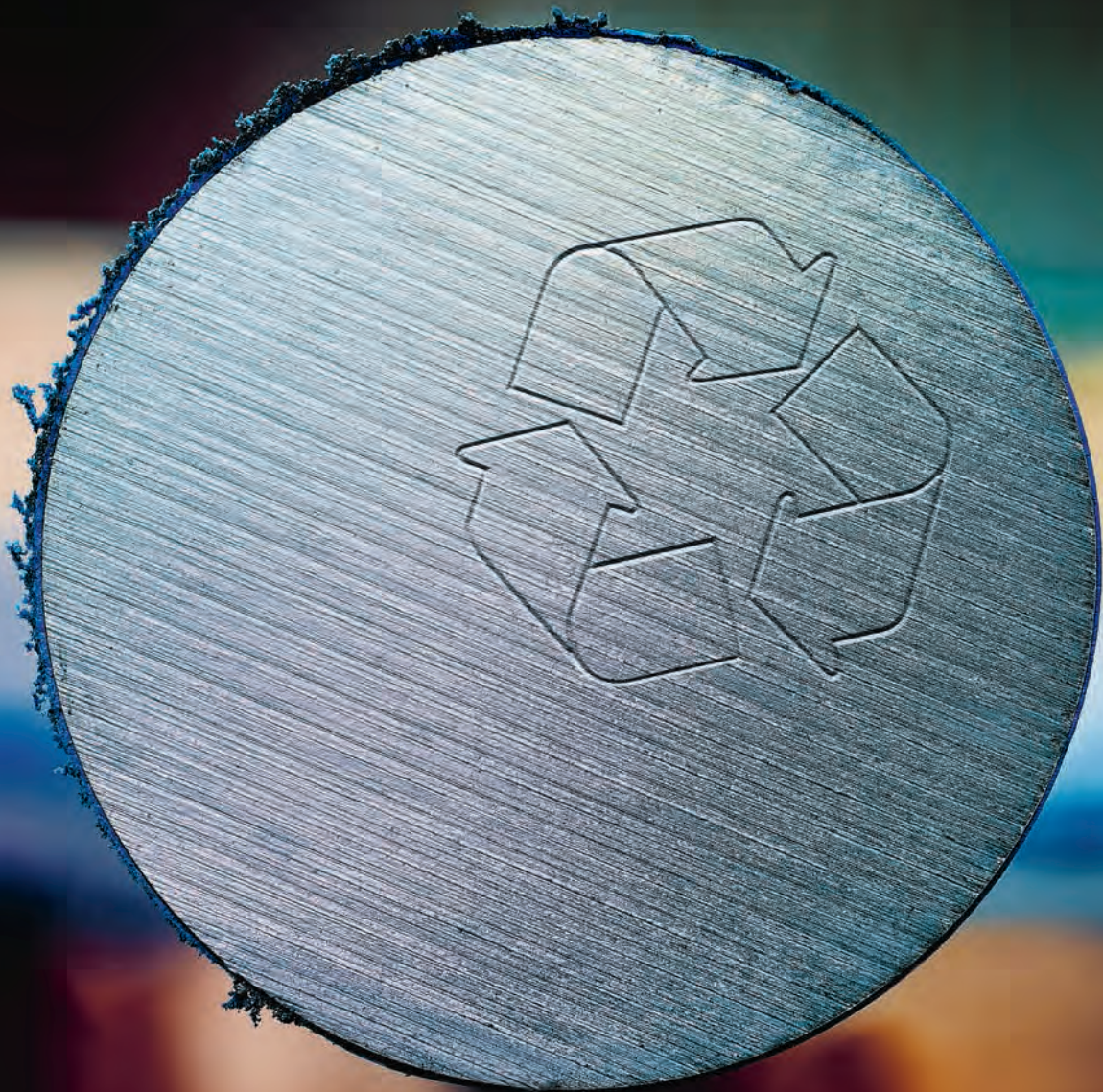


OVAKO

INNOVATIVE STEEL
FOR A BETTER ENGINEERED FUTURE



ANNUAL REPORT 2016

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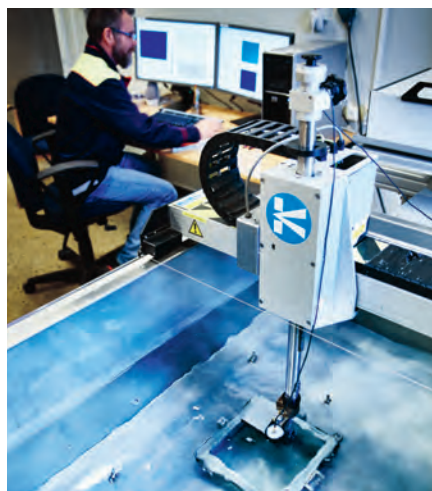
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This is Ovako's Annual Report for the financial year 2016. The information provided on pages 34–73 constitutes the formal annual report for Ovako Group AB and has been audited by the company's independent auditor.

Financial information

Ovako's website at www.ovako.com provides the latest information about Ovako and its performance in Swedish, English and Finnish, as well as annual reports and interim reports to download.

The year in summary

2016 (2015)

↑ 708 KTON

Sales volume (681 kton)

↓ 781 EUR m

Revenue (EUR 834m)

↑ 35 EUR m

Cash flow from operating activities (EUR 25m)

↑ 57 EUR m

EBITDA before restructuring costs (EUR 48m)

↑ 25 EUR m

EBITA before restructuring costs (EUR 16m)

↑ 16 EUR m

EBIT before restructuring costs (EUR 7m)

This is Ovako

Ovako is a leading European manufacturer of engineering steel for customers in the bearing, transportation and manufacturing industries. Ovako manufactures engineering steel with characteristics such as high strength and wear resistance. With a range of steels consisting of customized solutions for different types of applications, Ovako helps to make a substantial difference for both its own customers and their customers.

Ovako's customers are found mainly among the European engineering industries and their suppliers. Customers are generally leading premium manufacturers in their segments that place intense demands on the properties of the steel. Production comprises primarily low-alloy steels that are often used for demanding applications such as in bearings, powertrains, hydraulic cylinders and rock drills.

Ovako generates value by offering world-leading niche products and customer-tailored services. Ovako's primary brands are BQ-Steel®, IQ-Steel®, M-Steel®, WR-Steel®, SZ-Steel® and Cromax®. Each brand represents unique properties and areas of application.

By focusing on *Green Clean Steel* – a concept representing the cleanest and most sustainable steel in the world – Ovako can offer its customers a steel that has less environmental impact than most other types of steel in the market. The steel production is based on scrap, which makes Ovako the largest Nordic consumer of recycled scrap. The group has ten production sites and is represented in more than 30 countries, with sales offices in Europe, North America and Asia.

Percentage of sales

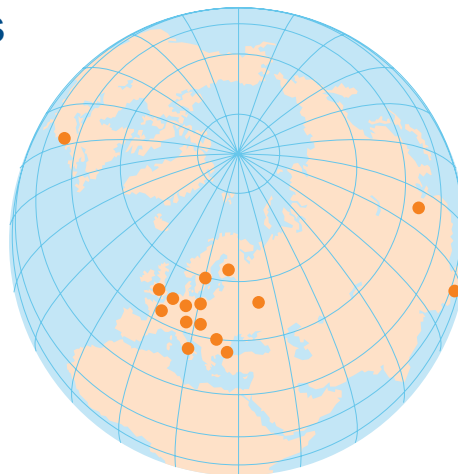
2016 (2015)

38%

(39%) Nordics

5%

(5%) North America



12%

(10%) Eastern Europe

42%

(43%) Western Europe

3%

(3%) Asia

● Ovako

How Ovako creates value

Innovative steel for a

Input resources

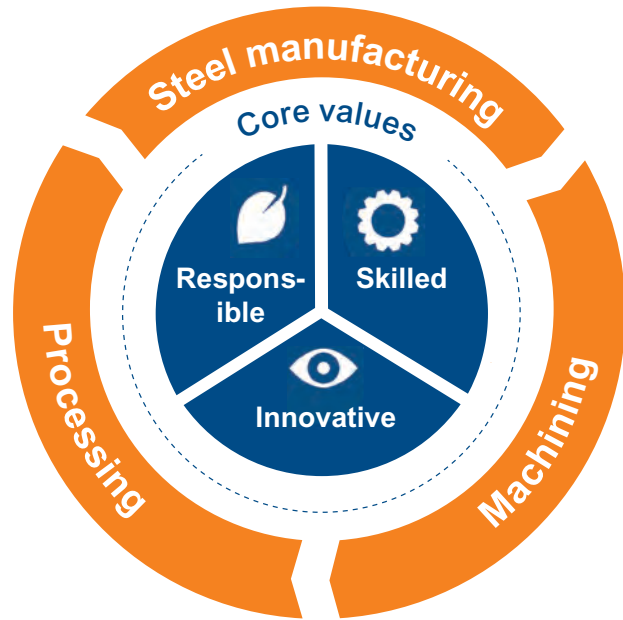
Financial capital

Intellectual capital
R&D, employees, patents

Social capital
Collaboration with customers and communities, external demands

Raw materials
100% recycled scrap, alloys, energy, water

Sustainable production



Environmental impact

Read more on p. 32

better engineered future

Offering



Value creation



Key events

New Chairman

Joakim Olsson was elected as the new Chairman of the board. Joakim has extensive knowledge and experience in the steel industry.



New Chief Financial Officer

Johan Ryrberg was appointed Chief Financial Officer. Johan has extensive experience in building strong financial organizations and implementing improvement work in an international environment.

Strengthening of restructuring program

New cost saving initiatives announced that increase the annual cost savings from EUR 45 million to EUR 50 million.



Decision to retain the rolling mill in Hällefors

The rolling mill will remain despite earlier plans for closure. This is because faster and greater cost savings could be made if the flows were preserved.

Q1

Launch of the new organization

From March 1, a new organization, with four instead of five business units, was implemented. A new global sales organization has also been set up.



Q2

Launch of M-Steel 280

M-Steel, manufactured in Imatra and Smedjebacken, is one of Ovako's most important brands. M-Steel was also launched in 2016 as tube of various dimensions.



Research on wear-resistant steel

New research began to further improve the WR-Steel offering. A newly designed Wear Tester machine was demonstrated, created to test steel wear resistance.

Inauguration of new processing plant in Boxholm

The facility is 2,600 square meters with an annual production capacity of more than 7,000 metric tons, and will serve a variety of customers in the engineering industry.

Larger ingots from Hofors

An investment in the production of larger ingots has been made to meet the demand created from the increasing size of wind turbines. The ingots range from the current size of 4.2 metric tons to 8.4 metric tons.



Launch of Steel Navigator

Steel Navigator is a digital platform for searching engineering steel grades. *Steel Navigator* allows customers to easily find the best solution for the applications they need.



New investment in Smedjebacken

Investment in a furnace and the newly installed heat-treatment line together provide coordinated, efficient and flexible production of heat-treated steel with reduced lead times.

Q3

Focus on safety

Health and safety for all employees and suppliers is a top priority for Ovako. In September, two internal management conferences focused on safety were held. A series of measures have been implemented to create safer workplaces, such as a uniform standard for protective equipment and new digital education initiatives.



Q4

Launch of Cromax 180X

The mechanical requirements for Cromax 180X are considerably higher than for existing solutions. Cromax 180X is a new economical alternative for designs used in hydraulic cylinders.



Sale of grinding ball mill in Forsbacka

The mill in Forsbacka was sold to newly formed Forsbacka Kulverk AB as part of the restructuring program. The mill, which currently has six employees, mainly produces grinding balls for the mining and cement industries.

»The restructuring program helps secure our long-term competitiveness and ensures that we can make our products available to new and existing customers.«

Strong position for continued progress

After my first full year as CEO, I can say that Ovako is well-positioned to face future challenges. In 2016 we showed clear improvement, both operationally and financially. We made great progress in the restructuring program that began just over a year ago, and we delivered increased sales volumes and an operating result that was significantly improved over the previous year. Despite this, our financial performance is still not satisfactory, and much work remains on the road to becoming one of the world's most successful steel companies.

Safety is always our focus at Ovako, and in the past two years we have seen significant and continuous improvements in our safety efforts. The improved outcome is the result of different proactive initiatives and efforts, and excellent engagement with safety at Ovako. The goal is to create an entirely accident-free Ovako, and this work continues unabated.

The implementation of our restructuring program is ahead of schedule. Efficient operations will remain imperative to maintaining and expanding our market position. The program helps secure our long-term competitiveness and ensures that we can make our products available to new and existing customers at the right price. The restructuring program has also allowed us to create joint processes and procedures for a more cohesive company.

Ovako's employees are the key to our current outperformance of expectations in the restructuring program. Although many tough decisions have been made, our organization has proven that it is receptive and understands the reasons for conducting this type of initiative, and I therefore want to express my sincere

gratitude to all of our wonderful employees. There is a strong faith in the future within our organization and we can be proud of what we have accomplished during the year.

Ovako has a long tradition of playing an active role when operating in locations where the company maintains production. In many of these locations, we are a major employer and we maintain close cooperation with the local community by engaging in activities that aim to promote local growth. We are proud of our local presence and continue to take responsibility in these local communities.

Ovako's primary focus is on achieving an operation that is efficient in the long-term and that can offer new and existing customers what they need, when they need it. Although we noted a slight improvement in market sentiment during the fall of 2016, it is still difficult to offer an insight into the future, and whether this improvement is sustainable. While good times are naturally better for Ovako, we are not dependent on a magnificent market to achieve our goals. Several of our customers, primarily in the automotive industry and energy sector, also



experienced a strong year-end in 2016 and we are already seeing changes in the car and truck industry, for example, that will result in increased use of high-strength steel in future.

In the first quarter we launched our group-wide sales organization as a step in further enhancing our operational efficiency and customer service. We can now present the market with a more defined offering, which generated results during the year in the form of higher sales volumes. We can also conclude that our BQ-Steel, IQ-Steel, M-Steel, SZ-Steel, WR-Steel and Cromax brands resonated with the market. We foresee further growth opportunities ahead in this area. Within the framework of our commercial focus, we have also completed projects aimed at simplifying for our customers. An example of this is *Steel Navigator*, a digital platform for identifying the right steel for the right application. The world is becoming increasingly digital, and to remain relevant to our customers we must continue to develop our digital platform.

The timely nature of our offering is crucial to maintaining a leading position. By focusing on *Green Clean Steel* – the cleanest and most sustainable steel in the world – Ovako can offer its customers a steel with properties that few others can match, and that also has less environmental impact than most other types of steel in the market. Ovako already holds a leading position in terms of environmental compatibility in its steel production, much of which is thanks to our production being entirely based on recycling scrap and that we, with a Swedish mix of electricity, currently only emit 5-10 percent as much CO₂

as the ore-based producers in the world's largest steel-producing country: China. And we will become even better.

Ahead of 2017, our ambition is to maintain our broad growth in the markets in which we already have a presence by continuing to deliver highly specialized products that match our customers' needs. Ovako's products are world-leading in numerous niches. In the long-term, we will expand our leadership in terms of products, customers and geography. In the coming years, for example, we will further expand our focus on Eastern Europe and Asia. We also remain committed to our efforts to continuously streamline and advance our products by investing in research and development, which will allow us to make several exciting announcements ahead.

2016 was a solid year for Ovako. We are helping to create a more sustainable society and a better world by developing customer-tailored steel that is at the forefront, both environmentally and in terms of our selected niches. Our strategic objectives – *Product leadership* and *Best customer service* – do we want to achieve by maintaining a focus on *Profitable Growth*, *Great Processes* and *One Group*. In one year's time, I am convinced that we will be able to look back at 2017 as a year in which Ovako further improved its position.

Marcus Hedblom
President and CEO

Well positioned for future growth

There are many factors that affect the steel industry and, ultimately, Ovako's business. In order to maintain its market position and grow, Ovako continuously analyzes market trends and how the business can be adapted to best take advantage of these trends.

Global steel demand depends largely on changes in the global economy, raw material prices and the conditions for trade between countries. Following the financial crisis of 2008, many steel producers took the opportunity to borrow at low interest rates to invest in their production flows. At the same time, global demand for steel products decreased. These two factors resulted in global overcapacity in the steel market. In 2015, the situation worsened further when China's steel subsidies created global pressure on prices. In 2016, the steel industry has gradually begun to recover as China has reduced its production, and demand has slowly increased. However, economic growth is sluggish in many developing countries, thus affecting global demand for steel.

Knowledgeable customers

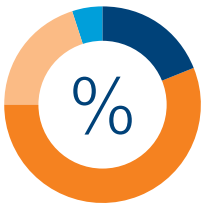
Customers and consumers are becoming more knowledgeable and aware of quality, which places greater demands on producers. The trend is for customers to increasingly demand premium products or products processed post-production, rather than standard variants. This means it is increasingly important for the steel industry to be able to deliver advanced, customized solutions that have a genuine positive impact on the customers' business. This trend aligns well with Ovako's ambition to deliver niche products adapted to customer needs.

Sustainability

Demand for sustainable products is rising alongside increased customer awareness. The trend is moving toward a more circular economy, with spent materials reused in a cycle. Steel is highly suitable for recycling because its characteristics remain equally good no matter how many times it is reused. Ovako is one of the Nordic region's leading producers of recycled steel, and conducts its business responsibly throughout the entire supply chain. Its Green, Clean Steel concept emphasizes that Ovako is a leader in terms of sustainability and the minimization of carbon emissions per ton of steel produced. Ovako is far below the global average for the steel industry in terms of emissions.

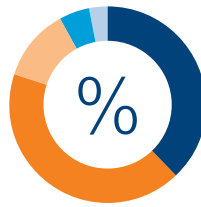
Digitalization

Digitalization is having a major impact on all sectors of industry, and steel is no exception. New technology is creating opportunities for Ovako to make its operations more efficient and develop better customer service. An example of a digital solution that has contributed to Ovako's development is the *Steel Navigator*. This search tool helps customers to identify the steel that best meets their needs from Ovako's large product range.



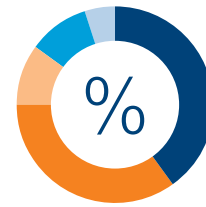
SALES BY PRODUCT (EUR)

● Bar, as rolled	19%
● Bar, value added	56%
● Tube & Ring	20%
● Third party products	5%



SALES BY MARKET (EUR)

● Nordics	38%
● Western Europe excl. Nordics	42%
● Eastern Europe	12%
● North America	5%
● Asia	3%



SALES BY END-CUSTOMER SEGMENT (EUR)*

● Automotive and transportation	40%
● Other engineering	35%
● Distributors	10%
● Mining, oil and gas	10%
● Energy production	5%

* The data presented is rounded to the nearest 5% interval.

Ovako's customer segments

Ovako manufactures engineering steel with properties such as high strength and wear resistance. With a steel range composed of tailored solutions for different types of application, Ovako strives to assist with making a noticeable difference for its own customers and for its customers' customers. Ovako's steel solutions are used in various types of products in many different segments and industries.

The **automotive and transportation industry** is Ovako's single largest end customer segment and a key customer for the entire steel industry. On average, 900 kilos of steel are required to make each vehicle¹. Ovako manufactures steel solutions tailored for both heavy and light vehicles. The automotive industry has experienced strong growth in recent years, which continued in 2016, albeit at a slightly slower pace². Ovako's strength in this segment is based on being able to offer high-strength steel grades that allow the same power transfer with smaller components. A lighter design that increases performance helps to reduce CO₂ emissions and improve cost effectiveness.

Other engineering is an important segment for Ovako. Ovako's customers in this sector manufacture products such as bearings, drivetrain components and hydraulic cylinders. Customers in this market have high standards since their products will be used for a long time and must be of high quality. The European engineering sector performed strongly in 2016. Other engineering also includes agricultural machinery, a segment in which Ovako is growing increasingly strong. Ovako produces

components of boron steel that are sufficiently resistant to withstand the tough stresses that steel in agricultural machinery is exposed to. Global demand for food, feed and fiber is expected to double by 2050, when the global population is predicted to grow to 9.7 billion³. Agriculture must therefore grow and become more efficient, and Ovako sees great future potential.

Distributors are used by Ovako as sales channels in several areas, although Ovako's steel solutions are mostly sold directly to sub-suppliers and end customers. An example of a product often sold through distributors is M-Steel, which is a steel with improved machinability.

The **mining, oil and gas industry** represents only a small share of Ovako's direct sales. Ovako manufactures engineering steel for extreme environments that put the steel's wear strength and toughness to the test. The volatility of oil prices in recent years has created some uncertainty in this segment.

Energy production is an area in which Ovako has invested in recent years to meet growing demand, especially in wind turbines. Renewable energy solutions are taking greater market shares as society's demand for sustainability increases. At the same time, there is a growing need for energy in different parts of the world, and by 2040 global demand for energy is expected to grow by 37 percent⁴. Ovako produces mainly components for wind turbines, where the steel must have a long life and withstand high stresses.

1) Source: World Steel Association. Automotive.

2) Source: EUROFER Annual Report 2016.

3) Source: World Steel Association. Food and Water.

4) Source: World Steel Association. Energy.

The competitive situation

Overproduction and fierce competition in the industry have led to increased consolidation and major cuts by some of the largest global steel producers. Demand for steel is steady and slowly growing in the European market, but a large part of the increases in demand are being absorbed by imports from the rest of the world, especially China¹.

At the same time, demand is growing for customized niche products, a market where non-European presence is limited. Ovako operates in this market in competition with around ten manufacturers, from France, Germany and Italy. Only a few companies are able to offer the same type of products with the high quality that Ovako is able to produce. It is in these niches that Ovako is performing best, and in which it sees the greatest potential for the future.

1) Source: EUROFER Annual Report 2016.



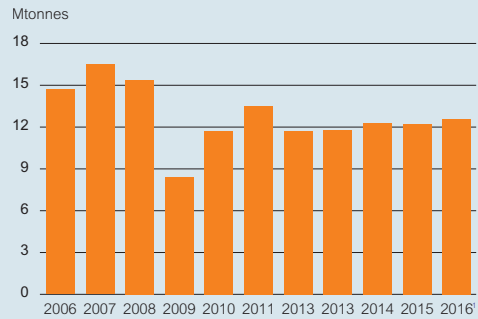
The steel market in 2016

Global steel production increased in 2016 by 0.8 percent, according to the World Steel Association¹. Production increased in Eastern Europe, the Middle East, Asia and Oceania, while it decreased in Western Europe, America and Africa¹. EU steel consumption grew by 1.8 percent in 2016 and expectations for 2017 are around 2 percent, according to the European trade organization, Eurofer². Imports of steel to the EU increased by 5 percent, which led to domestic steel deliveries decreasing by approximately 2 percent². The market for merchant bar, which includes the engineering steel produced by Ovako, has grown slightly. According to Eurofer, growth in the European market for merchant bar was 1.9 percent in 2016, compared with 2015. EU deliveries of merchant bar increased in 2016 by 1.6 percent, compared with 2015. In 2016, production of alloyed crude steel in Sweden increased by approximately 6 percent³. It is still clear that the production rate has not recovered since the financial crisis of 2008–2009.

1) Source: World Steel Association, World crude steel output 2016, 25 January 2017.
 2) Source: EUROFER, EU steel market, 1 February 2017.
 3) Source: Jernkontoret: The steel year 2016 – a brief overview, 27 January 2017.

Market development

Supply of long products in Europe



1) December 2015 – November 2016

Source: Eurofer Market Supply Summary

0.8%

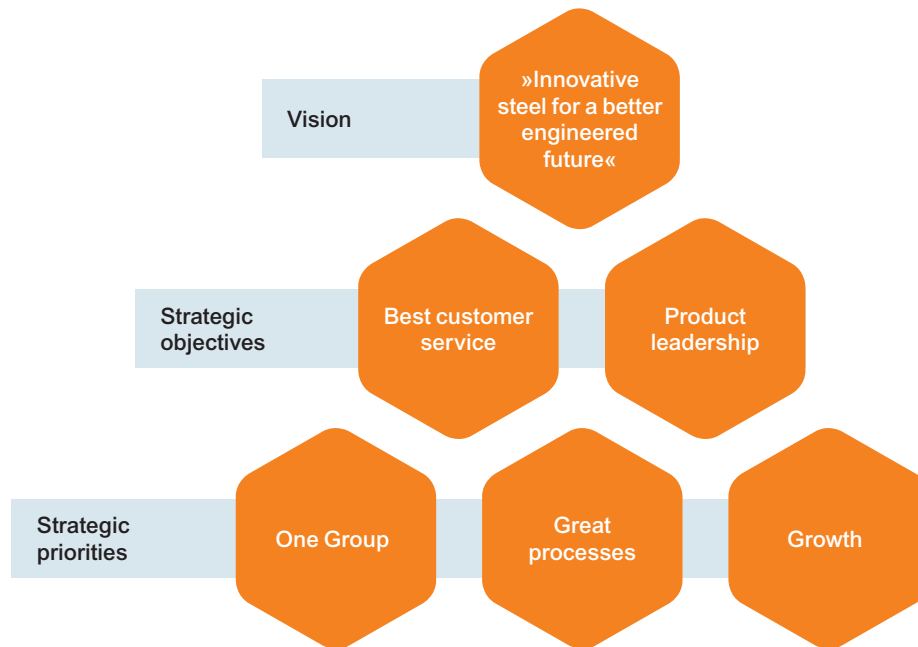
Global increase in steel production, 2016

1.8%

Growth in EU steel consumption

1.9%

European market growth for merchant bar



The world leader in numerous niches

Steel is a key component in building the society of tomorrow. Steel consumption is growing as the global population increases. Despite this, the global steel market remains under pressure and has yet to recover from the financial crisis of 2008. With a clear strategy that focuses on close customer relationships and product leadership, Ovako is forging an attractive long-term position in a competitive market.

Ovako generates value by offering world-leading niche products and customer-tailored services. Ovako's vision serves as the basis of our offering and is being realized by engaging in sustainable production and adhering to Ovako's core values.

➔ Read more about Ovako's value creation on p. 4–5

Ovako's vision is to create *Innovative steel for a better-engineered future*. In structuring this vision, Ovako has identified two strategic objectives: *Best customer service* and *Product leadership*. These objectives have been in focus primarily in our domestic markets in the Nordic region, while other markets are gradually being developed. In order to achieve its strategic objectives, Ovako has elected to focus on its strategic priorities: *One Group*, *Great processes* and *Growth*.

➔ Read more about strategic priorities and objectives on p. 14

The ongoing restructuring program that was launched in 2015 will result in Ovako becoming more focused and thus able to present a competitive offering to its customers. In order to maintain an attractive long-term position in the market, Ovako engages in various initiatives in such fields as digitalization, and research and development. An increasingly focal component of our commercial offering is an ability to offer a sustainable concept for steel products, which is a key strategic initiative that Ovako refers to as *Green Clean Steel*.

➔ Read more about *Green Clean Steel* on p. 32



Strategic priorities

One Group, *Great processes* and *Growth* are assigned priority in order to achieve our long-term objectives: *Best customer service* and *Product leadership*. Over the long term, these priorities allow Ovako to be able to face the challenges and harness the opportunities brought on by the ongoing structural changes in the steel market.

One Group

Ovako is focused on enhancing internal coordination with the aim of leveraging the Group's economies of scale and operating as one company with a coordinated offering. Our concerted efforts in recent years have turned Ovako into a more efficient company with Group-wide capacity and joint guidelines on matters including safety, health and the environment. Moving ahead, our focus will be on further enhancing coordination efficiency among our business units in the production of various types of steel and in our sales process.

For support are Ovako's core values that describe the company's culture and help steer the organization.

Great processes

Operational safety is a priority. The implementation of our *Safety-at-Work* program is under way and numerous key initiatives have been taken to further improve safety at work. The long-term goal is to have zero accidents and no cases of work-related illness.

An exhaustive effort to enhance the efficiency of Ovako's processes has been under way for several years. The aim is to

bolster our proximity to customers using a flexible approach that cuts lead times, increases reliability of deliveries and reduces costs. Our knowledge is centralized, but customers will interact with Ovako from their own location.

Continued investments in the facilities are crucial to enhancing efficiency and achieving long-term profitability.

Growth

Ovako has taken several measures aimed at securing long-term growth and competitiveness, including the development of new and more efficient sales processes with a focus on customers. Processes are continuously under way to improve both collaboration and development efforts with our customers and partners.

In recent years, Ovako has refined its offering by consolidating its steel grade families into six brands.

[➔](#) Read more about Ovako's brands on p. 17

An increased presence in new markets is a key feature of Ovako's growth strategy. This primarily involves markets with strong anticipated growth potential, such as Southern and Eastern Europe and Asia. In recent years, the Eastern European and Asian markets have grown ever stronger and Ovako's investments are generating returns. Ovako is continuously evaluating opportunities to establish operations in new markets. In 2016, for example, inroads were made in Australia.



Strategic objectives

Based on our strategic priorities, Ovako has been engaging in an effort in recent years to more prominently establish a position in the areas of *Best customer service* and *Product leadership*.

Best customer service

For Ovako, *Best customer service* involves understanding customers, their customers and the needs in their respective markets. Ovako aims to be able to meet its customers' needs by providing the right products, at the right quality and on time. *Best customer service* also means that Ovako must be a reliable and stable supplier. Our offering should be flexible in terms of both the grade of steel and the size of order. By focusing on *Best customer service*, the company should be able to provide the customer with, in addition to the product offering, knowledge of the opportunities and development potential provided by the right steel. Proximity to our customers allows us to forge long-term relationships and makes Ovako a supplier and advisor to our customers throughout the entire lifecycle of the product.

Ovako has long held a strong customer service position among existing customers. Ovako aims to advance this expertise – which also includes continued adaptations to our customers' value chains and greater integration with our customers' product development – and apply it to customers in all segments. Ovako is increasingly serving as an advisor to its customers, thus also strengthening its relationship with them.

Product leadership

Ovako's products are world-leading in numerous niches. Long-term investments in reliable production equipment, skilled employees and research and development, combined with renowned brands have laid the foundation for our leading product range. Investments in cleaner and more sustainable steel – *Green Clean Steel* – have enhanced an already strong offering.

Moving forward, Ovako will expand its *Product leadership* in terms of products, customers and geography. In close cooperation with our customers, we are creating specialized products that few other steel manufacturers can produce. Ovako aims to be the leader in market development by continuously advancing on existing products and developing new products.

Ovako's restructuring program

Ovako's restructuring program, which was launched in the fall of 2015, is ahead of plan and was further enhanced in May of 2016. At present, Ovako has even exceeded expectations. The program will also enhance Ovako's competitiveness. The annual cost savings are estimated at EUR 50 million, and will reach their full effect as of 2018.

Value creation with a focus on customers

By manufacturing high-quality steel with tailor-made properties, Ovako creates value for its customers in an array of industries. Thanks to our unique expertise, Ovako is the world leader in engineering steel and a popular business partner to numerous companies. In 2016, Ovako made advancements on several products and proactively strengthened collaborations with its customers.

Ovako creates value on several levels

Ovako's ambition is to make a tangible difference, both for our own customers and for their customers. Accordingly, during the year, Ovako met with several end customers to discuss their needs and how to better adapt their current steel solutions to their areas of application. For Ovako, it is important to be an integrated element of our customers' value chains, from selecting raw materials to the finishing process. As such, Ovako strives to constantly engage in an exchange of knowledge with its customers to be able to further adapt its steel solutions to their final application. By seizing on our customers' ideas and insights, brand new areas of application are often created for Ovako's products that would not have been discovered without active dialogue.

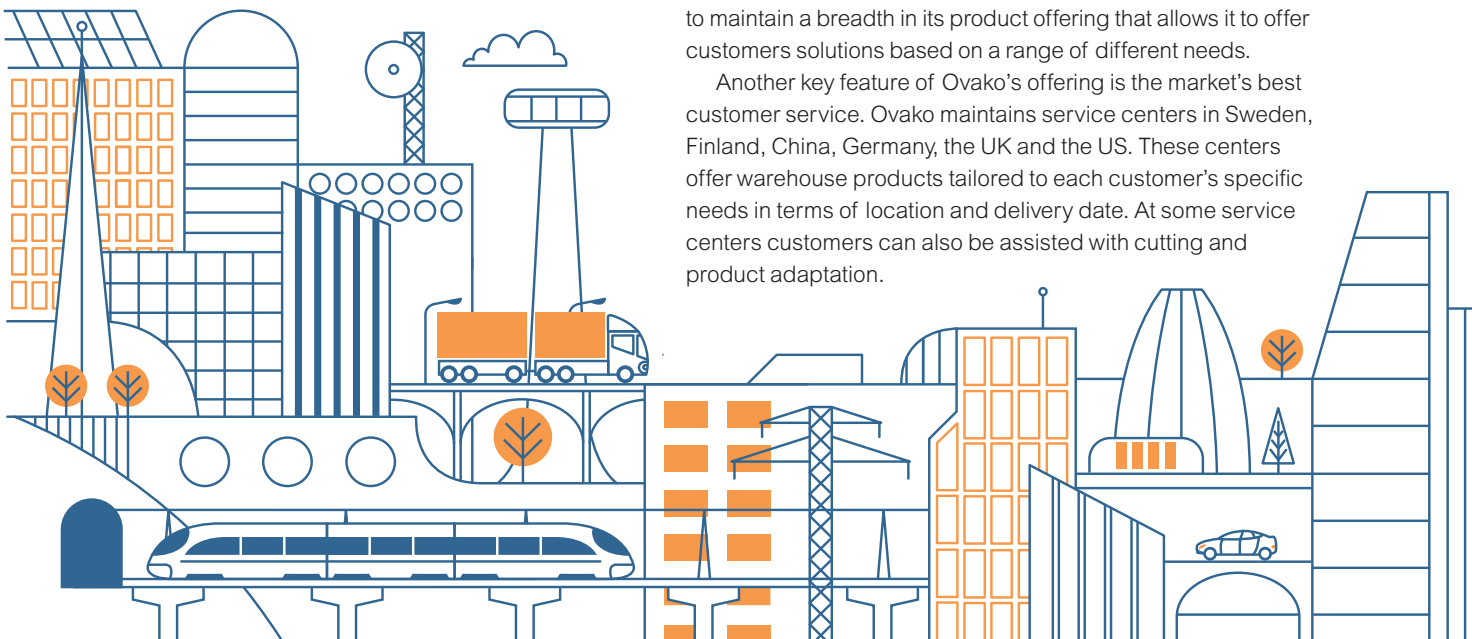
Constantly evolving products and services

Seemingly minor products adjustments can make a major difference when ultimately put to use. Accordingly, it is important to continuously make advancements on existing products and listen to customers – something Ovako is always striving to become even better at. In 2016, by maintaining a high level of product refinement and tailoring production to the customer's needs, Ovako continuously made modifications to many of its existing products, which is expected to help make a major difference for its end customers.

Ovako maintains production facilities in ten locations. Its operations are divided into three production flows: Hofors and Hällefors, Smedjebacken and Boxholm, as well as Imatra. Hofors and Hällefors produce high-quality, long steel products for customers with highly stringent demands on cleanliness and fatigue strength. Imatra maintains a strong position in Europe in the engineering steel section and produces long steel products for machining and forging.

Smedjebacken and Boxholm also produce steel products for machining and are at the cutting edge of cost-effective production, primarily of alloyed engineering steel. The Smedjebacken steel mill also produces smaller quantities of non-alloyed engineering steel, which gain added value through advanced rolling methods for specific applications that require steel with very high tolerance. Backed by these production flows, Ovako is able to maintain a breadth in its product offering that allows it to offer customers solutions based on a range of different needs.

Another key feature of Ovako's offering is the market's best customer service. Ovako maintains service centers in Sweden, Finland, China, Germany, the UK and the US. These centers offer warehouse products tailored to each customer's specific needs in terms of location and delivery date. At some service centers customers can also be assisted with cutting and product adaptation.



Ovako's brands

Thanks to its market-leading products, Ovako holds a very strong position in its selected niches. Ovako can help its customers by simplifying their production with such products as M-Steel, which facilitates machining, and by improving the end product with such products as IQ-Steel, which can withstand intense and complex stress and strain. The products are categorized into various brands. Each brand represents unique properties and areas of application. For instance, bar and tube from Cromax are ideal for hydraulic components, while WR-Steel is highly durable and has a long service life in harsh environments. Ovako's brands provide a highly competitive commercial offering in several different areas.

BQ-Steel®

➔ Read more on p. 18

WR-Steel®

➔ Read more on p. 21

IQ-Steel®

➔ Read more on p. 19

SZ-Steel®

➔ Read more on p. 22

M-Steel®

➔ Read more on p. 20

Cromax®

➔ Read more on p. 23



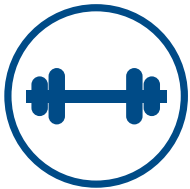


BQ-Steel®

The BQ in BQ-Steel stands for Bearing Quality. Today, many of the world's largest truck manufacturers place their trust in BQ-Steel bearings to keep their vehicles moving. BQ-Steel is gaining ground in numerous other areas of application thanks to its high fatigue strength and proven usage.

102 years

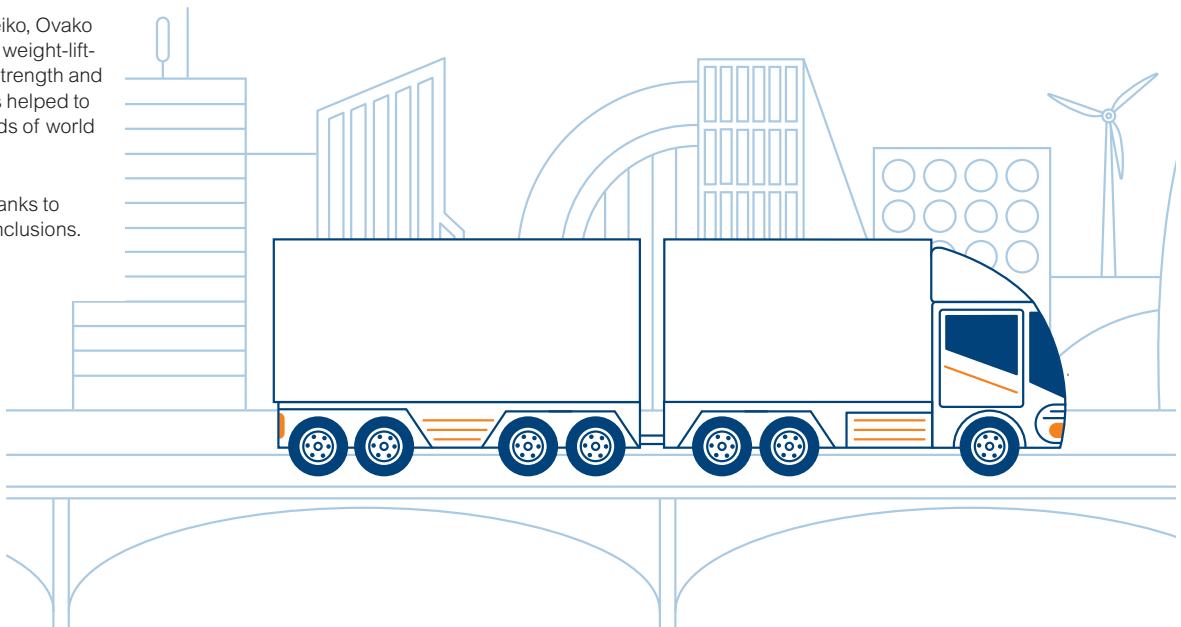
of experience as the market's highest quality for the bearing industry.



Together with Eleiko, Ovako has developed a weight-lifting bar with the strength and flexibility that has helped to achieve thousands of world records

Stronger steel thanks to reduced micro-inclusions.

BQ-Steel has a high degree of cleanliness, giving the bearings in applications such as trucks an essentially unlimited service life.





IQ-Steel®

The IQ in IQ-Steel stands for Isotropic Quality. IQ-Steel is a smart, clean steel solution suitable for reliable components that can withstand high and complex loads. The steel possesses unique multi-axial mechanical properties, in the rolling direction. The secret behind the steel's fatigue strength is that all of its inclusions are small and uniformly shaped, in the rolling directions. This has given IQ-Steel nearly twice the fatigue strength in the transverse direction as conventional steel.

130%

better fatigue strength in design direction under multiaxial loading.

150 Mtonnes

CO₂ emissions for cars with diesel injection systems using IQ-Steel have been reduced by a total of 150 million metric tons over the past 15 years.

Volvo Penta required top-grade steel to develop its new control system, called the Inboard Performance System (IPS), and therefore chose IQ-Steel.

IQ-Steel is used for applications such as diesel injection systems in cars, trucks and ships.





M-Steel®

The M in M-Steel stands for Machinability, though an alternative interpretation could be that it stands for Money, considering the amount of money this product saves its customers. The financial accounts of more than 400 customers attest to the savings that can be made using M-Steel, a steel developed for easier processing. When machining M-Steel, the service life of cutting tools can increase multifold compared with conventional steel, while the speed of machining can be increased by 30 percent.

30%

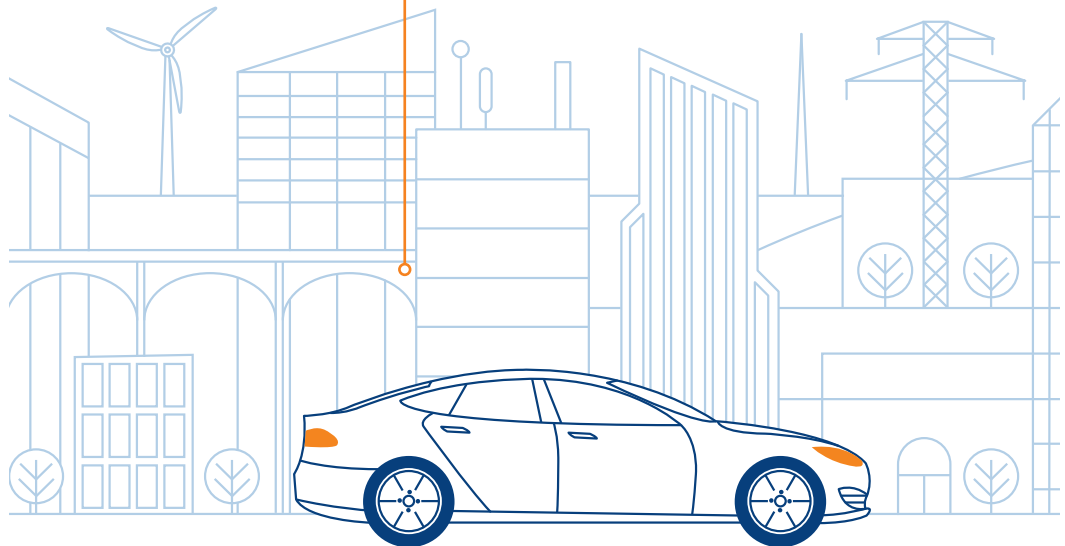
higher productivity in machining.



By switching to M-Steel, machining company Heimberger has improved productivity by almost 10 percent while reducing its costs.

The use of M-Steel has allowed Heimberger to reliably calculate precise machining times and be sure that they are always the same.

M-Steel is a steel featuring improved cutting properties and is used in the automotive and engineering industries, among others.





WR-Steel®

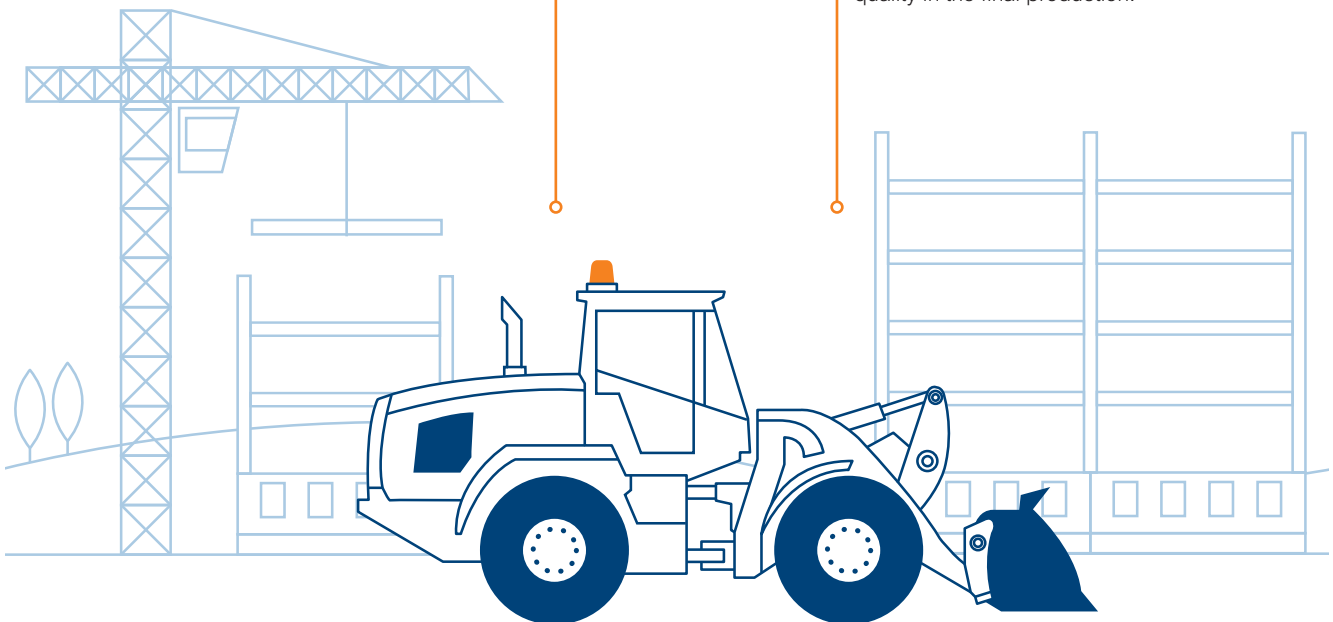
The WR in WR-Steel stands for Wear Resistance. As the name indicates, this steel is highly abrasion resistant. WR Steel eliminates or minimizes time consuming processing and heat treatment steps. Several varieties of WR-Steel are made from boron steel, which, despite being highly abrasion resistant, can easily be shaped to accommodate the customer's needs.

20%

higher wear resistance compared to other wear steel at the same hardness.

WR-Steel is used in applications such as agriculture and forestry, all-terrain vehicles and mining, such as for manufacturing drills that resist extreme wear.

Borox is able to supply even better products, such as cutting edges for buckets and plough blades, to its customers since WR-Steel secures a higher level of quality in the final production.





SZ-Steel®

The SZ in SZ-Steel stands for Sub-Zero. This steel is specifically designed to withstand extremely low temperatures. With clean steel qualities and a controlled grain size, the steel is able to maintain sufficient strength all the way down to 101 degrees below zero. This type of steel is used in such industries as oil and gas.

-101°C

is the temperature used when impact testing for demanding applications.



Gunnebo Industrier uses SZ-Steel for hoists in cold environments since Ovako delivers the top-quality steel required to produce to the high standards its customers expect.

Customers use SZ-Steel for components that need to withstand high shock loads and fatigue, in everything from wind turbines to anchor chains.





Cromax®

Cromax is a line of chrome-plated steel products with a high degree of strength and corrosion resistance used in piston rods. Cromax features an optimized chemical composition, enabling the diameter of piston rods to be reduced by several millimeters without compromising their safety. Meanwhile, Cromax's surface treatment ensures that the cylinders can withstand corrosion and other wear. For customers, there is an exponential relationship between a reduction in the diameter of piston rods and cost savings. A reduction of just a few millimeters can yield substantial savings in production costs for customers.

<1500

guaranteed hours before the product will corrode in neutral salt spray.



PMC Cylinders, a supplier of hydraulic components to agricultural companies, has chosen Cromax because of its capability in conditions that are exposed to dirt and corrosive fertilizer.

Cromax is used in piston rods, which are the critical components in hydraulic cylinders.



The importance of R&D

In a conversation with Patrik Ölund, Ovako's Head of Research and Development (R&D), Patrik discusses Ovako's advances and investments in R&D, and why they are important

How does Ovako use R&D?

"At Ovako, our approach includes both a short-term and long-term perspective. The short-term perspective primarily involves already established products that we continuously update and improve to ensure that they meet our customers' requirements and expectations.

The long-term perspective involves actions such as investments to develop new types of steel. These projects carry a somewhat higher level of risk, but potentially greater reward. These types of long-term projects are conducted both in partnership with customers, after having identified a market need, and on our own. It may involve developing brand new types of steel that are not geared toward specific customers."

What challenges and opportunities do you foresee?

"The greatest challenge for many of our customers is the need to reduce carbon emissions. By developing stronger steel, which ultimately leads to smaller and lighter components, we can help our customers reduce their emissions.

Along with a number of Swedish industrial companies, we recently initiated a pilot project whereby we have begun developing ausferritic steel. This steel enables the dimension of components to be reduced, while maintaining or improving

the properties of the steel. For instance, this allows trucks to become more space- and fuel-efficient, which in turn leads to increased cost-efficiency. This project has received considerable media attention and companies like Volvo have shown an interest in the work."

What are the keys to successful R&D?

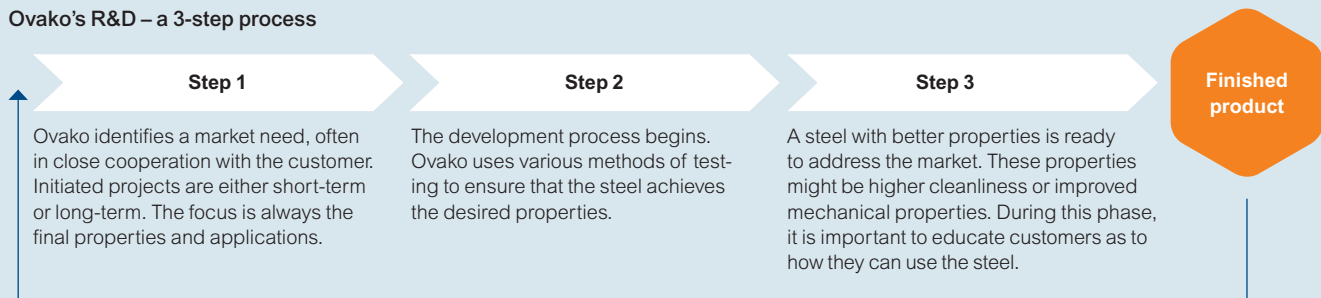
"A substantial number of our projects are conducted with customer involvement in one way or another. This is absolutely decisive in understanding the customer's need to be able to meet a demand. Equally important is that we figure out new solutions on our own, that customers have not yet realized they need. An example of this is our successful work on IQ-Steel."

What is the next step?

"Our R&D efforts are constantly making progress. We have multiple projects under way that are in various stages of development and the definition of progress differs somewhat depending on where we are in the process.

Right now, two projects with ongoing patent processes are the closest to being launched. One is a brand new steel for which we have high expectations and that will soon be available on the market, but I cannot tell you any more than that!"

Ovako's R&D – a 3-step process



Ovako continuously evaluates and develops the products together with the customer.



Ultrasound creates cleaner steel

Ovako works continuously to develop its existing measurement techniques to make them even better at detecting impurities in the steel. Immersive ultrasonic testing is an efficient test method that can cover a large material volume. By incrementally increasing the frequency of the ultrasound it is possible to detect increasingly small defects. This method means that Ovako is able to develop even cleaner, and therefore more durable, steel.



Initiatives to create a prosperous region

Development company Samarkand2015 was founded in 2002 by the municipalities of Ludvika and Smedjebacken. Ovako and other partners are collaborating to develop the region and attract and retain qualified labor. In addition to an attractive labor market, access to good education, social services and a quality of life that appeals to the entire family are key features of a prosperous region. Collaboration under the framework of Samarkand2015 is creating added value for companies, government agencies and organizations in Ludvika and Smedjebacken. By working together, the parties are improving their ability to act in the market and influence other players, while also enhancing their efficiency and reducing their costs.



Ovako – part of the community

For Ovako, it is important to conduct business practices that are both responsible and sustainable vis-à-vis all of the company's stakeholders. Accordingly, Ovako works constantly to add to the public good at every level. We add to the public good not just by manufacturing high quality products and maintaining strong relationships with our customers, but also by proactively working with safety, the environment and our employees.

In order to remain at the cutting edge, Ovako has developed ambitious long-term initiatives that go beyond the legislation governing occupational health and safety standards and environmental protection practices. These initiatives aim to ensure Ovako's social, ethical and environmental responsibilities. Practices that add to the public good are codified in Group-wide pol-

icies governing the environment, safety, energy and industrial safety, as well as in the company's Code of Conduct and core values.

Community role

Ovako's main production sites are located in Finland and Sweden and is a major employer in several of the communities close to the sites. As such, it is important for Ovako to take responsibility for developments in these locations, which goes beyond the responsibility of a normal employer. Ovako gets involved locally in several ways and maintains close cooperation with the local community.

Ovako is involved in several local commerce organizations aimed at promoting local business development and growth. These activities include partnerships with Entré Hofors, Samarkand2015 and Triple Steelix – all of which are regional development initiatives aimed at strengthening the steel and engineering industries in the Bergslagen region in central

»Ovako adds to the public good not just by manufacturing high quality products and maintaining strong relationships with our customers, but also by proactively working with safety, the environment and our employees.«

Sweden. These initiatives bring together the business community, municipalities and higher education institutions to strengthen local business communities. In Finland, Ovako is a member of the Finland Chamber of Commerce, which aims to promote the competitiveness of local communities. Ovako also contributes to local societies through sponsorships – primarily concerning athletic activities. In Smedjebacken, for example, Ovako sponsors the Norrbärke Nordic skiing club, Smedjebacken football club and Smedjebacken Hockey, with a focus on youth activities. The ice hockey arena has also been named Ovakohallen.

To ensure a continuous flow of talent that can contribute to the future development of the steel industry and Ovako, the company has established close partnerships with universities and higher education institutions in Finland and Sweden over time. As an example, engineering students can take on a traineeship or write their thesis at Ovako. In several locations, Ovako is collaborating with Teknikcollege, an educational network that ensures the quality of technical educational programs in close

cooperation with local technical and industrial companies.

Ovako is one of the participants in the strategic innovation program, “Metallic materials”, run by VINNOVA, Sweden’s innovation agency. The program aims to enhance the innovative ability of industries that are key to Sweden by promoting partnerships between the business community, public sector and academia. The program is operated in collaboration with the Swedish Energy Agency and the Swedish Research Council, Formas, and encompasses all of Sweden’s metal industries.

Ovako has signed the Worldsteel Sustainable Development Charter, thus abiding by the sustainable development policy established by the World Steel Association in 2012. Ovako is also a member of both the Swedish and Finnish steel industry associations and its European counterpart, Eurofer. Under the framework of these collaborations, Ovako takes part in efforts to promote environmental and other sustainability-related matters.

In 2016, Ovako paid EUR 1.3 million in taxes and EUR 41.8 mn in social security fees.

Ovako supports local educational initiatives

The Children’s Summer University in Imatra, Finland, offers children aged 8-12 an opportunity to learn something new by testing and exploring different fields of science and research in a fun and innovative way. Ovako has been a supporter of the Children’s Summer University for several years. In Hällefors, there is a high school certified by Teknikcollege – a quality control initiative backed by an industrial trade council – located in Ovako’s industrial area. A total of 28 students attend this school, primarily studying the steel process and maintenance courses. Ovako has trained instructors who tutor the students in work-based learning during their studies. In addition, all eighth graders take their Technical courses with Ovako at the high school. These initiatives are part of Ovako’s efforts to secure its future skills sourcing needs.





The lifecycle of steel

All of Ovako's manufacturing is scrap-based and Ovako is one of the largest Nordic consumers of scrap steel. This means that Ovako does not mine any new iron ore. Steel can be recycled an infinite number of times without its properties deteriorating, and by utilizing scrap Ovako can manufacture steel with less environmental impact and without compromising the quality of the steel.

To further reduce our environmental impact, the scrap that we use in our operations is sorted into various quality categories depending on content, size and shape. This optimizes usage of the steel's alloy elements, thus requiring fewer new alloy elements to be added during production. By working with scrap-based steel production, Ovako minimizes its environmental impact and adapts its operations to the circular economy of the future.





Employees and the working environment

Ovako has 2,773 employees and is represented in more than 30 countries. Our employees are Ovako's most important resource and it is of utmost importance for Ovako's development that all of our employees are content, enjoy their work and continuously develop their skills in order to better meet our customers' needs.

Ovako's safety practices

Ovako maintains clear guidelines and structures for its safety practices. In conjunction with new investments and projects, extensive safety assessments are always conducted. These assessments are based on laws, regulations and external standards, but also on internal rules. Risk analyses of production processes are also a natural part of our operations and Ovako imposes rigorous demands on all of its facilities, thus making Ovako an ever-safer workplace.

The safety of our employees is a prioritized matter for Ovako, and an area in which the company is always investing and looking to improve. Ovako's long-term goal is for zero accidents to occur at the workplace, and in the past five years, accidents have been halved.

In order to achieve its safety objectives, Ovako has developed an ambitious, Group-wide safety program: *Safety at Work*. The program encompasses several initiatives and aims to further integrate safety practices into day-to-day operations. In 2016, advancements were made to the program and many key steps were taken to further enhance the safety culture. Two internal management conferences focused on safety were held during the year. To further strengthen the safety culture, three e-courses have been launched: *Safety at work*, *Fire safety* and *First aid*. These e-courses now form part of the introduction for new employees.

Efforts are also constantly being made in day-to-day operations to make Ovako a safer workplace. In 2016, for example, a major review was conducted of all of the company's cranes to further enhance safety when engaging in heavy lifting. On one day a year, safety practices are given extra attention throughout the Group in a concept called *Safety Day*. During *Safety Day 2016*, employees took part in workshops and listened to guest speakers to remind them about the importance of safety, to learn and to be inspired to focus more on safety in the future.

Skills development

The fact that our employees are constantly developing and gaining a better understanding of how to meet customers' needs is a pivotal strength for Ovako and a fundamental factor in making our company more competitive. Our employees' skills develop through their daily work and through training courses. The company's training needs and offering are continuously reviewed and added to in order to meet all ability needs. In 2016, Ovako invested in an educational platform in order to simplify management of the training courses. Ovako also strives to identify expertise in various locations and develop methods to allow different parts of the operation to share knowledge with one another.

In 2016, a new training portal, *Ovako Skills*, was launched. In *Ovako Skills*, all employees have their own personal page with access to their course history, mandatory training courses related to their position, certifications, learning record and training course plan. All managers also have a personal page on the management portal where they can monitor the progress of their employees and access reports regarding certifications, completed courses, training plans and so forth. *Ovako Skills* also offers more effective learning through the distribution of e-courses and other virtual methods that can be accessed regardless of location, and longer training programs with various interactive functions and methods.



Ovako's managers play a key role in the development of both employees and the company. During the year, Ovako continued in its development of the company's managers through actions such as a company-wide leadership program for first-line managers. The program aims to strengthen managers' knowledge, understanding and ability to create the means for strong employee performance and development. In order to ensure development, innovation and change, the program is conducted using training modules, implementation assignments, lectures, coaching that is closely linked to its participants' daily work, and using cross-functional management conferences that address the entire company and the wider world. In the past year, safety training courses have also been integrated. This program will continue in 2017.



Health and wellness

Ovako aims for all of its employees to be healthy, both during their time at the company and when they retire. In order to achieve this, Ovako strives to be a receptive employer focusing on the individual's needs and proactively promoting health efforts. Ovako works to identify signs of illness early on among its employees and to address these signs using customized solutions. Ovako also engages in preventative measures by trying to adapt each individual's work situation to give that person the best possible means to be able to perform and feel content.

In 2016, Ovako restructured its health efforts, placing a single subcontractor in full charge of its company healthcare throughout Sweden, instead of having a number of different parties involved. This guarantees that all employees' needs will be met in a sensible and equal manner.

Ovako also engages in local health efforts in all of its locations, with a focus on leadership, health inspiration, wellness contributions, exercise options and financial support for recreational clubs.

Focus on safety

During the year, Ovako held two safety conferences – one in Sweden and one in Finland – with more participants than ever before. The focus of the conferences was safety and how safety practices can be improved at all facilities.

The conferences were held in Hofors in Sweden and Imatra in Finland. Each conference was held over the course of a full day and conference participants collectively discussed the challenges and objectives of the safety practices within the framework of the *Safety at Work* program.

Invited experts shared lessons on safety, and Ovako's owner Triton and one of Ovako's customers also provided their views on safety.

The aim of the conferences was to produce a joint objective in terms of safety practices, to achieve an understanding of the challenges, to discuss the role of leadership in the safety culture and to jointly outline the next steps regarding safety practices. Conference participants from various facilities were given an opportunity to share lessons with one another and to be inspired.

By giving employees safety training, Ovako hopes to be able to increase awareness about safety practices throughout the entire organization. With their newfound knowledge, conference participants act as ambassadors and share lessons from the conference with their colleagues.



Environment

Ovako strives to manufacture steel that is not only competitive in terms of quality, but also has less of an environmental impact than its competitors' steel – a concept that Ovako calls Green Clean Steel. In order to minimize its environmental impact, the company is constantly working to use raw materials and energy as efficiently as possible and to reduce its emissions to air and water. During 2016, Ovako reduced its total energy consumption by 6.8 percent to approximately 1,500 kWh/ton.

Since manufacturing steel is an energy intense process, it is of considerable importance that the steel industry be responsible for reducing its own and its customers' and suppliers' environmental impact. Ovako's steel is used in products that help reduce the environmental impact in the use phase, but it is also important for Ovako to conduct production with as low an environmental impact as possible.

In addition to complying with current legislation and standards that are imposed on the basis of the certifications Ovako has obtained, the company also engages in its own initiatives. Internally, Ovako has ramped up discussions about key environmental aspects and what steps should be taken going forward.

Local environmental efforts

Most environmental efforts are conducted locally. Each facility engages in independent monitoring efforts, which include sampling and monitoring of emissions to air and water. In the past year, several initiatives have been taken at local level to help reduce



Ovako's environmental impact. Several furnaces have been made more energy efficient through the use of LPG instead of oil. Ovako has invested in new filters that reduce dust emissions from its operations and help reduce the spreading of metals to the local environment. At the facilities in Hofors and Smedjebacken, more energy-efficient oxyfuel burners have been installed, which also reduce nitrogen oxide emissions to the air.

-15%

Ovako's use of drinking water has decreased by 15 percent during the year, equivalent to 49,000 m³.

Certifications

Ovako is certified in accordance with the international standard for environmental management systems, ISO 14001, which lends structure to our environmental efforts and their continued development. Our operation is quality-certified under ISO 9001 and certain units are also ISO/TS 16949-certified for the automotive industry, ISO 50001-certified for energy management systems, and OHSAS 18001-certified for occupational health and safety management systems.



Ovako part of Electric Road Gävle

On June 22, 2016, the world's first electric road was opened to heavily loaded vehicles on a public road. The Electric Road is a two-kilometer stretch of the E16 highway between Hillsta and Sandviken in Sweden. Region Gävleborg, a regional development organization, is coordinating the effort and Ovako is one of several business partners involved. The aim of the project is to examine the possibility of replacing elements of heavy vehicular traffic with a more climate-friendly alternative. The project is meant to provide the Swedish Transport Administration, the Swedish Energy Agency, and Vinnova – Sweden's innovation agency – with knowledge, experience and means ahead of the potential electrification of major transportation routes in Sweden. The local business community is backing the initiative, which serves as a testament to the strength of local collaborations.

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Improved position in recovering market

Intense internal efforts combined with a slowly recovering market have generated positive results for Ovako in 2016.

During the year, Ovako has worked on a number of focus areas aimed at enhancing operational efficiency. The restructuring program has made a substantial contribution to the improvement in earnings that we are now observing. Commitment and participation within our organization have played a key role in the implementation of the restructuring program surpassing expectations. The initiatives that have been taken and those that will be taken during the remaining phases of the restructuring program are improving Ovako's competitiveness and ability to generate earnings. Moving forward, a variety of efficiency enhancement initiatives will be a feature of everyday operations at Ovako.

Another key component adding to our positive earnings trend during the year is a stronger commercial focus. We have bolstered sales volumes by providing the market with a distinct product offering. Our new joint sales organization and more effective sales practices have added to our positive commercial performance and will serve as a source of traction in the coming years, alongside our continued cost-savings efforts.



Johan Ryrberg, CFO

One of the challenges that will be facing the new organization during the year is how we can increase our volumes while maintaining our price mix. During the year, we have noted higher volumes in new customer segments, but at lower margins.

Despite lower prices, this business has generated positive results thanks to our continuous efficiency enhancements. By next year, we foresee opportunities for greater earnings potential through higher and more diverse pricing. Based on the positive market sentiments in late 2016, we are also hoping for increased volumes.

Although we noted an improved market sentiment in the global steel market during the second half of the year, Ovako's continued performance is not contingent on this trend. A stable industrial economy in the Nordic region and the rest of Europe, however, is central to a continued systematic improvement in our financial position and competitiveness.

Thanks to the initiatives that we have completed and those in progress, we have noted a rise in EBITDA. Cash flow improved during the year, primarily driven by our positive earnings trend. While 2016 ended on a positive note, much remains to be done before we achieve a satisfactory financial position. We are now seeing trends indicating a strengthening market. The continued effective implementation of our restructuring program combined with our expanded commercial focus will improve Ovako's position in the steel market. Backed by a strong year-end to 2016, we have a confident outlook for the future.

Johan Ryrberg
CFO

Statutory administration report

The Board of Directors and CEO of Ovako Group AB (company registration no. 556813-5361) hereby submit their annual report for the operations of both the company and the group during 2016.

Operations

Ovako is a leading European producer of engineering steel for customers in the bearing, transport and manufacturing industries. Ovako manufactures engineering steel with properties such as high strength and wear resistance. With a steel range composed of tailored solutions for different types of application, Ovako strives to assist with making a noticeable difference for its own customers and for its customers' customers.

Ovako's customers are found mainly in the European engineering industry and its subcontractors. Customers are generally leading premium manufacturers in their segments that place intense demands on the properties of the steel. Production comprises primarily bar, tube, ring and pre-components in low-alloy steels that are often used for demanding applications such as in bearings, power-trains, hydraulic cylinders and rock drills.

Ovako has ten production sites and is represented in more than 30 countries. It has sales offices in Europe, North America and Asia. The steel production is based on scrap, making Ovako one of the Nordic region's largest consumers of recycled scrap.

Ovako's units are certified according to the international standard for environmental management, ISO 14001. The operations are also quality assured in compliance with ISO 9001, and some units are also certified in accordance with ISO/ TS 16949 for the automotive industry and the OHSAS 18001 management systems for occupational health and safety.

Ovako generates value by offering world-leading niche products and customer-tailored services. Ovako's vision serves as the basis

of the offering and is being realized by engaging in sustainable production and adhering to the core values.

Business concept: Ovako works closely with its customers in the transport and manufacturing industries, and selectively enters into strong partnerships with major customers on a global basis. A value proposition based on delivery performance, advanced application development and industry-leading quality make Ovako the foremost supplier of engineering steel in Europe. Ovako's approach is decentralised and flexible, and decision paths are short to best meet customer needs.

Vision: "Innovative steel for a better engineered future"

Ovako's vision sets out the direction for the ongoing work of the organisation, and means that Ovako, together with its customers, will develop high-quality and innovative steel that shapes a better future.

Core values: The overall objective of Ovako's core values is that they should reflect the company's soul and culture. The core values describe what Ovako stands for, both now and in the future. Integrating the core values in our day-to-day activities is an important step in being able to fulfil the vision.

Innovative – We contribute to progress and new ways of thinking.

Skilled – We use knowledge and collaboration to provide our customers with better solutions.

Responsible – We take responsibility for our tasks and for each other and act with respect for our society.

The table of key performance indicators (KPIs) contains data taken directly from the financial statements and information that can be derived from these, as well as statistical information. A reconciliation between financial KPIs and the financial statements, including those KPIs that are not defined under IFRS, is presented on Page 78, and definitions of all KPIs can be found on Page 79. KPIs are presented as a supplement to the financial statements to facilitate the understanding of performance and financial position over time.

Key data	2016	2015	2014	2013	2012
Sales volume, thousand tons	708	681	697	675	694
Net sales, EURm	780.8	834.1	862.1	849.9	937.1
EBITDA before restructuring costs, EURm	56.8	47.5	68.5	50.2	69.9
EBITA before restructuring costs, EURm	24.9	16.2	38.7	22.5	44.5
EBIT before restructuring costs, EURm	15.9	7.3	15.3	3.1	23.8
EBITDA, EURm	49.9	43.5	68.5	46.5	66.0
EBITA, EURm	18.0	12.2	38.7	18.8	40.6
Operating profit (EBIT), EURm	9.0	0.6	14.7	-0.6	19.9
Adjusted EBITDA margin, %	7.3	5.7	7.9	5.9	7.5
Adjusted EBITA margin, %	3.2	1.9	4.5	2.6	4.7
Adjusted EBIT margin, %	2.0	0.9	1.8	0.4	2.5
EBITDA margin, %	6.4	5.2	7.9	5.5	7.0
EBITA margin, %	2.3	1.5	4.5	2.2	4.3
EBIT margin, %	1.2	0.1	1.7	-0.1	2.1
Profit/loss for the year, EURm	-11.8	-22.9	-15.1	-20.6	-3.7
Cash flow from operating activities, EURm	34.7	25.2	65.8	19.8	86.9
Net debt/equity ratio, excl provision for pension %	205	181	152	160	130
Return on capital employed (ROCE), %	2	0	3	0	4
Employees at the end of the period, FTE	2,773	2,905	2,925	2,995	3,040

Ownership structure

The group in its present configuration was formed on 29 September 2010 through acquisition of all shares in the Ovako companies within the divisions Bar, Bright Bar and Tube and Ring. The parent company Ovako Group AB is 100% owned by Triako Holdco AB, which in turn is 100% owned by Oven Luxco Sarl. The group is controlled directly and indirectly by Triton Fund III and Triton Fund III F&F LP, which together controls 84.26% of the equity in the Ovako group. Ovako Group AB owns 100% of equity in Ovako AB (publ) which, directly and indirectly, owns 100% of equity in the group's subsidiaries.

Market development

Ovako operates in the market for long, low-alloy steel products, called engineering steel. Ovako is the only Nordic company in its product segment, and holds a leading position in the European engineering steel market and in a number of global niches. Ovako's competitiveness is based on Ovako's ability to manufacture specialised products that generally create more benefit for customers without increasing their costs.

It is essentially the European engineering industry and its sub-contractors that make use of Ovako's products, often in demanding applications such as for ball bearings, powertrains, hydraulic cylinders and rock drills. Customers are generally leading premium manufacturers in their segments that place intense demands on the properties of the steel. The request for Ovako's steel is also high from customers in North America and Asia, in the most demanding applications.

Geographically, the important Scandinavian and Finnish markets had a weak development during the year. This was offset by strong growth in Eastern Europe and Asia. Among other things, the sales of bearing steel and to the mining industry in Asia have grown strongly during the year.

Toward the end of the year, a positive sentiment was shown in the market in most of Ovako's segments, with a general increase in demand and higher pricing as a result.

Sales and profit

Ovako demonstrated clear operational and financial improvements in 2016. Order intake for the full-year increased by 6 percent, and sales volume was 4 percent higher than in the previous year. EBITDA before restructuring costs improved to EUR 57 (48) million, and cash flow from operating activities improved to EUR 35 (25) million.

The implementation of the restructuring program, which was initiated during the last quarter of 2015, is ahead of schedule, and in 2016 Ovako achieved savings of EUR 23 million, compared to the originally announced EUR 18 million. For 2017, the plan is to implement further savings of EUR 18 million. The program, covering the years 2015 - 2017, has been expanded from EUR 45 million to EUR 50 million in aggregated savings and the complex decision to close the rolling mill in Hällefors was withdrawn. Instead, introducing faster, simpler and greater savings in other areas has resulted in positive effects in 2016.

Sales volume increased by 4 percent compared to the previous year and amounted to 708 (681) thousand metric tons. Ovako's production volume was 6 percent higher than in the previous year and amounted to 915 (867) thousand metric tons, expressed in terms of crude steel production (i.e. production in the steel mills but prior

to further processing). Revenue, however, decreased by 6 percent compared to the previous year to EUR 781 (834) million. The trend in revenue does not follow the sales volume due to lower prices (including lower scrap and alloy surcharges) and because volume growth took place mainly in segments such as standard bearings and forging applications, while development has remained weak in industrial bearings, and in oil and gas.

Reported sales volumes relate to Ovako's own production, and have thus not been affected by third-party products sold mainly through Ovako Metals Oy Ab, which is included in the income statement from April 1, 2015. The acquisition has contributed to an increase in revenue of 2 percent, due to the fact that revenue from Ovako Metals Oy Ab is included for 12 months in the current year, instead of for 9 months in the comparison year.

EBITDA before restructuring costs improved to EUR 57 (48) million and as indicated above, savings from the restructuring program, in lower fixed and variable costs, contributed EUR 23 million. The change in sales mix, however, had a negative impact. Profit for the previous year included a positive effect of EUR 3 million from the acquisition of Ovako Metals Oy Ab, which took place at a price below the market value of acquired net assets. Scrap and alloy timing effects have impacted results by EUR 0 (-8) million. Sales prices are normally adjusted by scrap and alloy surcharges (which is described in more detail under raw material price risk on page 38). Timing effects may occur since the principles of scrap and alloy surcharges on invoicing do not account for the entire period between the date of purchase of scrap and selling the finished product. Large and rapid decline in scrap and alloy prices (as in 2015) will have a negative effect on earnings and increases will consequently have a positive effect. Stable prices, which has been more common historically, will have no effect on earnings and margin. In 2016, variations has occurred during the year, however, for the full year the effect is neutral on profit and loss for the year.

Restructuring costs of EUR 7 (7) million were charged against profit, including impairment of EUR 0 (3) million. Total depreciation and amortization, including this impairment, amounted to EUR 41 (43) million, and operating profit (EBIT) was EUR 9 (1) million including restructuring costs. Net financial income amounted to EUR -23 (-27) million, and was influenced by currency effects of EUR 3 (0) million. Profit before tax amounted to EUR -14 (-26) million, and net profit was EUR -12 (-23) million. Return on capital employed (ROCE) was 2 (0) percent.

Cash flow

Cash flow from operating activities (including interest paid) for the full-year amounted to EUR 35 (25) million. This includes payment of restructuring costs of EUR -8 (-1) million. Cash flow before financing activities amounted to EUR 0 (-16) million. The stronger cash flow is explained mainly by the improvement in profit and lower investment.

Financial position

The group's loans amounted to EUR 300 (300) million and consist of listed senior secured notes due in June 2019. Interest-bearing liabilities after deduction of financing costs recognized as a deduction from the liability on the balance sheet amounted to EUR 295 (293) million. Net debt (excluding pension liabilities of EUR 75 (68) million) amounted to EUR 246 (244) million.

Equity amounted to EUR 120 (135) million, and the net debt/equity ratio (excluding pension liabilities) was 205 (181) percent. A change in the assumption for the discount rate used in measuring pension liabilities, from 3.2 percent at the start of the year to 2.5 percent at the reporting date, has meant that the liability has increased by EUR 9 million and equity has decreased by EUR 7 million (after taking into account deferred tax) since the start of the previous year.

The group's liquidity buffer of EUR 88 (88) million comprises cash and cash equivalents of EUR 49 (49) million and unutilized contract-ed loan commitments of EUR 39 (39) million.

Investments

Investments in intangible assets and property, plant and equipment during the year amounted to EUR 34 (35) million.

Employees

Ovako had a total of 2,773 (2,905) full-time equivalent employees at year-end. The workforce percentages in Sweden and Finland, where most of the group's production facilities are located, were 73 (74) % and 20 (20) %. The workforce percentage in other countries was 7 (6)%. Information on the remuneration of senior executives is shown in Note 28.

2016 saw clear results from the group-wide safety efforts. The number of accidents decreased by 20 percent compared to the previous year. This is the result of many different initiatives and actions, as well as a major commitment to safety efforts at Ovako. The goal is to create a completely accident-free Ovako, and these efforts continue with undiminished strength.

Research and development

Costs for research and development were EUR 4.2 (4.2) million. These are recognised in profit and loss. This includes only work related to dedi-cated product and materials development and not the process development carried out within each unit.

The central research and development unit is tasked with pursuing advanced research and development and making the results and applica-tions available within Ovako. The work involves a wide network within the group as well as partnerships with selected external research units and key customers. The unit's key strength is its expansive knowledge of the entire process chain from scrap to alloys and treatment of raw materials to the finished product at the customer.

Disputes

As described in Ovako's annual report for 2015, the tax authority in Finland has sought to limit the deductibility of interest expense for the years 2010-2013. Ovako Finland Oy Ab has now received notice of changed taxation from the Finnish tax authority that relates to interest expense on loans from Ovako Finland Oy Ab's Swedish parent company, Ovako AB (publ), which the authority regards as non-deductible. The demand amounts to EUR 9.5 million (including interest and penalties). After consulting with external tax lawyers, Ovako disagrees with the ruling from the Finnish tax authority and has appealed. Ovako will not be required to meet the demand for payment until after a final ruling on the appeal. Ovako has not concluded that it is necessary to make any provision for this potential cost.

Risks and risk management

Risk management at Ovako aims to minimise operational risks while equipping the company to take optimal advantage of business opportunities.

Market-related risks

Ovako's results and financial development are affected by a large number of factors, several of which are beyond the company's control.

Volatility in global financial markets in recent years has made apparent several of the risks and uncertainty factors that surround operations. These risks are mainly related to the macroeconomic effects on demand, market prices and financing.

Ovako's underlying market is cyclical and the consequence of weak demand may include lower sales volumes and/or falling market prices. The process of identifying and assessing risks and taking decisions as to how and to what extent risks should be addressed is a priority within the group. In the past year, Ovako has for example continued to take action to improve flexibility in operational costs and to enhance capacity to withstand weak market trends. Focus has been on ensuring a more flexible cost structure while maintaining the capacity and workforce that will be required in a future expansive phase.

Raw materials price risks

Surcharges are applied to iron scrap and alloys, the group's main raw materials, which is an established method of adjusting steel prices in re-sponse to national and international variations in costs for scrap and alloy elements. The surcharges are generally based on published prices for the respective raw materials. Scrap and alloy surcharges are applied so that longer-term price agreements can be negotiated, which benefits both customers and suppliers. Depending on the underlying price structure in price agreements, scrap and alloy surcharges vary among different suppliers and countries. In a normal year, there are limited positive and negative effects on earnings due to that the price to the customer does not completely mirror the price of the material, since the time between purchase and sale may vary, for example depending on the type of prod-uct.

Ovako's larger production units in Sweden and Finland which use electric arc furnaces (EAFs) in the steel production process, require sub-stantial quantities of energy. In a normal year, the group uses approximately 1 TWh of electricity in these two countries.

To mitigate electricity price volatility that causes fluctuations in cash flow and earnings, Ovako uses hedging measures by which portions of the variable price of electricity are transferred to a fixed price. Management is responsible for managing electricity price risks in accordance with the finance policy and the guidelines adopted by the Board of Directors. Find more details on electricity price risks and hedges in note 23 Financial risks.

Emissions credits

Management is responsible for managing any emissions credits deficits or surpluses by means of external trading with approved counterparties. There has not been any emissions trading during the year.

Operational risks

There are several processes involved in steel production, and disruptions in one process may have serious effects in other process streams. There is risk that operational downtime caused by factors such as transport problems or process disruptions will become very costly. These risks are mitigated by optimising raw materials inventories, work in progress and finished goods inventories. More focused maintenance activities and possibilities to shift production between mills also contribute to mitigating operational risks. Ovako also carries insurance to minimise costs in the event of damage and disruption.

Financial risks

The group is exposed to various types of financial risks including market risks (including currency risk), liquidity and refinancing risks and credit and counterparty risks. The group's finance policy, adopted by the Board of Directors, provides guidance on managing these financial risks. The purpose of the policy is to establish general financial targets, allocation of responsibilities and threshold limits in respect of financial risks, and to describe actions that can be taken to mitigate these financial risks within the framework of strategic and operational financial risk management of the group and its business units.

The main objective of group financial risk management is to mitigate the adverse impacts of financial risks on consolidated earnings, cash flows and equity and to assure adequate liquidity.

The group shall not engage in hedging transactions or financial transactions that are unrelated to operating activities or may otherwise be re-garded as inappropriate management of the group's financial exposure. Purely speculative financial transactions are not permitted.

The majority of the group's financial transactions and financial risk management are managed centrally through group treasury. Financial risks and financial risk management are described in greater detail in note 23.

Environmental impact

All operations at Ovako hold licences for their activities in accordance with the legislation of each respective country. In Sweden, it is the Land and Environment Court that establishes operating permissions and environmental conditions for the larger units. For the smaller units, it is the environmental assessment delegation of each county administrative board that scrutinises environmental activities. In Finland it is the Regional State Administrative Agency that determines conditions for Ovako Imatra.

The licences regulate, among other things, production levels, emissions to air and water, noise, handling of intermediate storage and landfill. All units within the group conduct their operations in accordance with their licence to operate. All units have statutory environmental insurance.

The environmental licenses in Smedjebacken and Hofors were renewed in 2015. The license for the operations in Imatra, Finland, was renewed in 2014.

Events after the reporting date

In January 2017, Ovako has extended its Pension Insurance Line of SEK 440 million (equivalent of EUR 46 million) and Revolving Credit Facility of EUR 40 million until end of February 2019 (both were previously set to mature in November 2018). The other conditions for both agreements remain the same.

In January 2017, Phetra Ericsson, previously HR Manager for the Hällefors business unit, was appointed as the new Executive Vice President HR, Communication & SHE for the group, replacing Karin Lagerstedt Woolford, who has left the group in February 2017. Phetra Ericsson has been at Ovako since 2011, and has 16 years of experience in the field of human resources and leadership from several different industries, as well as operational experience, including as acting Site Manager at Ovako in Hällefors since the summer of 2016.

Short-term outlook

With an extensive restructuring program under implementation, and with contractual base price rises in place, Ovako looks forward with confidence to 2017. That said, in order to achieve a really strong full-year 2017 the support of a stable industrial market in the Nordic countries and the rest of Europe is also needed.

The assessment for the first quarter of 2017 is that sales volumes will be slightly higher than for the corresponding period of the previous year. Increases in base prices will have a positive impact on profits from the second quarter, linked to the timing of reviews for most annual contracts.

Parent company

The object of the parent company's business is to own and manage shares in other companies that develop, manufacture and sell steel products, and to engage in related business. The company has no employees. There were no capital expenditures in 2016 (2015). Revenues consist of interest on receivables from subsidiaries. Operating expenses consist primarily of directors' fees. Operating profit amounted to EUR -0.2 (-0.2) million and net profit was EUR 1.1 (-9,4) million. The parent company has assets of EUR 205 (204) million and equity of EUR 192 (191) million.

Proposed disposition of profit

The following funds in Ovako Group AB (company registration no. 556813-5361) are at the disposition of the annual general meeting:

Retained earnings, EUR	190,791,448
Profit/loss for the year, EUR	1,051,494
Total	191,842,942

The Board of Directors proposes transfer of profits to retained earnings.

Consolidated income statement

EURm	Note	2016	2015
Revenue	2,3	780.8	834.1
Cost of goods sold	3,4	-716.1	-778.8
GROSS PROFIT		64.7	55.3
Selling expenses	3,4	-30.1	-30.2
Administrative expenses	3,4	-28.6	-30.1
Other operating income	5	3.0	5.6
OPERATING PROFIT		9.0	0.6
Financial income	6	3.3	0.6
Financial costs	7	-26.4	-27.2
Share in profit of associates	11	0.0	0.0
PROFIT/LOSS BEFORE TAX		-14.1	-26.0
Taxes	8	2.3	3.1
PROFIT/LOSS FOR THE YEAR		-11.8	-22.9
Profit/loss for the year attributable to:			
Owners of the parent		-11.8	-22.9
Total		-11.8	-22.9
Earnings per share, EUR	18	-235	-458

Consolidated statement of comprehensive income

EURm	Note	2016	2015
Profit/loss for the year		-11.8	-22.9
Items that will be reclassified as profit or loss			
Exchange differences	18	-0.6	1.7
Cash flow hedges	18	5.9	-1.6
Tax attributable to cash flow hedges	14	-1.3	0.3
		4.0	0.4
Items that will not be reclassified as profit or loss			
Revaluation of pension obligations, net	19	-9.3	11.1
Tax attributable to revaluation of pension obligations	14	2.0	-2.4
		-7.3	8.7
Other comprehensive income for the year, net of tax		-3.3	9.1
Total comprehensive income for the year		-15.1	-13.8
Comprehensive income for the year attributable to:			
Owners of the parent		-15.1	-13.8
Total		-15.1	-13.8

Consolidated balance sheet

EURm	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Property, plant and equipment	9	311.5	318.8
Intangible assets	10	9.8	9.5
Investments in associates	11	0.1	0.1
Other non-current financial assets	12,13	6.8	6.8
Other non-current receivables	13	0.1	0.0
Derivative assets	13	0.2	1.7
Deferred tax assets	14	15.7	14.1
Total non-current assets		344.2	351.0
Current assets			
Inventories	15	201.2	189.6
Trade receivables	13,23	85.7	78.2
Other current receivables	13,16	20.0	18.7
Current tax assets		1.2	0.8
Derivative assets	13	1.5	2.7
Cash and cash equivalents	13,17	49.2	49.1
Total current assets		358.8	339.1
TOTAL ASSETS		703.0	690.1
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	18	0.0	0.0
Reserves	18	-2.4	-6.4
Retained earnings		122.2	141.3
Total equity attributable to owners of the parent		119.8	134.9
Non-current liabilities			
Non-current interest-bearing liabilities	13,21	295.0	293.0
Derivative liabilities	13	4.3	8.4
Deferred tax liabilities	14	34.8	36.5
Provisions for pensions and similar obligations	19	74.8	68.0
Other provisions	20	2.9	6.0
Other non-current liabilities	13	0.3	0.3
Total non-current liabilities		412.1	412.2
Current liabilities			
Current interest-bearing liabilities	13,21	–	–
Derivative liabilities	13	1.7	6.5
Trade payables	13	109.4	81.5
Current tax liabilities		0.0	0.5
Provisions	20	2.6	2.5
Other current liabilities	13,22	57.4	52.0
Total current liabilities		171.1	143.0
TOTAL EQUITY AND LIABILITIES		703.0	690.1

Disclosure of the group's pledged collateral, contingent liabilities and rental agreement commitments can be found in Note 25 and Note 29.

Consolidated cash flow statement

EURm	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		9.0	0.6
Non-cash adjustments:			
Depreciation, amortisation and impairment		40.9	42.9
Other adjustments	24	4.1	2.6
Cash flows from operations before changes in working capital		54.0	46.1
Changes in working capital			
Changes in trade and other current receivables		-9.4	24.5
Changes in inventories		-12.0	23.9
Changes in trade and other current payables		33.0	-40.4
Changes in provisions		-8.4	-7.1
Cash flows from operations before interest and tax		57.2	47.0
Interest received		0.6	0.6
Interest paid		-21.8	-21.3
Income tax paid		-1.3	-1.1
Cash flows from operating activities		34.7	25.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of businesses	31	-	-5.9
Acquisition of intangible assets	10	-1.6	-2.3
Acquisition of property, plant and equipment	9	-32.7	-32.7
Cash flows from investing activities		-34.3	-40.9
Cash flows before financing activities		0.4	-15.7
CASH FLOWS FROM FINANCING ACTIVITIES			
Other	21	-	-0.9
Cash flows from financing activities		-	-0.9
Increase/decrease in cash and cash equivalents		0.4	-16.6
Cash and cash equivalents at 1 January		49.1	65.0
Exchange differences in cash and cash equivalents		-0.3	0.7
Cash and cash equivalents at 31 December		49.2	49.1
Liquidity buffer including non-utilised credits	21	88.0	87.9

Consolidated statement of changes in equity

2016		Attributable to owners of the parent					Total equity
		Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings		
EURm	Note						
Balance at 1 January 2016		0.0	1.5	-7.9	141.3	134.9	
Comprehensive income							
Profit/loss for the year		–	–	–	-11.8	-11.8	
Translation differences	18	–	-0.6	–	–	-0.6	
Cash flow hedges, net of tax	18	–	–	4.6	–	4.6	
Actuarial gains and losses on pension obligations, net of tax	19	–	–	–	-7.3	-7.3	
Total other comprehensive income		–	-0.6	4.6	-7.3	-3.3	
Total comprehensive income		–	-0.6	4.6	-19.1	-15.1	
Balance at 31 December 2016		0.0	0.9	-3.3	122.2	119.8	

2015		Attributable to owners of the parent					Total equity
		Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings		
EURm	Note						
Balance at 1 January 2015		0.0	-0.2	-6.6	155.5	148.7	
Comprehensive income							
Profit/loss for the year		–	–	–	-22.9	-22.9	
Translation differences	18	–	1.7	–	–	1.7	
Cash flow hedges, net of tax	18	–	–	-1.3	–	-1.3	
Actuarial gains and losses on pension obligations, net of tax	19	–	–	–	8.7	8.7	
Total other comprehensive income		–	1.7	-1.3	8.7	9.1	
Total comprehensive income		–	1.7	-1.3	-14.2	-13.8	
Balance at 31 December 2015		0.0	1.5	-7.9	141.3	134.9	

1 Summary of significant accounting policies

General information

Ovako Group AB (company registration number 556813-5361) and domiciled in Stockholm is owned by Triako Holdco AB (company registration number 556813-5379), which is the Swedish parent of the group. The registered address of both Ovako Group AB and Triako Holdco AB is Box 1721, 111 87 Stockholm, Sweden. Consolidated financial statements are also been prepared for Triako Holdco AB.

The object of the parent company's business is to own and manage shares in other companies that develop, manufacture and sell steel products, and to engage in related business.

The annual report and consolidated financial statements for the financial year ending 31 December 2016 were authorised by the Board of Directors for publication on 20 March 2017. The consolidated and parent company financial statements will be presented to the annual general meeting for adoption on 25 April 2017.

Changes to accounting policies 2016

The accounting policies applied are the same as those applied in the consolidated annual accounts for 2015. No new or revised IFRSs entering into force during 2016 have had any material effect on the group.

Basis of preparation

The consolidated financial statements for the 2016 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) for financial years beginning 1 January 2016. Recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board has also been applied.

The financial statements are presented in million euro (EUR). All individual figures (including subtotals and totals) are rounded to the nearest hundred thousand. From the presentation perspective, individual figures may not therefore precisely reflect their sum totals.

The financial statements have been prepared on a historical cost basis. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities measured at fair value. Financial assets and liabilities measured at fair value consist entirely of derivatives.

The accounting policies below have, unless stated otherwise, been applied consistently to all periods presented in the consolidated financial statements.

Uncertainty related to judgements in the statements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as other disclosures.

Estimates and related assumptions are based on historical experience and many other factors believed to represent the best available parameters for measuring assets and liabilities. Actual outcomes may differ from the estimates. The estimates and judgements discussed in this section are those judged most important to understanding the group's financial statements. Management has not identified any critical accounting judgments in applying the accounting policies.

Impairment testing

The carrying amounts of the group's non-current assets are tested to determine whether there is any indication of impairment loss when events or changes in circumstance indicate that the carrying amount will not be recovered. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Value in use is measured as the discounted future cash flows expected to arise from the asset or the cash generating unit to which the asset belongs. No indications of material impairment in the group's non-current assets were found during the financial period. There is no goodwill recognised in the consolidated balance sheet.

Pension benefit assumptions

Pension benefit obligations are based on actuarial valuations. A discount rate is used to measure the present value of the defined benefit obligations. These assumptions are assessed at least once a year for all plans in each country. Other assumptions, which may relate to demographic factors such as age of retirement, mortality rates and employee turnover, are reviewed less frequently and usually based on public statistics in each country.

Valuation of inventories

Valuations of inventories contain estimates of net realisable value and assumptions pertaining to cost distribution and normal capacity, which may affect the carrying amount.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company Ovako Group AB and all companies in which the parent directly or indirectly holds more than 50% of voting rights or, on another basis, directly or indirectly exerts controlling influence.

Subsidiaries are accounted for using the acquisition method. The consideration for the acquisition of a subsidiary is the sum of the fair value of transferred assets, liabilities that the group incurred to former owners of the acquiree and the equity interests issued by the group. The consideration also includes the fair value of any asset or liability that is a result of an agreement on contingent consideration. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each acquisition – i.e. case-by-case – the group determines whether a non-controlling interest in the acquiree is reported at fair value or at the holding's proportional share of the carrying amount of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred and are reported as operating expenses.

The financial statements of group companies are incorporated in the consolidated financial statements as of the date the group obtains control over the acquiree until such control ceases. Intra-group transactions, receivables, liabilities, unrealised gains and intra-group dividends are eliminated in full.

Associates

Associates are companies in which the Ovako group holds more than 20% of voting rights or over which the group otherwise has significant but not controlling influence. Investments in associates are accounted for using the equity method. The share of the profits or losses of associates is recognised in profit and loss and the group's share of total equity constitutes the value of the investment in the balance sheet.

Foreign currency translation

Transactions are recorded in the functional currency of the respective unit. The functional currency is the currency of the primary economic environment (determined e.g. through the prices of its goods and services) in which group companies operate.

Transactions in foreign currencies (other than the functional currency) are translated at the exchange rate in effect at the transaction date. Monetary assets and liabilities recorded in foreign currencies are translated at the closing rate. Exchange gains and losses arising upon translation are recognised in profit and loss. Exchange gains and losses related to trade receivables or trade payables are treated as adjustments to the respective item and included in operating profit. Exchange differences related to financing are included net in finance income and expense. Exchange differences arising on translation of provisions for pensions in the Swedish subsidiaries that have EUR as their functional currency but that finance a portion of their pension commitments in SEK through the PRI system are also treated as financial income or expense. Non-monetary items are translated at the rate in effect at the transaction date.

In the consolidated financial statements, the income statements of subsidiaries with a functional currency other than the group's presentation currency

have been translated to EUR at the average rate for the reporting period. The balance sheets of subsidiaries have been translated to EUR at the closing rate. Foreign currency translation differences arising from translations of income statements and balance sheets are recognised in other comprehensive income and accumulated in the foreign currency translation reserve, which is a separate component of equity. Foreign currency translation differences arising from the translation of net investments in foreign subsidiaries are also transferred to the translation reserve via other comprehensive income.

The exchange rates used in the consolidated financial statements for translations of the balance sheets and income statements of subsidiaries are:

	Closing rate:		Average rate:	
	2016	2015	2016	2015
SEK	9.5525	9.1878	9.4689	9.3541
GBP	0.8562	0.7380	0.8195	0.7258
USD	1.0541	1.0926	1.1069	1.1096
PLN	4.4103	4.2400	4.3632	4.1838
CNY	7.3202	7.0910	7.3522	6.9730
RUB	64.3000	79.7540	74.1446	68.0226

Property, plant and equipment

Items of property, plant and equipment are recorded at cost adjusted for cumulative depreciation and impairment, if any. Borrowing costs directly attributable to the asset are capitalised as a component of cost if the time required to bring the asset to working condition for its intended use or sale is material. In accordance with Ovako's definitions, borrowing costs are capitalised for capital expenditures amounting to at least EUR 20 million and which are expected to take at least 12 months to complete. There were no capital expenditures in 2016 (2015: None) for which borrowing costs were capitalised. The cost of self-constructed assets includes expenditures for materials, direct payroll costs and a reasonable share of production-related overheads. To the extent assets consist of components with material differences in useful lives, they are depreciated separately using 'component depreciation'. Expenditures for major repairs and maintenance are included in the carrying amount of the asset and depreciated over the remaining useful life to the extent they increase the economic benefit derived from the asset. Customary expenditures for repairs and maintenance are recognised as an expense as incurred. Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset to an estimated residual value. Estimated useful lives are:

Buildings	10–40 years
Process machinery and equipment	15–20 years
Computers	3–5 years
Other machinery and equipment	3–10 years

Residual values and estimated useful lives of items of property, plant and equipment are reviewed at each reporting date. If they differ materially from earlier estimates, they are adjusted to the new estimate. Capital gains or losses arising from the sale or discard of items of property, plant and equipment are recognised in other operating income or expense.

Government grants and comparable assistance

Government grants and comparable assistance are recognised in profit and loss in the period in which the underlying expenses are incurred if the conditions are met. The group received no significant government grants during the reporting period. Group companies that are parties to the EU emission trading scheme have been allotted emissions credits with no performance requirements attached. These are not reported since the allocated credits cover the company's requirements.

Intangible assets

Ovako's intangible assets comprise mainly acquired IT software, including adaptation costs, licences, trademarks, and other comparable rights. Intangible assets are recognised in the balance sheet at cost less cumulative

amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset to an estimated residual value. The estimated useful life of intangible assets is normally between 5 and 10 years. Residual values and estimated useful lives of items of intangible assets are reviewed at each reporting date. If they differ materially from earlier estimates, they are adjusted to the new estimate.

Research and development costs

Research costs are expensed as incurred. Development costs may under certain strict conditions be capitalised, but this requires among other things, that future economic benefits can be demonstrated when the cost is incurred. Ovako currently has no development projects capitalised in the balance sheet.

Impairment of property, plant and equipment and intangible assets

Annually on the reporting date, the carrying amount of consolidated goodwill, if any, is assessed and an impairment loss recognised if the recoverable amount is lower than the carrying amount. At 31 December 2016 no goodwill (2015: None) had been recognised in the balance sheet. The group's other non-current assets are also assessed annually to determine whether there exist any indications of impairment. If such indications are found, the recoverable amount of the asset is estimated. The recoverable amount is the higher of net realisable value and value in use. Value in use is the present value of future cash flows expected to arise for an asset or cash generating unit containing goodwill. An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the recoverable amount. Within the Ovako group, the recoverable amount is based on value in use and calculated at the cash generating unit level or the individual asset level when it is possible to identify separate cash flows for the asset.

Leases

Determination of whether an agreement is, or contains, a lease depends upon the substance of the agreement when it is made; whether performance of the contract depends on the use of a specific asset or assets or if the agreement conveys a right to control the asset, even if the right is not explicitly laid out in the agreement. A lease is classified as a finance lease if it transfers to the lessee substantially all risks and rewards incident to ownership of the leased property. Finance leases are initially recognised in the balance sheet at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets held under finance leases are depreciated over the shorter of the lease term or the life of the asset. Lease payments are recognised as interest and repayment of debt. Leases in which the lessor substantially retains all risks and rewards incident to ownership are classified as operating leases. Lease payments for operating leases are recognised as an expense in profit and loss over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value, where cost is determined on a first-in, first-out basis. The weighted average cost method is used when it provides a more reliable picture of certain types of inventory items. The cost of finished goods and work in progress includes the cost of materials, direct labour, other direct costs and an allocation of allocable indirect costs based on normal capacity. The net realisable value is the estimated selling price less estimated costs for completion and costs to sell.

Short-term employee benefits

Short-term employee benefits are calculated without discounting and are recognised as a cost when the related services are rendered. A provision is reported for the expected cost of bonus payments when the group has a legal or constructive obligation to make such payments due to services being rendered by employees and the commitment can be reliably calculated.

Post-employment benefits

Ovako has both defined contribution and defined benefit pension plans. Plans are classified as defined contribution pension plans when the group's obligations are limited to the amount that the company has agreed to pay. Pension expenses for the defined contribution plans are recognised in profit and loss

as the employees perform their services. Obligations are calculated without discounting as payments for all these plans are due within 12 months.

The Projected Unit Credit Method is applied to calculate allocations to defined benefit plans, which in summary means that each period of service gives rise to a component that contributes to the final total obligation and that each such component is measured independently to build up the amount of the obligation at the end of the reporting period. The obligation is discounted to a present value at the end of the reporting period, from which the fair value of any plan assets is deducted. In addition, the calculations are affected by actuarial assumptions, such as mortality rates, employee turnover rates and estimated salary trends. Actuarial gains and losses arise when an assumption changes or when actual outcome deviates from the assumption. Revaluations of pensions, which comprise actuarial gains and losses and the difference between actual and projected yields on plan assets, are recognised in comprehensive income for the year.

The discount rate used to calculate the present value of defined benefit obligations outside Sweden is the yield on high-quality corporate bonds or government bonds with a similar maturity as the obligation. Pension liabilities in Sweden account for approximately 88 percent of the group's pension benefits obligations, and secured housing bonds are used to establish the discounting rate for this liability.

Special payroll tax is included in pension expenses in profit and loss. When there is a difference between how pension expenses are determined in a legal entity and in the group, a provision or receivable is recognised for special payroll tax based on this difference as part of the provision for pensions.

Share-based payments

The group currently has no share-based incentive programmes.

Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be estimated reliably. The expected future cash flow is discounted to calculate provisions when the time value of money is material. A provision for restructuring will be recognised if the group has adopted a detailed formal plan and the restructuring has either commenced or been publicly announced.

Income taxes

The group's recognised tax expense comprises tax on the taxable income of group companies for the period and adjustments, if any, for taxes for previous periods and changes in deferred tax. Current income taxes are calculated based on the tax rates and tax rules in effect in each country. Deferred tax assets and tax liabilities are calculated using the balance sheet method based on temporary differences between the carrying amounts and fiscal amounts of assets and liabilities. The most significant temporary differences arise from non-current assets, provisions including pension obligations, inventories and unrealised intra-group gains. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and tax liabilities are determined at the rates in effect for the period when the asset is realised or the liability paid based on tax rates (and legislation) enacted or announced at the reporting date. The effects of deferred tax assets and tax liabilities recognised in other comprehensive income are recognised according to the same principles. Income tax is recognised in profit and loss for the year, except when the underlying transaction is recognised in other comprehensive income or equity, in which case the tax effect is recognised in other comprehensive income or equity.

Revenue recognition

Revenues comprise the sale of goods within the normal operating activities. Revenue is recognised when the seller has transferred to the buyer the risks and rewards of ownership of the goods, which is to say at the time of delivery in accordance with the agreed terms of supply. Revenue is measured at the fair value of the consideration that has been or will be received, less VAT, discounts and returns. Other revenues in the operations that are not derived from normal business activities, such as rent, insurance payments and gains

on the sale of fixed assets are recognised as other operating income. Other operating income is recognised when it is probable that the economic benefits of the transaction will flow to the company and the amount of revenue can be measured reliably.

Financial assets and liabilities

A financial asset or financial liability is recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument. A receivable is recognised when the company has rendered a service or supplied a product and the counterparty is contractually obliged to pay, even if an invoice has not yet been sent. Trade receivables are entered on the balance sheet when an invoice is sent. A liability is entered when the counterparty has rendered a service or supplied a product and there is a contractual obligation to pay, even if an invoice has not yet been received. Trade payables are recognised when an invoice is received. A financial asset is removed from the balance sheet when the rights in the agreement are realised, expire, or the company loses control of them. The same applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or otherwise expires. The same applies to part of a financial liability. Purchases and sales of derivatives are recognised on the trade date.

Financial instruments are initially recognised at cost corresponding to the fair value of the instrument, plus transaction costs, except for derivatives, for which transaction costs are immediately expensed. A financial instrument is classified on initial recognition based on, among other things, the purpose for which it was acquired. All financial assets and liabilities are classified into the following categories:

- *Financial assets and liabilities measured at fair value through profit and loss:* The sub-category of financial instruments held for trading includes derivatives not used for hedge accounting. Ovako's hedging activities include currency options. For hedge accounting their value is divided into intrinsic value and time value components in accordance with IAS 39. The time value is not included in hedge accounting and is therefore classified as held for trading.
- *Held to maturity investments:* Ovako has no financial instruments classified in this category.
- *Loan receivables and trade receivables:* Ovako's trade receivables, other receivables, and cash and cash equivalents are included in this category.
- *Available-for-sale financial assets:* This category comprises financial assets that are not classified in any other category, such as equities and investments in both listed and non-listed companies. This category includes Ovako's shares in unlisted companies.
- *Other financial liabilities:* This category includes Ovako's trade payables and borrowings.

Loans and receivables

Loans and receivables include assets arising on transfer of cash, goods or services to a debtor. They are included as current or non-current depending on the maturity date. Loans issued by the group are recognised at amortised cost. An impairment of a loan or receivable is recognised when there is objective evidence of impairment. Such indications may be absent or delayed payments, significant financial difficulties of the debtor, including information that the debtor will enter bankruptcy or other financial reorganisation. Trade receivables are recognised at the original amount billed less any impairment losses. The valuation of impaired receivables is based on the estimated credit risk of each item on the reporting date. Cash and cash equivalents include liquid bank balances and cash in hand as well as current holdings with a remaining maturity from acquisition date of three months or less.

Available-for-sale financial assets

Ovako's financial assets available for sale include unlisted equities, for which fair value cannot be determined reliably. These are valued at cost less any impairment losses.

Financial liabilities at amortised cost

Trade payables and loans payable are classified as other financial liabilities. Trade payables are short-term and are measured without discounting at nominal value. Loans payable are classified as other financial liabilities, which means they are recognised at amortised cost using the effective interest method. Borrowing costs are capitalised over the term of the loan and recognised as a reduction in interest-bearing-liabilities. Charges paid for loan commitments are reported as transaction costs for borrowing to the extent it is probable that all or part of the credit limit will be utilised. In such cases, the charge is reported when the credit facility is utilised. When there is no evidence that it is probable that all or part of the credit limit will be utilised, the charge is reported as a prepayment for financial services and allocated over the maturity of the relevant loan commitment.

Derivatives and hedge accounting

The group uses hedges to mitigate risks related to the volatility of future cash flows. Hedge accounting is applied to present the outcome of these hedges in the financial statements. Financial derivatives are classified either as hedging instruments or instruments measured at fair value through profit and loss. The latter category is used for derivatives that are effective economic hedges, but that either do not qualify for hedge accounting in accordance with IAS 39, or for which the group chooses not to apply hedge accounting. In Ovako's case, this refers to the time value component of currency options, where Ovako in accordance with IAS 39 has divided the market value into intrinsic value and time value, with only the intrinsic value used for hedge accounting.

Derivatives are initially measured at cost, which is the same as fair value at the time of acquisition, and are then revalued at fair value at each subsequent reporting date. The fair value of electricity forwards, currency forwards, currency options and interest rate swaps is based on observable market data at the reporting date. The group applies hedge accounting for forward contracts related to electricity prices, exchange rates, the intrinsic value of currency options and interest rate swaps that meet the hedging criteria defined in IAS 39. Changes in the value of hedging instruments that are part of an effective cash flow hedge are recognised in other comprehensive income and shown in the hedge reserve in equity, while hedge ineffectiveness is recognised immediately in profit and loss. The cumulative change in value of such derivatives is transferred to profit or loss in the same period as the hedged item affects profit and loss.

Future accounting policies

The following describes the new IFRSs that will have, or are expected to have, an impact on the consolidated financial statements. The new IFRSs published by the IASB on 31 December 2016 and that are not described below are not expected to have any effect on the consolidated financial statements. Ovako does not intend to apply the new IFRSs early.

IFRS 9 Financial Instruments

This standard, which enters into force on 1 January 2018, replaces 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, primarily in respect of efficiency testing for derivatives, but Ovako has not yet taken a complete position on how the financial reporting will be affected.

IFRS 15 Revenue Recognition:

This standard will replace all existing standards for revenue recognition and enters into force on 1 January 2018. No significant impact of this new standard on the consolidated earnings and financial position is expected.

IFRS 16 Leasing

The impact of this new standard, which enters into force on 1 January 2019, has not yet been evaluated but Ovako expects that the results and financial position will be impacted by this standard.

2 Segment information

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. In the internal reporting, results are evaluated by business unit at the level of earnings before depreciation and amortisation, together with certain key ratios regarding working capital and investments. Ovako has combined its segments (business units) into one reportable operating segment in accordance with the rules for aggregation. Ovako's business units deliver to a large extent to customers in the same or similar industries, in the same geographical areas. The nature of products and production processes are similar in the three steel mills that together form the basis of Ovako's operations. Input materials, investments and labor needs are also similar, and the group share common functions such as purchasing, materials testing, research and development, marketing, sales and distribution.

The following tables provide information on sales by country, sales by product and the value of property, plant and equipment per country in accordance with the requirements of IFRS 8 Operating Segments. The reporting of sales per country is based on the customer's geographical location. One customer accounts for 14 (14)% of group sales.

EURm	2016	2015
Sale of goods		
Sweden	202.0	216.1
Nordics excl. Sweden	92.6	108.2
Western Europe excl. Nordics	324.0	358.5
Eastern Europe	94.1	86.2
North America	40.7	41.9
Asia	24.9	21.7
Rest of the world	2.5	1.5
Total	780.8	834.1

EURm	2016	2015
Sales by product		
Bar, as rolled	150.0	162.2
Bar, value added ¹⁾	438.9	465.7
Tube & Ring	155.4	165.9
Third Party products	36.5	40.3
Total	780.8	834.1

EURm	2016	2015
Non-current assets by country		
Sweden	267.2	267.0
Finland	48.4	53.5
Other countries	5.8	7.8
Total	321.4	328.3

1) Value added treatment of bars mean, for example, peeling, grinding, cutting, chrome plating, heat treatment or the manufacture of pre-components.

3 Expenses by nature

EURm	Note	2016	2015
<i>Change in inventories and work in progress</i>		9.4	-19.5
Raw materials and supplies		-322.4	-343.5
Exchange differences on purchased goods		0.9	-1.8
Energy		-67.7	-74.3
Freight and other distribution costs		-50.3	-48.5
Repairs and maintenance		-38.8	-40.8
External services in production		-36.9	-36.1
Raw materials, services and supplies		-515.2	-545.0
Salaries and benefits		-136.0	-138.6
Pension expense		-12.4	-13.3
Social insurance fees		-41.8	-40.9
Employee benefits expense	4	-190.2	-192.8
Buildings ¹⁾		-11.6	-11.4
Machinery and equipment		-28.0	-30.3
Other intangible assets		-1.3	-1.2
Depreciation, amortisation and impairments		-40.9	-42.9
Rents		-13.8	-13.7
Bad debt losses		-0.5	-0.1
Administration and other expenses	26	-23.6	-25.1
Other external expenses		-37.9	-38.9
Total cost of goods sold and selling and administrative expenses		-774.8	-839.1
Depreciation and amortisation expenses are included in the following line items in profit and loss			
Cost of goods sold		-40.1	-42.3
Selling expenses		-0.4	-0.5
Administrative expenses		-0.4	-0.1
Total		-40.9	-49.2

Research and development costs

Research and development costs amount to EUR -4.2 (-4.2) million and are mainly reported as cost of goods sold. The group has no development costs capitalised in the balance sheet.

Exchange gains and losses

Realised and unrealised exchange gains and losses attributable to revenue and operating expenses are included in operating profit and amount to EUR 2.1 (0.0) million.

Long-term contracts for the provision of supplies

To provide production with supplies such as electricity and oxygen, the company has long-term partnerships with suppliers whose infrastructure is used to provide these products in a safe manner. Linked with this, there are agreements that contain purchase obligations, with the longest contract expiring 12 years after the closing date.

1) Of which EUR -8.9 (-8.9) million for amortisation of surplus values allocated in conjunction with acquisitions.

4 Average number of employees

Average number of employees by country 2016	Men	Women	Total
Sweden	1,680	384	2,064
Finland	509	77	586
Italy	37	7	44
France	28	9	37
Germany	20	8	28
Netherlands	26	3	29
United Kingdom	8	5	13
United States	9	4	13
Russia	2	1	3
Poland	2	1	3
China	6	2	8
Total	2,327	501	2,828
Number of employees at year-end			2,773

Average number of employees by country 2015	Men	Women	Total
Sweden	1,774	414	2,188
Finland	513	84	597
Italy	38	8	46
France	24	9	33
Germany	23	9	32
Netherlands	26	4	30
United Kingdom	8	5	13
United States	8	4	12
Russia	3	2	5
Poland	2	1	3
China	5	2	7
Total	2,424	542	2,966

Number of employees at year-end 2,905

For information regarding remuneration to senior executives, please see Note 28.

5 Other operating income

EURm	2016	2015
Income from sale of property, plant and equipment	0.1	0.3
Rents and other income items	2.9	2.0
Acquisition below market value	-	3.3
Total	3.0	5.6

6 Financial income

EURm	2016	2015
Interest income arising from loans and receivables	0.4	0.6
Total interest income	0.4	0.6
Exchange rate gains, net	2.9	-
Total other finance income	2.9	-
Total	3.3	0.6

7 Financial costs

EURm	2016	2015
Interest expenses for financial liabilities at amortised cost ¹⁾	-21.5	-21.5
Interest expense, pension liability	-1.9	-1.8
Total interest expenses	-23.4	-23.3
Costs for loan commitments and guarantees	-1.8	-2.0
Other financial costs	-1.2	-1.5
Exchange rate loss, net	-	-0.4
Total other financial costs	-3.0	-3.9
Total	-26.4	-27.2

1) This item includes the cost of financing amortised over the term of the loan.

8 Taxes

EURm	2016	2015
Current tax	-0.3	-1.3
Deferred tax	2.6	4.4
Total	2.3	3.1

Reconciliation of tax expense for the period recognised in profit and loss and estimated tax based on the Swedish national tax rate of 22%:

Profit/loss before tax	-14.1	-26.0
Income tax calculated on the Swedish corporate tax rate of 22%	3.1	5.7
Effects of different tax rates in foreign jurisdictions ¹⁾	0.0	-0.5
Other non-deductible expenses and non-taxable income	-0.1	0.4
Use of loss carry-forwards previously not valued	0.2	0.0
Loss carry-forwards not valued	-1.8	-2.7
Adjustments relating to previous years, current tax	0.1	-0.1
Adjustments relating to previous years, deferred tax	0.8	0.3
Income taxes recognised in profit and loss	2.3	3.1

1) The group has foreign subsidiaries in Finland, Germany, Italy, France, the Netherlands, the United Kingdom, the United States, Poland, Russia and China. Corporate tax rates in these countries differ from the Swedish rate.

9 Property, plant and equipment

2016	Buildings and land	Machinery and equipment	Construction in progress	Total
EURm				
Cost				
Balance at 1 January 2016	155.0	333.1	19.1	507.2
Additions during the year	0.0	0.0	32.7	32.7
Disposals and sales	-1.8	-10.8	0.0	-12.6
Reclassification	7.6	26.8	-34.4	0.0
Translation differences for the year	-0.2	-1.1	0.0	-1.3
Balance at 31 December 2016	160.6	348.0	17.4	526.0
Cumulative depreciation				
Balance at 1 January 2016	-56.9	-131.5	–	-188.4
Depreciation and impairments for the year	-11.7	-27.9	–	-39.6
Disposals and sales	1.6	10.8	–	12.4
Translation differences for the year	0.1	1.0	–	1.1
Balance at 31 December 2016	-66.9	-147.6	0.0	-214.5
Carrying amount at 1 January 2016	98.1	201.6	19.1	318.8
Carrying amount at 31 December 2016	93.7	200.4	17.4	311.5
2015				
EURm				
Cost				
Balance at 1 January 2015	153.7	309.1	16.8	479.6
Additions during the year	0.1	1.9	30.7	32.7
Additions by acquisition during the year	0.1	0.9	–	1.0
Disposals and sales	-0.2	-4.8	-2.0	-7.0
Reclassification	1.2	25.3	-26.5	0.0
Translation differences for the year	0.1	0.7	0.1	0.9
Balance at 31 December 2015	155.0	333.1	19.1	507.2
Cumulative depreciation				
Balance at 1 January 2015	-45.2	-107.4	–	-152.6
Depreciation and impairments for the year	-11.4	-28.3	-2.0	-41.7
Disposals and sales	0.1	4.6	2.0	6.7
Translation differences for the year	-0.4	-0.4	–	-0.8
Balance at 31 December 2015	-56.9	-131.5	–	-188.4
Carrying amount at 1 January 2015	108.5	201.7	16.8	327.0
Carrying amount at 31 December 2015	98.1	201.6	19.1	318.8

10 Intangible assets

EURm	31 Dec 2016	31 Dec 2015
Cost		
Balance at 1 January	13.6	11.3
Additions during the year	1.6	2.3
Balance at 31 December	15.2	13.6
Cumulative amortisation		
Balance at 1 January	-4.1	-2.9
Amortisation for the year	-1.3	-1.2
Balance at 31 December	-5.4	-4.1
Carrying amount at 1 January	9.5	8.4
Carrying amount at 31 December	9.8	9.5

Intangible assets comprise mainly software, licences, trademarks and comparable rights.

11 Investments in associates

The group holds shares in AB Järnbruksförrödenheter in which the group's equity interest exceeds 20 percent. AB Järnbruksförrödenheter is a purchasing agent for iron and steel scrap for the steel industry in Sweden.

Name of associate	Group interest (%)	31 Dec 2016 Carrying amount, EURm	31 Dec 2015 Carrying amount, EURm
Owned by Ovako Bar AB:			
AB Järnbruksförrödenheter	25	0.0	0.0
Owned by Ovako Sweden AB:			
AB Järnbruksförrödenheter	20	0.0	0.0
	45	0.0	0.0
Share of profits of associates		0.1	0.1
Investments in associates		0.1	0.1
Share of profits of associates for the year		0.0	0.0
Tax on profits of associates		0.0	0.0
Total share of profits of associates		0.0	0.0

Assets in AB Järnbruksförrödenheter (company registration no. 556014-7083) at 31 December 2016 amounted to EUR 0.6 (0.7) million, net sales were EUR 1.0 (0.8) million and profit was EUR 0.0 (0.0) million. The company had no contingent liabilities at 31 December 2016 or 2015.

12 Other non-current financial assets

Unlisted equities and investments in the Ovako group, available-for-sale

Name of company	Group interest (%)	31 Dec 2016 Carrying amount, EURm	31 Dec 2015 Carrying amount, EURm
Jernkontoret	12.0	0.0	0.0
Tågäkeriet i Bergslagen AB	10.0	0.0	0.0
Ascometal SAS	6.9	5.0	5.0
Suomen ELFI Oy	3.7	0.0	0.0
Imatran Seudun Kehitysyhtiö Oy	2.5	0.0	0.0
Voimayhtiö SF Oy	1.6	1.7	1.7
Golfimatra Oy	1.0	0.0	0.0
Oy Nordgolf Ab	0.4	0.0	0.0
Imatran Seudun Sähkö Oy	0.2	0.0	0.0
Metallurgiska Forskningsbolaget i Luleå AB	0.1	0.0	0.0
Bas-EI		0.0	0.0
Total other non-current financial assets		6.8	6.8

12 Other non-current financial assets cont.

EURm	31 Dec 2016	31 Dec 2015
Balance at 1 January	6.8	6.8
Balance at 31 December	6.8	6.8

13 Financial assets and liabilities

31 Dec 2016	Held for trading	Derivatives for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying amount	Fair value
EURm						
Non-current financial assets						
Other financial assets	–	–	–	6.8	6.8	6.8
Other non-current receivables	–	–	–	0.1	0.1	0.1
Derivative assets	–	0.2	–	–	0.2	0.2
Total	–	0.2	–	6.9	7.1	7.1
Current financial assets						
Trade receivables	–	–	85.7	–	85.7	85.7
Other current receivables	–	–	0.8	–	0.8	0.8
Derivative assets	–	1.5	–	–	1.5	1.5
Cash and cash equivalents	–	–	49.2	–	49.2	49.2
Total	–	1.5	135.7	–	137.2	137.2
Total financial assets	–	1.7	135.7	6.9	144.3	144.3
31 Dec 2015						
EURm						
Non-current financial assets						
Other financial assets	–	–	–	6.8	6.8	6.8
Other non-current receivables	–	–	0.0	–	0.0	0.0
Derivative assets	–	1.7	–	–	1.7	1.7
Total	–	1.7	0.0	6.8	8.5	8.5
Current financial assets						
Trade receivables	–	–	78.2	–	78.2	78.2
Other current receivables	–	–	0.5	–	0.5	0.5
Derivative assets	0.1	2.6	–	–	2.7	2.7
Cash and cash equivalents	–	–	49.1	–	49.1	49.1
Total	0.1	2.6	127.8	–	130.5	130.5
Total financial assets	0.1	4.3	127.8	6.8	139.0	139.0

13 Financial assets and liabilities cont.

31 Dec 2016	Held for trading	Derivatives for hedge accounting	Other financial liabilities	Carrying amount	Fair value
EURm					
Non-current financial liabilities					
Non-current interest-bearing liabilities	–	–	295.0	295.0	275.5
Derivative liabilities	–	4.3	–	4.3	4.3
Other non-current liabilities	–	–	0.3	0.3	0.3
Total	–	4.3	295.3	299.6	280.1
Current financial liabilities					
Derivative liabilities	–	1.7	–	1.7	1.7
Trade payables	–	–	109.4	109.4	109.4
Total	–	1.7	109.4	111.1	111.1
Total financial liabilities	–	6.0	404.7	410.7	391.2
31 Dec 2015					
EURm					
Non-current financial liabilities					
Non-current interest-bearing liabilities	–	–	293.0	293.0	212.1
Derivative liabilities	–	8.4	–	8.4	8.4
Other non-current liabilities	–	–	0.3	0.3	0.3
Total	–	8.4	293.3	301.7	220.8
Current financial liabilities					
Derivative liabilities	–	6.5	–	6.5	6.5
Trade payables	–	–	81.5	81.5	81.5
Total	–	6.5	81.5	88.0	88.0
Total financial liabilities	–	14.9	374.8	389.7	308.8

Information on measurement methods etc:

Derivatives are measured at fair value. Loans and receivables and other financial liabilities are measured at amortised cost. Interest-bearing liabilities are recognised net of borrowing costs, which are amortised over the term of the loan, i.e. at amortised cost, see also Note 21. Available-for-sale financial assets include unlisted equities which are measured at cost.

Information on the fair value of financial assets and liabilities:
Fair value of loans and receivables and other financial liabilities:

For cash and cash equivalents, and for current receivables and liabilities, the fair value is considered to be equal to the carrying amount. The fair value of the senior secured notes has been calculated based on the quoted value on the closing date.

Fair values of available-for-sale financial assets:

Available-for-sale financial assets include unlisted equities which are measured at cost and for which information on fair value cannot be reliably estimated.

Fair value of derivatives:

The fair value of derivatives is estimated with reference to quoted market prices. When such parameters are unavailable, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the

derivative and alternative pricing models for comparable derivatives. The fair value of forward foreign exchange contracts is calculated by discounting the difference between the contracted forward rate and the rate that can be subscribed on the closing date for the remaining contract period. The fair value of foreign exchange option contracts are estimated using a valuation method based on observable values. The time value is recognised separately from the intrinsic value as only the intrinsic value is used for hedge accounting. The fair value of interest rate swaps is determined using discounted cash flow.

Fair value hierarchy:

Financial assets and financial liabilities are classified in a hierarchy with three different levels based on the data used to determine their fair value. Level 1: Fair value is determined based on quoted prices in active markets for identical instruments; Level 2: Fair value is determined based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices); and Level 3: Fair value is determined based on inputs for the asset or liability that are not based on observable market data.

Ovako's derivatives are the only financial assets and liabilities that are measured at market value in the balance sheet. These belong to level 2. Ovako's senior secured notes, for which the fair value is provided for information only, belong to Level 1.

13 Financial assets and liabilities cont.

Information on derivative assets and liabilities

EURm	31 Dec 2016	31 Dec 2015
Non-current derivative assets		
Fair value of foreign exchange derivatives	–	1.7
Fair value of electricity derivatives	0.2	–
Total	0.2	1.7
Current derivative assets		
Fair value of foreign exchange derivatives	0.6	2.7
Fair value of electricity derivatives	0.9	–
Total	1.5	2.7
Total derivative assets	1.7	4.4

EURm	31 Dec 2016	31 Dec 2015
Non-current derivative liabilities		
Fair value of foreign exchange derivatives	0.5	–
Fair value of electricity derivatives	3.8	8.4
Total	4.3	8.4
Current derivative liabilities		
Fair value of foreign exchange derivatives	1.6	–
Fair value of electricity derivatives	0.1	6.5
Total	1.7	6.5
Total derivative liabilities	6.0	14.9

Disclosure of nominal values and maturities of derivatives (cash flow hedges)

31 Dec 2016

EURm	2017	2018	2019–2021	Total
Remaining maturity				
Derivatives designated as cash flow hedges				
Foreign exchange forwards	90.2	28.0	–	118.2
Foreign exchange options	46.0	–	–	46.0
Total	136.2	28.0	–	164.2
Volume GWh				
Remaining maturity				
Cash flow hedges				
Electricity derivatives	437.1	363.3	535.0	1,335.4
Total	437.1	363.3	535.0	1,335.4

Disclosure of nominal values and maturities of derivatives (cash flow hedges)

31 Dec 2015

EURm	2016	2017	2018–2020	Total
Remaining maturity				
Derivatives designated as cash flow hedges				
Foreign exchange forwards	90.0	30.0	–	120.0
Foreign exchange options	30.0	34.0	–	64.0
Total	120.0	64.0	–	184.0
Volume GWh				
Remaining maturity				
Cash flow hedges				
Electricity derivatives	614.3	393.3	854.7	1,862.3
Total	614.3	393.3	854.7	1,862.3

13 Financial assets and liabilities cont.

The hedging policy in respect of financial risks and risks related to electricity prices is explained in Note 23, Financial risk management. The effect of the hedge ineffectiveness on profit and loss for the year was EUR 0.5 (-0.8) million.

Disclosure of financial assets and liabilities that are offset or subject to a legally enforceable master netting arrangement or similar agreement:

Financial assets and liabilities that may be offset consist of electricity derivatives and foreign exchange derivatives that are covered by legally enforceable master netting agreements.

EURm	31 Dec 2016		31 Dec 2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Gross amount, derivatives	1.7	6.0	4.4	14.9
Amount offset	–	–	–	–
Recognised on balance sheet	1.7	6.0	4.4	14.9
Amount covered by netting agreements	-1.7	-1.7	0.0	0.0
Net amount after netting agreements	0.0	4.3	4.4	14.9

14 Deferred tax assets and tax liabilities

EURm	Balance at 1 January 2016	Recognised in profit and loss	Recognised in other comprehensive income	Acquisitions	Exchange differences and reclassifications	Balance at 31 December 2016
Deferred tax assets						
Inventories	1.1	-0.1	–	–	0.1	1.1
Provisions	0.7	0.0	–	–	0.0	0.7
Pension obligations and other employee benefits	5.9	0.1	2.0	–	0.0	8.0
Derivative assets	2.3	-0.1	-1.3	–	-	0.9
Losses	3.8	0.7	–	–	0.0	4.5
Other items	0.3	0.2	–	–	0.0	0.5
Total	14.1	0.8	0.7	–	0.1	15.7
Deferred tax liabilities						
Property, plant and equipment	34.3	-1.4	–	0.0	0.0	32.9
Inventories	2.1	-0.4	–	–	0.1	1.8
Pension obligations	0.1	0.0	0.0	–	0.0	0.1
Total	36.5	-1.8	0.0	0.0	0.1	34.8
Net deferred tax liability	-22.4	2.6	0.7	0.0	0.0	-19.1

At 31 December 2016, the group had loss carry-forwards of EUR 36.8 million, of which EUR 16.5 million relating to Sweden. Of the loss carryforwards, EUR 20.2 million are included in the base for deferred tax assets. The use of loss carry-forwards in Sweden is currently unlimited in time.

14 Deferred tax assets and tax liabilities cont.

EURm	Balance at 1 January 2015	Recognised in profit and loss	Recognised in other compre- hensive income	Acquisitions	Exchange differences and reclassifications	Balance at 31 December 2015
Deferred tax assets						
Inventories	1.6	-0.6	-	-	0.1	1.1
Provisions	0.8	-0.1	-	-	0.0	0.7
Pension obligations and other employee benefits	7.8	0.3	-2.3	-	0.1	5.9
Derivative assets	1.9	0.1	0.3	-	-	2.3
Losses	0.7	3.1	-	-	0.0	3.8
Other items	0.6	-0.3	-	-	0.0	0.3
Total	13.4	2.5	-2.0	-	0.2	14.1
Deferred tax liabilities						
Property, plant and equipment	35.4	-1.1	-	0.0	0.0	34.3
Inventories	2.6	-0.8	-	-	0.3	2.1
Pension obligations	0.0	0.0	0.1	-	0.0	0.1
Total	38.0	-1.9	0.1	0.0	0.3	36.5
Net deferred tax liability	-24.6	4.4	-2.1	0.0	-0.1	-22.4

At 31 December 2015, the group had loss carry-forwards of EUR 30.1 million, of which EUR 17.7 million relating to Sweden. Of the loss carryforwards, EUR 17.1 million are included in the base for deferred tax assets. The use of loss carry-forwards in Sweden is currently unlimited in time.

15 Inventories

EURm	31 Dec 2016	31 Dec 2015
Raw materials and supplies	37.5	33.5
Parts	4.0	4.0
Work in process	109.0	98.1
Finished goods	50.7	54.1
Total	201.2	189.7
Cost of impairments to inventories	-0.6	0.0

17 Cash and cash equivalents

EURm	31 Dec 2016	31 Dec 2015
Cash and bank	49.2	49.1
Total	49.2	49.1

16 Other current receivables

EURm	31 Dec 2016	31 Dec 2015
VAT receivable	7.0	6.8
Interest-bearing receivables	0.8	0.6
Accrued income and prepaid expenses	12.2	11.3
Total	20.0	18.7

18 Equity

There are 50,000 (2014: 50,000) shares outstanding in Ovako Group AB. Share capital amounts to EUR 5,547. The quotient value per share is EUR 0.11 (0.11). All shares are fully paid.

The following reserves are recognised in equity (EURm).

Foreign exchange translation reserve	31 Dec 2016	31 Dec 2015
Balance at 1 January	1.5	-0.2
Changes for the year	-0.6	1.7
Balance at 31 December	0.9	1.5

The foreign exchange translation reserve comprises the exchange rate differences arising from translations of the financial statements of subsidiaries.

Cash flow hedge reserve	31 Dec 2016	31 Dec 2015
Balance at 1 January	-7.9	-6.6
Realised and reallocated to profit and loss	-3.7	-7.2
Tax on amount realised and reallocated to profit and loss	0.8	1.6
Change in fair value	9.6	5.5
Tax on change in fair value	-2.1	-1.2
Balance at 31 December	-3.3	-7.9

The cash flow hedge reserve includes the effective portion of the total net change in fair value of cash flow hedge instruments. See Note 23 for a description of hedging activities.

19 Pensions and other post-employment benefits

The group has entered into a number of pension plans in accordance with local regulations and agreements. These include both defined benefit and defined contribution plans. Certain group companies have specific pension plans for management personnel.

In Sweden, there are both defined contribution plans, for which pension payments are managed by insurance companies, and defined benefit plans, for which the pension obligations are secured in the Swedish PRI/FPG system.

Pension benefits in Finnish companies are secured by local insurance companies and a voluntary pension agreement covered by supplemental insurance. Pensions in Finland are mainly covered by the statutory TEL pension system. Some individual agreements may cover early retirement or disability. There are other long-term benefits, such as compensation for long service.

The plans of other foreign subsidiaries are structured in accordance with local rules and customary practice.

The group's cost for defined contribution plans, excluding special payroll tax, amounted to EUR 7.9 (8.6) million. Cash flows associated with defined benefit plans are expected to amount to EUR 3.4 million in 2017.

Defined benefit plans:

The largest plan, which accounts for 88 (88)% of the pension liabilities in the balance sheet, is the Swedish plan secured in the Swedish PRI/FPG system. The average maturity of this liability is approximately 15 years. In addition, the UK subsidiary has a funded defined benefit pension and life assurance plan that was closed to new subscribers as of 31 December 2009. This plan continues to have a deficit and payments are being made to the fund as planned. Other smaller plans include a plan for senior executives (current and former) in Germany, which is also closed to new subscriptions, and a plan for medical and drug costs for certain employees and former employees in the USA.

Pensions and other post-employment benefit obligations

EURm	31 Dec 2016	31 Dec 2015
Pension benefits, FPG/PRI system	61.0	56.4
Special payroll tax, FPG/PRI system	4.8	3.2
Other pension provisions	7.2	6.6
Other post-employment benefits	1.8	1.8
Total	74.8	68.0

The defined benefit obligations in the balance sheet comprise the following items:

Present value of unfunded obligations, excl. special payroll tax	67.9	63.0
Special payroll tax, FPG/PRI system	4.8	3.2
Present value of funded obligations	8.7	8.6
Fair value of plan assets	-6.6	-6.8
Net liability	74.8	68.0

Amount recognised in profit and loss (+ = income)

Cost of service in current period	-1.3	-1.6
Special payroll tax, FPG/PRI system	-0.2	-0.2
Interest on obligation, funded	-0.3	-0.4
Interest on obligation, unfunded	-1.9	-1.7
Estimated return on plan assets	0.3	0.3
Exchange differences	2.3	1.8
Amount recognised in profit and loss	-1.1	-1.8

Current and previous-period service costs and payroll tax are recognised as a pension benefits expense. Interest and foreign exchange translation differences, attributable to translation of the pension liability in Swedish subsidiaries that use EUR as their functional currency, are recognised as financial items. Other foreign exchange differences in the tables refer to translation differences included in the translation reserve in equity.

19 Pensions and other post-employment benefits cont.

Recognised in the balance sheet

31 Dec 2016	PRI/FPG system	PRI/FPG system, special payroll tax	Other	Total
Pension obligation at 1 January	56.4	3.2	15.2	74.8
Cost of service in current period	1.2	0.1	0.2	1.5
Interest expense	1.7	0.0	0.4	2.1
Pensions paid	-2.8	–	-0.5	-3.3
Revaluation of pension obligation – other	6.7	1.6	1.5	9.8
Exchange differences	-2.2	-0.1	-1.2	-3.5
Pension obligation at 31 December	61.0	4.8	15.6	81.4
Fair value of plan assets at 1 January	–	–	6.8	6.8
Imputed interest on plan assets	–	–	0.2	0.2
Contributions from the employer	–	–	0.2	0.2
Pensions paid	–	–	-0.3	-0.3
Valuation gains on plan assets	–	–	0.6	0.6
Exchange differences	–	–	-0.9	-0.9
Fair value of plan assets at 31 December	–	–	6.6	6.6
Changes in net debt in the balance sheet				
Net pension obligation at 1 January	56.4	3.2	8.4	68.0
Cost of service in current period	1.2	0.1	0.2	1.5
Interest expense	1.7	0.0	0.2	1.9
Pensions paid	-2.8	–	-0.5	-3.3
Contributions from the employer, net after deductions	–	–	0.1	0.1
Revaluation gains/losses	6.7	1.6	0.9	9.2
Exchange differences	-2.2	-0.1	-0.3	-2.6
Net pension obligation at 31 December	61.0	4.8	9.0	74.8

Material assumptions that form the basis of the actuarial calculations of large plans are shown in the table below.

19 Pensions and other post-employment benefits cont.

Recognised in the balance sheet

31 Dec 2015	PRI/FPG system	PRI/FPG system, special payroll tax	Other	Total
Pension obligation at 1 January	61.9	4.7	16.4	83.0
Cost of service in current period	1.4	0.2	0.2	1.8
Interest expense	1.5	0.0	0.6	2.1
Pensions paid	-2.8	-	-0.6	-3.4
Revaluation of pension obligation – other	-7.3	-1.8	-2.1	-11.2
Exchange differences	1.7	0.1	0.7	2.5
Pension obligation at 31 December	56.4	3.2	15.2	74.8
Fair value of plan assets at 1 January	-	-	6.3	6.3
Imputed interest on plan assets	-	-	0.3	0.3
Contributions from the employer	-	-	0.2	0.2
Pensions paid	-	-	-0.2	-0.2
Valuation gains on plan assets	-	-	-0.1	-0.1
Exchange differences	-	-	0.3	0.3
Fair value of plan assets at 31 December	-	-	6.8	6.8

Changes in net debt in the balance sheet

Net pension obligation at 1 January	61.9	4.7	10.1	76.7
Cost of service in current period	1.4	0.2	0.2	1.8
Interest expense	1.5	0.0	0.3	1.8
Pensions paid	-2.8	-	-0.6	-3.4
Contributions from the employer, net after deductions	-	-	0.0	0.0
Revaluation gains/losses	-7.3	-1.8	-2.0	-11.1
Exchange differences	1.7	0.1	0.4	2.2
Net pension obligation at 31 December	56.4	3.2	8.4	68.0

Material assumptions that form the basis of the actuarial calculations of large plans are shown in the table below.

EURm	2016	2015	Net liability EURm 2016	Net liability EURm 2015
Sweden			61.0	56.4
Discount rate	2.45%	3.20%		
Future salary increases	2.50%	2.50%		
Increase in income base amount	2.50%	2.50%		
Inflation	1.50%	1.50%		
Germany			3.7	3.6
Discount rate	1.80%	2.25%		
Future salary increases	2.50%	2.50%		
Inflation	1.75%	1.75%		
UK			2.1	1.8
Discount rate	3.10%	3.80%		
Future salary increases	2.20%	1.70%		
Inflation	2.20%	1.70%		
US			1.3	1.3
Discount rate	4.00%	4.27%		
Future cost increases	6.20%	6.60%		
Other countries			1.9	1.7
Special payroll tax liability			4.8	3.2
Net liability in balance sheet			74.8	68.0

19 Pensions and other post-employment benefits cont.

Sensitivity analysis

The table shows the effect on the Swedish PRI/FPG liability of a change in material assumptions underlying the calculation. The analysis is based on a change in one assumption while all other assumptions remain constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity, the same method as in the calculation of the pension liability has been used. A minus sign means that the liability decreases.

EURm	2016	2015
Discount rate +0.5%	-5.4	-4.8
Discount rate -0.5%	6.1	5.0
Salary increases +0.5%	5.7	3.2
Salary increases -0.5%	-5.2	-2.0
Inflation +0.5%	3.3	4.8
Inflation -0.5%	-3.2	-4.7
Longevity +1 year	3.4	2.7
Longevity -1 year	-3.4	-3.1

20 Other provisions

EURm	Restructuring provisions	Environmental provisions	Other provisions	Total
Balance at 1 January 2016	3.4	4.9	0.2	8.5
Provisions during the year	2.9	0.0	–	2.9
Provisions used during the year	-4.2	-1.7	–	-5.9
Effect of movements in foreign exchange	0.0	–	–	0.0
Balance at 31 December 2016	2.1	3.2	0.2	5.5
<i>Whereof non-current</i>	<i>0.4</i>	<i>2.5</i>	<i>0.0</i>	<i>2.9</i>
<i>Whereof current</i>	<i>1.7</i>	<i>0.7</i>	<i>0.2</i>	<i>2.6</i>

MEUR	Restructuring provisions	Environmental provisions	Other provisions	Total
Balance at 1 January 2015	1.8	5.5	0.0	7.3
Provisions during the year	4.0	0.7	0.2	4.9
Provisions used during the year	-2.4	-1.3	0.0	-3.7
Effect of movements in foreign exchange	0.0	–	0.0	0.0
Balance at 31 December 2015	3.4	4.9	0.2	8.5
<i>Whereof non-current</i>	<i>2.8</i>	<i>3.2</i>	<i>0.0</i>	<i>6.0</i>
<i>Whereof current</i>	<i>0.6</i>	<i>1.7</i>	<i>0.2</i>	<i>2.5</i>

Environmental provisions

Environmental provisions are intended to cover costs related to landfill deposits and waste from Ovako's steel mills in Sweden. Estimated costs are based on the best available parameters at the reporting date. The majority of the provision is expected to be used within 2–10 years.

Restructuring provisions

A provision for restructuring will be recognised only if the group has adopted a detailed formal plan and the restructuring has either commenced or been

publicly announced. The majority of the provision is expected to be used within 1–2 years.

Emissions provisions

There was no need during the year to make a provision for emissions-related costs after consideration of the company's actual emissions and emissions credits.

21 Interest-bearing liabilities

EURm	31 Dec 2016	31 Dec 2015
Interest-bearing liabilities		
Senior secured notes	300.0	300.0
Other non-current interest-bearing borrowings	0.0	0.0
Borrowing costs	-5.0	-7.0
Total non-current interest-bearing liabilities	295.0	293.0

Maturity information for interest-bearing liabilities per 31 Dec 2016:

EURm	2017	2018	2019	Total
Nominal amounts:				
Senior secured notes	–	–	300.0	300.0
Borrowing costs	-2.0	-2.1	-0.9	-5.0
Other	0.0	0.0	0.0	0.0
Total	-2.0	-2.1	299.1	295.0

Maturity information for interest-bearing liabilities per 31 Dec 2015:

EURm	2016	2017–2018	2019	Total
Nominal amounts:				
Senior secured notes	–	–	300.0	300.0
Borrowing costs	-2.0	-4.1	-0.9	-7.0
Other	0.0	0.0	0.0	0.0
Total	-2.0	-4.1	299.1	293.0

The currency distribution of the group's non-current interest-bearing liabilities at the reporting date was as follows:

EURm	31 Dec 2016	31 Dec 2015
EUR	300.0	300.0
	300.0	300.0

Weighted average effective interest rate on non-current borrowings at the reporting date:

%		
Loans	6.50	6.50

Financing agreements

Since May 2014, Ovako's financing arrangements consists of senior secured notes of EUR 300 million and a revolving credit facility of EUR 40 million. Of the revolving credit facility, EUR 2.5 million has been earmarked for bank guarantees. There are no amortisation requirements during the loan term. Of the revolving facility, EUR 1.2 (1.2) million was utilised in the form of issued bank guarantees, which means that the unutilised credit facility amounts to EUR 38.8 (38.8) million.

The notes were issued on the Luxembourg Stock Exchange (Euro MTF) by the subsidiary Ovako AB (publ) and carries a fixed interest rate of 6.5 per cent. If the revolving facility is utilised, the interest rate is based on EURIBOR, STIBOR or LIBOR, depending on the currency, plus a margin. A commitment fee is paid for the unused portion of the revolving facility.

There are no financial covenants on the notes. Under the terms of the revolving facility, the company must ensure that covenants based on EBITDA

are met, but only if the revolving facility is utilised by at least EUR 15 million in bank guarantees or revolving credit. This EBITDA requirement was met at the reporting date, but this was not necessary since the revolving facility was only utilised for bank guarantees in the amount of EUR 1.2 million.

Borrowing costs for the notes and the revolving facility amount to EUR 10.3 million, of which EUR 9.4 million was paid in 2014 and EUR 0.9 million in 2015. The borrowing costs are amortised over the term of the loan and are recognised as a reduction of interest-bearing liabilities in the balance sheet.

All shares in the group's major subsidiaries are pledged as collateral for the loans. In addition, the subsidiaries have issued property mortgages and floating charges, see Note 29.

Depending on market conditions, the company may from time to time buy its own bonds in the market.

22 Other current liabilities

EURm	31 Dec 2016	31 Dec 2015
Accrued employee benefits expense, social insurance fees and pension costs	37.8	36.7
VAT liabilities	3.7	4.1
Accrued costs, claims	0.5	0.6
Other liabilities and accrued expenses and prepaid income	15.4	10.5
Total	57.4	51.9

23 Financial risk management

The group is exposed to various types of financial risks including market risks, liquidity and refinancing risks and credit and counterparty risks. The group's finance policy, adopted by the Board of Directors, provides guidance on managing these financial risks. The purpose of the policy is to establish general financial targets, allocation of responsibilities and limits in respect of financial risks, and to describe actions that can be taken to mitigate these financial risks within the framework of strategic and operational financial risk management of the group and its business units.

The main objective of group financial risk management is to mitigate the adverse impacts of financial risks on consolidated earnings, cash flows and equity and to assure adequate liquidity.

The group shall not engage in financial transactions that are unrelated to operating activities or may otherwise be regarded as inappropriate management of the group's financial exposure. Purely speculative financial transactions are not permitted.

The majority of the group's financial transactions and financial risk management are managed centrally through group treasury.

Market risk

Market risk is the risk of market changes in exchange rates and interest rates or other prices that affect the group's revenues and/or financial position.

Foreign exchange risk

Foreign exchange risk is the risk of changes in exchange rates that adversely affect the company's earnings, equity and competitiveness. Foreign exchange risk is classified as translation exposure or transaction exposure.

One type of translation exposure arises from translation of subsidiaries' financial statements to the group's presentation currency. Translations that cause fluctuations in consolidated equity comprise net investments in subsidiaries whose functional currency is not the euro (EUR). Since all major subsidiaries, including those in Sweden, use EUR as their functional currency, translation exposure is very limited. Appreciation or depreciation of the Swedish krona or USD against the euro by 10% would result in an increase or decrease in the value of net assets in subsidiaries that have SEK or USD as their functional currency by EUR 1.9 (1.9) and 0.8 (0.9) million, respectively. Another type of translation exposure arises when the assets and liabilities of each legal entity differ from the legal entity's functional currency. Since the group's borrowings are denominated in EUR, this type of translation exposure is limited to current operating receivables and liabilities primarily in Swedish kronor (SEK) and pension provisions where the liability in SEK amounted to approximately EUR 65.8 (59.6) million at year end.

Transaction exposure arises from exchange rate changes in net cash flow from business transactions in currencies other than the functional currency. These changes affect profit and loss and the balance sheet continually throughout the year. Ovako is exposed to foreign exchange risk because the group's functional currency is the EUR, while a portion of revenues and a large share of expenses are denominated in other currencies. The greatest

foreign exchange risk is linked to the SEK, primarily because a large part of Ovako's production costs are in SEK. Appreciation of the Swedish krona by 10% in relation to the euro would have an estimated annualised negative impact on consolidated operating profit of EUR 19 (18) million based on 2016 (2015) sales and not taking into account foreign exchange hedges.

The underlying purchase prices for significant raw materials, such as iron scrap and alloys, are determined in accordance with global or European markets and the functional purchasing currency is therefore USD or EUR, although the billing of the actual purchase can be made in SEK.

Most of the Ovako group's sales are in EUR, and sales in 2016 (2015) were divided by currency approximately as follows: 68 (63)% EUR; 22 (26)% SEK; and other currencies 10 (11)% (mainly GBP and USD).

Management may from time to time decide to hedge contractual net exposures from sales and purchases in currencies other than the functional currency to hedge margins. The group finance policy provides guidelines for how much should or may be hedged and the length of the hedge horizon. The maximum applicable hedge horizon is currently 30 (24) months.

Of the expected net exposure in SEK for 2017 (2016), approximately 69 (61)% is hedged for foreign exchange at an average rate of approximately 9.49 (9.40) to a total nominal value of EUR 136 (120) million. Of the expected net exposure in SEK for 2018 (2017), approximately 14 (32)% is hedged for foreign exchange at an average rate of approximately 9.39 (9.42), to a total nominal value of EUR 28 (64) million. The hedges consist of foreign exchange forward contracts and foreign exchange options in the form of zero cost collars. The hedges are defined as cash flow hedges and hedge accounting is applied, except for the time value component for the market value of foreign exchange options. Value changes in the time value are recognised in the income statement. Further information about derivatives is provided in Note 13.

Interest rate risk

Ovako's financing was rearranged in May 2014, at which time Ovako issued senior secured notes of EUR 300 million at a fixed interest rate as its primary source of financing. As indicated in Note 21, there are no other significant outstanding loans. This means that consolidated earnings or equity are not exposed to any material fluctuations due to changes in market interest rates on financial liabilities.

Electricity price risk

The group's electricity consumption in a normal year is approximately 1 TWh. The cost of electricity was EUR 38.3 (40.1) million, which mainly consists of the variable price of electricity, network charges, taxes and fees. To mitigate electricity price volatility that causes fluctuations in cash flows and earnings, hedging measures are used by which portions of the variable price of electricity are transferred to a fixed price (electricity derivatives). Fixed-price purchase contracts have also been used, to a limited extent, in the past. At year-end 2016 (2015), anticipated future electricity consumption ¹⁾ was hedged as outlined in the table below:

23 Financial risk management cont.

Hedging of future electricity consumption¹⁾ through electricity derivatives as of 31 Dec 2016

Year	Hedged volume GWh	Percentage of consumption	Average price EUR	Nominal value of derivative, net EURm	Hedged purchasing value EURm
2017	437.1	47.4	28.53	0.8	12.5
2018	363.3	39.4	28.28	-0.9	10.3
2019	315.4	34.2	28.69	-1.9	9.0
2020	219.6	23.8	26.76	-0.9	5.9
Total				-2.9	

Hedging of future electricity consumption¹⁾ through electricity derivatives as of 31 Dec 2015

Year	Hedged volume GWh	Percentage of consumption	Average price EUR	Nominal value of derivative, net EURm	Hedged purchasing value EURm
2016	614.3	66.4	29.99	-6.5	18.4
2017	393.3	42.7	29.18	-2.9	11.5
2018	319.7	34.7	28.81	-2.4	9.2
2019	315.4	34.2	28.69	-2.2	9.0
2020	219.6	23.8	26.76	-0.9	5.9
Total				-14.9	

1) Expected future consumption does not reflect, for example, future growth, adjustment of production capacity or potential for future energy savings.

Hedge accounting is applied and electricity derivatives have been defined as cash flow hedges. There is only insignificant ineffectiveness in these hedges, which means that the nominal value of the electricity derivatives in the table above reflects when the income statement will be affected by these. Further information is provided in Note 13 and in the table of contractual cash flows below.

Sensitivity analysis for the portfolio of electricity derivatives: A increase or decrease of 10% in the price of electricity compared to the price at 31 December 2016 (2015) would have an impact on Ovako's comprehensive income, before tax, of EUR 3.5 (3.9) million or -3.5(-3.9) due to revaluation of the portfolio of electricity derivatives.

Liquidity and refinancing risk

Liquidity and refinancing risk is the risk of the group having insufficient access to the funds necessary to meet its obligations. The group's financing is achieved through the financing agreement signed in 2014, as further de-

scribed in Note 21. As described in Note 21, there are loan covenants, which may pose a risk to the company's access to capital. However, the present financing agreement has considerably fewer covenants than the earlier financing. There is neither any amortisation requirements on the debt prior to expiry in 2019.

In addition to the issued notes of EUR 300 million, Ovako has a committed revolving credit facility of EUR 40 million, which was unused at December 31, apart from EUR 1.2 million which is utilised in the form of issued bank guarantees. The group's available liquidity amounted to EUR 88.0 (87.9) million, consisting of EUR 38.8 (38.8) million in unused revolving facility and cash in hand of EUR 49.2 (49.1) million. The group's financial policy requires liquidity to be at least EUR 15 million.

Surplus liquidity is used primarily to repay debt. If this is impossible, the surplus funds are invested within internally defined limits with banks that are counterparties to the group's credit agreements. The maturity structure of debt over future years is presented in Note 21. The table below shows contractual undiscounted interest payments and repayments of financial liabilities.

Contractual cash flows as of 31 Dec 2016

EURm	Nominal value	Total	2017	2018	2019	2020
Senior secured notes	-300.0	-347.1	-19.5	-19.5	-308.1	-
Trade payables	-109.4	-109.4	-109.4	-	-	-
Foreign exchange derivatives						
– Outflow	-164.2	-164.2	-136.2	-28.0	-	-
– Inflow	164.2	162.7	135.2	27.5	-	-
Electricity derivatives	-2.9	-2.9	0.8	-0.9	-1.9	-0.9
Total		-460.9	-129.1	-20.9	-310.0	-0.9

23 Financial risk management cont.

Contractual cash flows as of 31 Dec 2015

EURm	Nominal value	Total	2016	2017-2018	2019	2020
Senior secured notes	-300.0	-366.6	-19.5	-39.0	-308.1	-
Trade payables	-81.5	-81.5	-81.5	-	-	-
Foreign exchange derivatives						
– Outflow	-184.0	-184.0	-120.0	-64.0	-	-
– Inflow	184.0	188.4	122.7	65.7	-	-
Electricity derivatives	-14.9	-14.9	-6.5	-5.3	-2.2	-0.9
Total		-458.6	-104.8	-42.6	-310.3	-0.9

Credit and counterparty risk

Credit risk is defined as the risk that a counterparty will default on its payment obligations. The group is exposed to credit and counterparty risk against financial counterparties when funds are deposited, when positive cash balances are maintained with banks and when financial derivatives are acquired. These risks are minimised by contracting only with financially stable banks or other counterparties.

Beyond the foregoing, credit risks are associated with trade receivables. Exposure to credit risk in trade receivables is managed according to the principles set out in the Credit Management Rules and Guidelines established by group management. Credit risk in trade receivables is managed primarily through credit risk insurance. Credit risk is also reduced through bank guarantees, advance and cash payment requirements and letters of credit. A credit limit is established for each customer, which is set by the company's insurance company or internal credit control. The uninsured portion of outstanding receivables should not exceed 2% of the estimated annual sales and, at year-end, this portion amounted to 0.7 (0.5)%. At year-end, 94 (95)% of Ovako's outstanding trade receivables were covered by credit insurance.

The five largest customers (groups including subsidiaries) account for 27 (28)% of consolidated sales and trade receivables.

At 31 December, trade receivable ageing was as follows

EURm	31 Dec 2016	31 Dec 2015
Ageing structure of trade receivables		
Trade receivables not due	74.9	63.6
Trade receivables 1–30 days overdue	7.2	10.7
Trade receivables 31–60 days overdue	1.2	2.2
Trade receivables more than 60 days overdue	2.4	1.7
Total	85.7	78.2

Provisions for anticipated bad debt losses amount to EUR 0.3 (0.2) million. There were no significant credit losses or provisions for anticipated credit losses during 2016 (2015). The group's maximum credit risk consists of trade receivables, cash and cash equivalents, derivative assets and other non-current and current receivables as per Note 13. Aside from that stated in the ageing distribution above, these receivables were not overdue for payment at the reporting date, and there was no indication of impairment loss.

24 Adjustments to cash flows from operating activities

EURm	31 Dec 2016	31 Dec 2015
Non-cash transactions:		
Gain/loss from sale of non-current assets	0.2	0.3
Acquisition below market value	-	-3.3
Impairment of trade receivables	0.4	-
Restructuring costs not settled	4.2	4.8
Effects of movements in foreign exchange etc	-0.7	0.8
Total	4.1	2.6

25 Operating leases

The group mainly leases heavy vehicles such as forklifts, cranes, trucks, etc. The average lease term is 5–10 years, often with an option to renew.

The group also has rental agreements for office space in Germany, the UK and Sweden. Minimum lease payments for non-cancellable operating leases in which the group is the lessee are shown in the following table.

EURm	31 Dec 2016	31 Dec 2015
Due within 1 year	6.3	7.6
Due within 2 to 5 years	7.4	9.3
Due later than 5 years	0.6	1.2
Total	14.3	18.1
Lease expense for the period	7.9	8.1

26 Audit fees

EURm	2016	2015
EY:		
Audit assignments	-0.6	-0.4
Other auditing	0.0	0.0
Tax advice	0.0	-0.1
Other services	0.0	0.0
Total	-0.6	-0.5

The audit assignment is the statutory audit of the annual accounts and accounting records and the management of the company by the Board of Directors and the Chief Executive Officer, other tasks incumbent upon the independent auditors and advice or other assistance arising from observations during the audit or the performance of such other tasks. Other auditing refers to reviews of management or financial information as required by law, the Articles of Association, bye-laws or contracts, which must result in a report, certification or other document also intended for use by parties other than the client, and which are not included in the audit assignment. Tax advice refers to consultation on matters of tax law.

Other services are advisory services unrelated to any of the aforementioned categories

27 Subsidiaries and related-party transactions

The group is 100% owned by Triako Holdco AB, which is 100% owned by Oven Luxco Sarl in Luxembourg. Oven Luxco Sarl is under the controlling influence of Triton Fund III and Triton Fund III F&F LP, which directly and indirectly controls 84.26% of the equity in the Ovako group. There were no significant transactions

with companies over which Triton Fund III or Triton III F&F Fund LP has significant or controlling influence. Reimbursement for services and expenditures totalling EUR 387 (346) thousand has been paid to West Park Management Services.

Group structure:

Company name	Company reg no.	Domicile	Group interest, %	Group voting rights, %
Shares and investments in subsidiaries owned by Ovako Group AB:				
Ovako AB (publ)	556813-5338	Sweden	100	100
Shares and investments in subsidiaries owned by Ovako AB (publ):				
Ovako Bar AB	556690-6102	Sweden	100	100
Ovako Bright Bar Holdings AB	556690-6094	Sweden	100	100
Ovako Sweden AB	556692-1317	Sweden	100	100
Triako Finco AB	556816-0526	Sweden	100	100
Ovako Steel Marketing AB	556341-4522	Sweden	100	100
Ovako Metals Oy Ab	0351634-4	Finland	100	100
Shares and investments in subsidiaries owned by Ovako Steel Marketing AB:				
Ovako(Shanghai) Special Steel Trading Co., Ltd	31000040064028	China	100	100
Shares and investments in subsidiaries owned by Triako Finco AB:				
Ovako Finland Oy	2347199-9	Finland	100	100
Shares and investments in subsidiaries owned by Ovako Finland Oy Ab:				
Ovako Imatra Oy Ab	2067276-0	Finland	100	100

27 Subsidiaries and related-party transactions cont.

Company name	Company reg no.	Domicile	Group interest, %	Group voting rights, %
Shares and investments in subsidiaries owned by Ovako Bar AB:				
Ovako Polska Sp.zo.o (1%, 99% owned by Ovako Sweden AB)	0000267420	Poland	100	100
OOO Ovako	1077746317780	Russia	100	100
Shares and investments in subsidiaries owned by Ovako Imatra Oy Ab:				
Ovako France SAS	392564019 RCS DIJON	France	100	100
Shares and investments in subsidiaries owned by Ovako Bright Bar Holdings AB:				
Ovako Cromax AB	556055-1847	Sweden	100	100
Ovako Forsbacka AB	556057-2082	Sweden	100	100
Shares and investments in subsidiaries owned by Ovako Cromax AB:				
Ovako Hallstahammar AB	556209-6858	Sweden	100	100
Ovako Molinella S.p.A.	01128230370	Italy	100	100
Ovako Mora AB	556174-7857	Sweden	100	100
Ovako Redon S.A.	316 055 094 RCS RENNES	France	100	100
Ovako Twente B.V.	6 062 776	Netherlands	100	100
Shares and investments in subsidiaries owned by Ovako Sweden AB:				
Fastighets AB Synaren	556057-7081	Sweden	100	100
Ovako GmbH	HRB12679	Germany	100	100
Ovako Ltd	03879876	UK	100	100
Ovako North America Inc	22-1474037	US	100	100
Hillboms Byggnads-och transportfirma	556118-5454	Sweden	100	100
Ovako Polska Sp.zo.o (99%, 1% owned by Ovako Bar AB)	0000267420	Poland	100	100

28 Board and key management remuneration

Directors' fees

Directors' fees are resolved by the annual general meeting and are shown in the table below. The annual fees are resolved in SEK and are the same for 2016 as for 2015. Variations in the composition of the board and in exchange rates between the years may affect the expense presented in EUR. Directors

who invoice the company for the remuneration are allowed to add to the fee an amount representing the social charges. The social charges thus included are not higher than those charges that otherwise had been payable by the company. The fee including social charges are included in the table, in such cases. Board members are shown on Page 76.

Board members	Position	Committee (31 Dec 2016)	Fee 2016 (EURk)	Fee 2015 (EURk)
Joakim Olsson	Chairman from 12 February, 2016	Chairman Audit Committee, Remuneration Committee	71	13
Oskari Eskola	Director		26	27
Nizar Ghoussaini	Director	Audit Committee	30	30
Martin Ivert	Director	Remuneration Committee	28	28
Johan Pernvi	Director from 12 February, 2016	Remuneration Committee	25	–
Sakari Tamminen	Director	Audit Committee Chairman	34	34
Finn Johnsson ¹⁾	Chairman to 11 February, 2016		6	58
Magnus Lindquist	Director to 10 February, 2015		–	4
Björn Nilsson	Director to 11 February, 2016		3	26
Robert Nilsson	Director (Employee Representative)		–	–
Timo Viiperi	Director (Employee Representative)		–	–
Total			223	220

1) In addition to the fee, the former chairman has received compensation for office and secretarial costs totalling EUR 0 (17) thousand.

28 Board and key management remuneration cont.

Remuneration policy

According to the remuneration policy, remuneration to the CEO and other management personnel shall comprise base salary, any variable pay components and other benefits such as car and pension benefits. Other management personnel are members of group management in addition to the CEO. Total remuneration must be market-based and competitive in the labour market relevant to the executive and related to the executive's responsibility and authority.

Variable pay components are limited to 75% of base salary and must be based on outcomes in relation to quantifiable, predefined objectives that support long-term growth in value. Variable pay components will not be treated as pensionable income, other than as required by the rules of a general pension plan (such as the Swedish ITP plan). In respect of management personnel outside Sweden, all or part of the variable component may be treated as pensionable income according to law or local market practices.

Management personnel are required to give six months' notice of resignation. Upon termination of employment by the company, the sum total of the period of notice and the period during which severance pay is distributed is limited to 24 months. Any remuneration from future employers will be deducted from severance pay. The age of retirement is 65. Pension benefits will be contribution based and the expense limited to 35% of base salary.

Equity or share-based incentive programmes shall be subject to adoption by the Board of Directors or, where applicable, the annual general meeting. Departures from the remuneration policy are subject to Board approval.

Salary and other employee benefits, CEO and other key management personnel

Variations in exchange rates between years may affect the expense presented in EUR. Amounts presented in the table relate to remuneration paid during the year.

2016 kEUR	CEO	Group management (excluding CEO)	Total
Base salary	474	1,656	2,130
Variable pay	0	0	0
Other benefits	14	56	70
Total remuneration	488	1,712	2,200
Pension benefits	145	478	623
Total incl. pension benefits	633	2,190	2,823

2015 kEUR	CEO	Group management (excluding CEO)	Total
Base salary	570	2,044	2,614
Variable pay	109	432	541
Other benefits	17	76	93
Total remuneration	696	2,552	3,248
Pension benefits	195	513	708
Total incl. pension benefits	891	3,065	3,957

Remuneration to the CEO

Marcus Hedblom was appointed CEO on 24 November 2015. The information regarding remuneration to the CEO refers to the remuneration to Tom Erixon until the end of employment on 31 December 2015 and for Marcus Hedblom from the date of possession. Marcus Hedblom received a salary and other employee benefits totalling EUR 488 thousand (last year EUR 433 thousand during the year, of which EUR 45 thousand as CEO).

The CEO's variable pay may amount to a maximum of 75% of base salary. Upon termination of employment by the company, remuneration will be paid for a maximum of 18 months. The age of retirement for the CEO is 65. Pension benefits are a defined contribution plan and equal 30% of base salary. The pension benefits expense for Marcus Hedblom amounted to EUR 145 thousand (last year EUR 87 thousand of which EUR 14 thousand as CEO).

Remuneration to group management (excluding the CEO)

Group management was composed of 8 (8) individuals in addition to the CEO and is presented on Page 77. Members of group management excluding the CEO were paid salary and other employee benefits by the company totalling EUR 1,712 (2,552) thousand during the year. Variable pay is limited to 75% of base salary. Upon termination of employment by the company, remuneration will be paid for a maximum of 24 months. The age of retirement is 62-65. Pension benefits are paid in accordance with the ITP plan or are defined contribution plans at 25%-35% of base salary. The pension benefits expense was EUR 478 (513) thousand.

Management gender distribution at 31 December	2016		2015	
	Female	Male	Female	Male
Board and CEO	–	9	–	10
Other senior executives	1	6	1	7

29 Pledged collateral and contingent liabilities

EURm	31 Dec 2016	31 Dec 2015
Pledged collateral		
Pledged assets	1,919.3	1,869.2
Contingent liabilities		
Guarantees	1.3	1.2
Pension liabilities	0.8	0.9

As explained in Note 21, all shares in major group subsidiaries are pledged as collateral for loans. In addition, the subsidiaries have issued property mortgages and floating charges for the same credit facility. The amounts stated under pledged collateral thus correspond to the sum of total assets in the pledged subsidiaries but with no elimination of intercompany items.

30 Legal disputes

As described in Ovako's annual report for 2015, the tax authority in Finland has sought to limit the deductibility of interest expense for the years 2010-2013. Ovako Finland Oy Ab has now received notice of changed taxation from the Finnish tax authority that relates to interest expense on loans from Ovako Finland Oy Ab's Swedish parent company, Ovako AB (publ), which the authority regards as non-deductible. The demand amounts to EUR 9.5 million (including interest and penalties). After consulting with external tax lawyers, Ovako disagrees with the ruling from the Finnish tax authority and has appealed. Ovako will not be required to meet the demand for payment until after a final ruling on the appeal. Ovako has not concluded that it is necessary to make any provision for this potential cost.

Besides the above-mentioned, the group is not involved in any significant legal disputes.

31 Aquisitions

On 31 March 2015, 100% of steel and metals distributor Tibnor Oy in Finland was acquired. The business, formerly a part of the SSAB group, is now operating under the name Ovako Metals Oy Ab. The acquisition analysis is presented below, for further information see administration report.

Purchase price	2016	2015
Purchase price paid in cash	–	6.3
Fair value for acquired assets	–	9.6
Negative goodwill	–	-3.3
Assets and liabilities acquired¹⁾		
Fixed assets	–	1.0
Current assets	–	21.3
Cash and cash equivalents	–	0.4
Current liabilities	–	-13.1
Acquired net assets		9.6
Effect on the Group's cash and cash equivalents		
Purchase price paid	–	-6.3
Acquired cash and cash equivalents	–	0.4
Effect on the Group's cash and cash equivalents	–	-5.9

1) Carrying values correspond to fair values.

Parent company income statement

EURk	Note	2016	2015
Revenue		-	-
Administrative expenses	3	-218	-242
OPERATING PROFIT		-218	-242
Interest income from group companies	4	568	554
Interest expense from group companies	4	-14	-13
Other		32	-22
Profit after financial items		368	277
Group contribution	4	876	-12,300
Taxes	5	-193	2,645
Profit/loss for the year		1,051	-9,378

Parent company statement of comprehensive income

EURk	Note	2016	2015
Profit/loss for the year		1,051	-9,378
Other comprehensive income		-	-
Total comprehensive income for the year		1,051	-9,378

Parent company balance sheet

EURk	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Non-current financial assets			
Investments in subsidiaries	2	139,823	139,823
Receivables from group companies	4	24,859	24,291
Deferred tax assets	5	2,732	2,925
Total		167,414	167,039
Total non-current assets		167,414	167,039
Current assets			
Receivables from group companies	4	37,823	36,947
Total current assets		37,823	36,947
TOTAL ASSETS		205,237	203,986
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	18(*)	6	6
Retained earnings		190,791	200,169
Profit/loss for the year		1,051	-9,378
Total equity attributable to owners of the parent		191,848	190,797
Current liabilities			
Liabilities to group companies	4	13,389	13,189
Total current liabilities		13,389	13,189
TOTAL EQUITY AND LIABILITIES		205,237	203,986

Disclosure of the group's pledged collateral can be found in Note 6.

(*) Consolidated financial statements

Parent company statement of cash flows

EURk	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		-218	-242
Change in working capital		218	242
Cash flows from operating activities		0	0
Cash flows from investing activities		-	-
Cash flows from financing activities		-	-
Change in cash and cash equivalents		0	0
Cash and cash equivalents at 1 January		0	0
Exchange differences in cash and cash equivalents		0	0
Cash and cash equivalents at 31 December		0	0

Parent company statement of changes in equity

2016 EURk	Restricted equity:		Non-restricted equity:
	Share capital	Retained earnings	Total equity
Equity at 1 January 2016	6	190,791	190,797
Comprehensive income for the year	-	1,051	1,051
Equity at 31 December 2016	6	191,842	191,848

2015 EURk	Restricted equity:		Non-restricted equity:
	Share capital	Retained earnings	Total equity
Equity at 1 January 2015	6	200,169	200,175
Comprehensive income for the year	-	-9,378	-9,378
Equity at 31 December 2015	6	190,791	190,797

1 Significant accounting policies

The differences between accounting policies applied to the parent company and the group are attributable to limitations on the application of IFRSs for the parent company under the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and, to a certain extent, for tax reasons. The parent company applies the Swedish Financial Accounting Board's recommendation RFR 2 Accounting for Legal Entities. The differences in accounting policies between the parent and the group that affect the financial statements at 31 December 2016 are for the capitalisation of transaction costs in 2010 related to the acquisition of shares in September 2010 (EUR 12 million).

Investments in subsidiaries

Shares and participations in subsidiaries are recognised using the cost method.

Group contributions

The parent company reports group contributions received and paid as appropriations in the income statement in accordance with RFR 2.

Amounts for the parent company are shown in thousands of euro (EURk).

2 Investments in subsidiaries

Name of company	Interest and voting rights, %	Number of shares	31 Dec 2016 Carrying amount	31 Dec 2015 Carrying amount
Ovako AB (publ)	100	50,000	139,823	139,823
Name of company	Company reg no.	Domicile		
Ovako AB (publ)	556813-5338	Stockholm		

3 Audit fees

The parent company has no audit expenses as such expenses were paid by Ovako AB (publ).

4 Related-party transactions

Refer also to Note 27 in the consolidated financial statements for disclosures concerning ownership structure, etc.

A group contribution of EUR 876 thousand was received from the subsidiary Ovako AB (publ). Last year a group contribution of EUR 12,300 thousand was provided to the subsidiary Ovako AB (publ).

Non-current receivables due from group companies consist of claims on subsidiaries for finance costs paid on the subsidiaries' behalf. Interest is added to the claim each year.

Current receivables and liabilities from group companies refer to subsidiaries and stem from group contributions and balances on group accounts and cash pools.

5 Taxes

Tax income and deferred tax assets arise from deferred tax attributable to loss carry-forwards.

6 Pledge collateral

	2016	2015
Investments in subsidiaries	139,823	139,823
Receivables from group companies	39,467	39,467
Total pledged collateral	179,290	179,290

7 Disposition of profit

The Board of Directors proposes transfer of profits to retained earnings.

	2016
Retained earnings, EUR	190,791,448
Profit/loss for the year, EUR	1,051,494
Total	191,842,942

Signatures of the Board of Directors and CEO

The Board of Directors and the CEO hereby certify that the annual accounts were prepared in accordance with generally accepted accounting standards in Sweden, and that the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as defined in regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and provide a fair presentation of the group and parent company's financial position and earnings, and that the statutory administration report provides a fair presentation of the group's and parent company's operations, financial position and earnings and describes significant risks and uncertainties facing the parent company and the companies included in the group.

Stockholm 20 March 2017

Joakim Olsson
Board Chairman

Marcus Hedblom
President and CEO

Oskari Eskola

Nizar Ghossaini

Martin Ivert

Johan Pernvi

Sakari Tamminen

Robert Nilsson
Employee Representative

Timo Viiperi
Employee Representative

Our audit report was submitted on 24 March 2017
Ernst & Young AB

Heléne Siberg Wendin
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Ovako Group AB, corporate identity number 556813-5361

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Ovako Group AB for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 34-73 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information is found on pages 1-33 in this document.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual

Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, 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 opinions. 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 the company's internal control relevant to our 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group'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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ovako Group AB for the year 2016 and the proposed appropriations of the company's profit or loss. We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among

other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 24 March 2017
Ernst & Young AB

Heléne Siberg Wendin
Authorized Public Accountant

Board of directors



Joakim Olsson, Chairman

Birth year: 1965

Elected to board: 2015

Education: Master of Business Administration and M.Sc. in Mechanical Engineering

Operational position: Senior Industry Expert at Triton Partners

Other board assignments: Chairman Seves Group SARL. Director at DencoHappel GmbH and VCST Holdco SA.



Oskari Eskola, Director

Birth year: 1985

Elected to board: 2014

Education: M.Sc. in Industrial Engineering and Management

Operational position: Investment Advisory Professional at Triton Advisers (Sweden) AB

Other board assignments: Director Mehiläinen



Nizar Ghossaini, Director

Birth year: 1950

Elected to board: 2010

Education: M.Sc in Chemical Engineering

Operational position: Senior Industry Expert, West Park Management Services

Other board assignments: Chairman of Dematic, Stabilus.



Martin Ivert, Director

Birth year: 1948

Elected to board: 2010

Education: M.Sc. (Metallurgy)

Other board assignments: -



Johan Pernvi, Director

Birth year: 1978

Elected to board: 2016

Education: Master of Business Administration

Operational position: Investment Advisory Professional at Triton Advisers (Sweden) AB.



Sakari Tamminen, Director

Birth year: 1953

Elected to board: 2014

Education: M.Sc. (Econ)

Other board assignments: Chairman Versowood and M.J. Paasikivi Oy, Director Danske Bank Finland Plc and Severstal Group.



Robert Nilsson, Employee Representative

Birth year: 1981

Elected to board: 2011

Employed at Ovako: 2007



Timo Viiperi, Employee Representative

Birth year: 1960

Elected to board: 2016

Employed at Ovako: 1976

Deputy Employee Representatives:



Jan Helgesson

Birth year: 1958

Elected to board: 2015

Employed at Ovako: 1979



Patrik Undvall

Birth year: 1968

Elected to board: 2010

Employed at Ovako: 1998

Management



Marcus Hedblom
President and CEO

Birth year: 1970
Education: M.Sc. (Industrial Engineering and Management)
Previous positions: Deputy CFO at SAS Group, CEO of Spanair, CFO at SAS Sverige, Management Consultant at McKinsey & Co, Production Engineer at Scania.



Johan Ryrberg
CFO, EVP Group Finance, IT & Purchasing

Birth year: 1959
Education: Master of Business Administration
Previous positions: CFO Instalco, Executive VP & CFO Camfil Group, Area Manager Camfil Asia, COO & VP Business Support Camfil Group, Director Finance & Administration Anixter Sweden



Phetra Ericsson
EVP Group HR, Communication & SHE*

Birth year: 1969
Education: Bachelor of Science in Business and Economics
Previous positions: Senior Vice President of HR at Ovako Hällefors, Head of HR Europrofil AB, Controller Logstor AB.



Göran Nyström
EVP Group Marketing & Technology

Birth year: 1962
Education: M.Sc. (Engineering Physics)
Previous positions: SVP Supply at Sandvik Tooling, SVP Supply at Sandvik Mining and Construction, VP Sales and Marketing at Sandvik Materials Technology.



Janne Pirttijoki
President BU Imatra

Birth year: 1970
Education: Master of Science (Eng.)
Previous positions: Senior positions at SSAB and Ruukki.



Rickard Qvarfort
President BU SmeBox

Birth year: 1967
Education: M.Sc. (Metallurgy)
Previous positions: President of Business Area Tube and Ring, senior positions at Ovako and SKF Steel.



Carl-Michael Raihle
President BU Hofors

Birth year: 1963
Education: Ph.D., M.Sc. (Metallurgy)
Previous positions: Head of Business Area at Luvata Rolled Products Division, Technical Director Luvata, senior positions at Outokompu.



Mathias Tillman
President BU Hällefors and EVP Group Sales

Birth year: 1976
Education: M.Sc. (Metallurgy) and MBA
Previous positions: Unit Manager at Sandvik Hard Materials, Head of Research and Development at Sandvik Hard Materials.

* Until February 13, 2017 Karin Lagerstedt Woolford held this position

KPIs – calculations and reconciliations to financial statements

From Income Statement, EUR million (if not otherwise stated)		2016	2015	2014	2013	2012
Revenue	A	780.8	834.1	862.1	849.9	937.1
Net result		-11.8	-22.9	-15.1	-20.6	-3.7
+ Taxes		-2.3	-3.1	-2.9	-6.2	-9.1
+ Financial income and expenses, net		23.1	26.6	32.7	26.2	32.7
EBIT	B	9.0	0.6	14.7	-0.6	19.9
+ Amortization of surplus values		9.0	11.6	24.0	19.4	20.7
EBITA	C	18.0	12.2	38.7	18.8	40.6
+ Depreciation		31.9	31.3	29.8	27.7	25.4
EBITDA	D	49.9	43.5	68.5	46.5	66.0
<i>EBIT margin %</i>	B/A*100	1.2	0.1	1.7	-0.1	2.1
<i>EBITA margin %</i>	C/A*100	2.3	1.5	4.5	2.2	4.3
<i>EBITDA margin %</i>	D/A*100	6.4	5.2	7.9	5.5	7.0
Net result (EUR thousand)	E	-11,754	-22,913	-15,096	-20,603	-3,739
Number of shares	F	50,000	50,000	50,000	50,000	50,000
Earnings per share	E/F*1,000	-235	-458	-302	-412	-75
Adjusted for restructuring, EUR million (if not otherwise stated)		2016	2015	2014	2013	2012
Impairments related to restructuring	G ¹⁾	–	2.7	0.6	–	–
Restructuring cost	H ¹⁾	6.9	4.0	–	3.7	3.9
EBIT before restructuring	I=B+G+H	15.9	7.3	15.3	3.1	23.8
EBITA before restructuring	J=C+H	24.9	16.2	38.7	22.5	44.5
EBITDA before restructuring	K=D+H	56.8	47.5	68.5	50.2	69.9
<i>Adjusted EBIT margin %</i>	I/A*100	2.0	0.9	1.8	0.4	2.5
<i>Adjusted EBITA margin %</i>	J/A*100	3.2	1.9	4.5	2.6	4.7
<i>Adjusted EBITDA marginal %</i>	K/A*100	7.3	5.7	7.9	5.9	7.5
From Balance Sheet, EUR million (if not otherwise stated)		31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Equity	L	119.8	134.9	148.7	150.7	163.6
+ Non-current interest-bearing liabilities		295.0	293.0	291.0	221.5	240.0
+ Current interest-bearing liabilities		–	–	0.1	40.7	14.9
./. Cash and cash equivalents		49.2	49.1	65.0	20.6	42.6
Net debt, excl provisions for pension	M	245.8	243.9	226.1	241.6	212.3
+ Provision for pension		74.8	68.0	76.7	72.5	88.3
Net debt	N	320.6	311.9	302.8	314.1	300.6
<i>Net debt/equity ratio, excl provision for pension %</i>	M/L*100	205	181	152	160	130
<i>Net debt/equity ratio %</i>	N/L*100	268	231	204	208	184
Equity		119.8	134.9	148.7	150.7	163.6
+ Non-current interest-bearing liabilities		295.0	293.0	291.0	221.5	240.0
+ Current interest-bearing liabilities		–	–	0.1	40.7	14.9
+ Provision for pension		74.8	68.0	76.7	72.5	88.3
Capital employed		489.6	495.9	516.5	485.4	506.8
Average Capital Employed	O ²⁾	492.8	506.3	480.6	468.3	523.2
EBIT LTM	P ³⁾	9.0	0.6	14.7	-0.6	19.9
<i>Return on Capital Employed %</i>	P/O*100	2	0	3	0	4

1, 2, 3) Definitions on page 79

Definitions

Sales volume – Sold volume for products manufactured by Ovako, not including third-party products

Production volume – Produced volume expressed as the number of metric tons used as input materials

Full-time employees at end of period (FTE) – Number of employees at end of period, calculated as full-time equivalents

Financial KPIs derived from the financial statements

Operating profit (EBIT) – Profit before financial income and expenses and taxes

EBITA – Earnings before financial income and expenses, taxes, amortisation of surplus values from acquisitions and impairments

EBITDA – Earnings before financial income and expenses, taxes, depreciation, amortisation and impairments

Restructuring costs – Costs for implementing Ovako's restructuring program, which consist mainly of costs for laying off personnel, termination of contracts, costs associated with moving plant and equipment, and impairment of assets

Adjusted EBITDA – EBITDA excluding restructuring costs

Adjusted EBITA – EBITA excluding restructuring costs

Adjusted EBIT – EBIT excluding restructuring costs and impairments associated with restructuring

Operating margin (EBIT margin) – Profit as above, expressed as a percentage of revenue

EBITA margin – Profit as above, expressed as a percentage of revenue

EBITDA margin – Profit as above, expressed as a percentage of revenue

Adjusted operating margin – Profit as above, expressed as a percentage of revenue

Adjusted EBITA margin – Profit as above, expressed as a percentage of revenue

Adjusted EBITDA margin – Profit as above, expressed as a percentage of revenue

Net debt – Interest-bearing liabilities including pension liabilities minus cash and cash equivalents

Net debt excluding pension liabilities – Interest-bearing liabilities excluding pension liabilities minus cash and cash equivalents. Ovako's pension liabilities consist mainly of liabilities financed via the Swedish PRI system, measured in accordance with IFRS. The company has chosen to present net debt excluding pension liabilities since these are provisions that will not be refinanced in the same way as borrowings

Net debt/equity ratio, percent – (Net debt (including or excluding pension liabilities)/equity) x 100

Return on capital employed (ROCE) – EBIT rolling 12 months/equity plus financial liabilities (average of opening and closing balances for the period)

Earnings per share, before and after dilution – Net profit for the period/weighted average number of shares during the period

Calculation are presented in the table on Page 78

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Concept, text and production: Ovako

Print: Ineko

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