# INNOVATIVE STEEL
## FOR A BETTER ENGINEERED FUTURE

### Interim report for the third quarter 2017

## Interim period in brief

**Third quarter 2017**

- Order intake increased by 14 percent compared to the previous year
- Sales volume was 11 percent higher than in the previous year, and revenue rose by 19 percent
- EBITDA before restructuring costs amounted to EUR 9 (5) million and was strengthened by increased sales and reduced costs from the restructuring program. The result was also affected by ramp-up costs, which will contribute to higher production during the fourth quarter
- Operating profit (EBITA) amounted to EUR 1 (-3) million before restructuring costs of EUR 0 (3) million
- Cash flow from operating activities amounted to EUR 14 (3) million, including payment of restructuring costs of EUR 1 (2) million
- Ovako's restructuring program contributed EUR 4 million in the form of lower costs
- Refinancing of the group was secured in September through the issue of EUR 310 million in new five-year notes at a fixed interest rate of 5.0 percent, which provides a saving of EUR 4 million annually in interest expense. The new notes were issued in October, whereafter the existing notes were redeemed early. The new notes will be listed on the Euro MTF market of the Luxembourg Stock Exchange.

**January – September 2017**

- Order intake increased by 22 percent compared to the previous year
- Sales volume was 9 percent higher than in the previous year and revenue rose by 15 percent
- EBITDA before restructuring costs improved considerably to EUR 71 (51) million, mainly due to higher volumes and reduced costs from the restructuring program
- Operating profit (EBITA) amounted to EUR 47 (28) million before restructuring costs of EUR 3 (5) million
- Cash flow from operating activities amounted to EUR 20 (14) million, including payment of restructuring costs of EUR 3 (6) million
- Ovako's restructuring program is proceeding ahead of plan and contributed EUR 15 million in the form of lower costs during the period.

### Group KPIs

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 10, and definitions of all KPIs can be found on page 14. KPIs are presented as a supplement to the financial statements to facilitate the understanding of performance and financial position over time.

| KPI | | 2017 Q3 | 2016 Q3 | 2017 Q1–3 | 2016 Q1–3 | 2016 Full Year |
|---|---|---|---|---|---|---|
| Sales volumes [1] | kton | 162 | 146 | 578 | 532 | 708 |
| Net revenue [2] | EURm | 197 | 165 | 675 | 585 | 781 |
| EBITDA before restructuring cost [3] | EURm | 9 | 5 | 71 | 51 | 57 |
| EBITDA [3] | EURm | 9 | 2 | 68 | 47 | 50 |
| *Adjusted EBITDA margin [3]* | | *4.6 %* | *3.2 %* | *10.5 %* | *8.8 %* | *7.3 %* |
| *EBITDA margin [3]* | | *4.5 %* | *1.4 %* | *10.1 %* | *8.0 %* | *6.4 %* |
| Operating profit (EBITA) before restructuring cost [3] | EURm | 1 | -3 | 47 | 28 | 25 |
| Operating profit (EBITA) [3] | EURm | 1 | -6 | 44 | 23 | 18 |
| *Adjusted operating margin (EBITA) [3]* | | *0.6 %* | *-1.6 %* | *7.0 %* | *4.7 %* | *3.2 %* |
| *Operating margin (EBITA) [3]* | | *0.5 %* | *-3.4 %* | *6.6 %* | *3.9 %* | *2.3 %* |
| EBIT [2] | EURm | -1 | -8 | 38 | 16 | 9 |
| Net profit/loss [2] | EURm | -6 | -11 | 14 | -1 | -12 |
| Cash flow from operating activities [2] | EURm | 14 | 3 | 20 | 14 | 35 |
| Net debt (excl pension liabilities)/equity ratio [3] | | 196 % | 209 % | 196 % | 209 % | 205 % |
| Return on capital employed (ROCE) [3] | | 6 % | -1 % | 6 % | -1 % | 2 % |
| Full time employees at end of period (FTE) [1] | No | 3,024 | 2,811 | 3,024 | 2,811 | 2,773 |

1) Statistical KPIs, defined on page 14
2) KPIs taken directly from the financial statements
3) KPIs calculated using the financial statements, see calculations on Page 10

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

# Comments from the CEO

The positive trend from the first half-year continued during the third quarter. Both sales volume and order intake increased and we delivered our strongest Q3 earnings since 2011. The improved result was driven by increased sales and further reductions in structural costs. The ongoing capacity ramp-up to meet increased demand in the fourth quarter somewhat impacted earnings. Our improved performance enabled a successful refinancing during the quarter through the issue of new five-year notes at a lower interest rate.

During the quarter we saw broad growth in most of our regions and segments. Sales volume during the seasonally weak third quarter was 162 thousand metric tons, 11 percent higher than in 2016. Order intake also increased, up 14 percent, while the order book remained strong – more than 50 percent higher than at the corresponding time last year.

We are seeing continued strong demand and we are constantly in dialogue with our customers to understand how their markets are performing, so that we can act promptly if necessary. In order to meet the increased demand we have decided to further expand the number of shifts in Hofors-Hällefors from October, and in Imatra from January next year. We have recruited and started training new employees successively during the quarter. With the new shifts in place, some of our production flows will have increased their capacity by up to 40 percent since the start of the year. At the same time, the savings program has continued to deliver according to plan, a total of EUR 4 million in the quarter.

Earnings before depreciation and amortization (EBITDA) increased from EUR 5 million to EUR 9 million for the quarter, despite recruitment and training costs for new employees to enable increased production from the fourth quarter. For the period January to September the EBITDA was EUR 71 million corresponding to a margin of 10.5 percent. The cash flow from operating activities was strengthened during the same period, from EUR 14 million to EUR 20 million.

We have seen increased costs for input material during the year, especially costs for electrodes have risen significantly and is something that is affecting the entire steel industry. We are monitoring developments closely and this increase is clearly a subject for discussion in the price negotiations that have already begun for 2018. So far, we have met a lot of understanding among our customers that these increased costs will lead to higher steel prices in 2018.

Our long-term and systematic safety efforts continue to yield results, and the number of accidents leading to lost time is now at the lowest level in the company's history. Our safety work remains a high priority, and is especially important now, as we expand the number of employees to meet market demand. We are fully focused on our long-term objective of zero accidents.

**Short-term outlook**

In view of the continued high level of industrial activity among our customers, increased shifts in several of our production flows, and a well-filled order book, we estimate that we will see a continued strong sales volume development in the fourth quarter.

Marcus Hedblom
President and CEO

# Third quarter of 2017

**Market development**
The EU industrial production index showed growth of 3.0 percent in the second quarter of 2017, compared to the same quarter in 2016. Sweden demonstrated higher growth than the EU as a whole during the second quarter, driven mainly by the strong car and truck markets and the market for industrial equipment. Germany has stabilized at a high level, but the car and truck markets decreased in the second quarter of 2017 compared to the same quarter in 2016. Demand in Finland was robust during the second quarter.

According to the European Steel Association, Eurofer, the European market for merchant bar (which includes engineering steel) increased by 0.7 percent in the second quarter of 2017, compared to the same quarter in 2016.

**Revenue and profit for the third quarter of 2017**
Order intake rose by 14 percent during the third quarter. Sales volume amounted to 162 (146) thousand metric tons and revenue to EUR 197 (165) million. Sales volume was 11 percent higher than in the previous year and revenue rose by 19 percent. The greater increase in revenue relative to sales volume is explained mainly by higher raw materials prices, which are passed on in the scrap and alloy surcharges.

Ovako's crude steel production volume (i.e. production in the steel mills but prior to further processing) was 14 percent higher than in the previous year and amounted to 201 (176) thousand metric tons.

Recruitment and training of new co-workers, to further expand production capacity in Hofors and Hällefors from October and in Imatra from January, have been done gradually throughout the quarter. The number of employees is therefore 250 more than at the start of the year, including seasonal variation and after cutbacks completed under the restructuring program. The efforts to lower the company's structural costs are ongoing and the company still expects to realize EUR 18 million in savings during 2017.

EBITDA before restructuring costs amounted to EUR 9 (5) million. Underlying earnings improved compared to 2016, driven by higher volumes, increased prices, savings in the restructuring program, and the positive impact of timing effects of scrap and alloy prices and from absorption effects in inventory. However, this was offset by higher energy costs due to price rises for fossil fuels and costs for capacity expansion. The costs for capacity expansion also includes personnel costs, which will contribute to higher production during the fourth quarter, and maintenance costs, which were brought forward in certain production flows of in total EUR 2 million.

Volume, price and mix effects had a positive impact on profit of EUR 2 million compared to the previous year, after combined costs for capacity increases. The restructuring program contributed EUR 4 million in reduced fixed and variable costs, before cost inflation of EUR 3 million. Timing effects of scrap and alloy prices affected profit during the quarter by EUR 2 million compared to same period the previous year. Currency effects had no material impact on profit compared to the previous year.

EBITA before restructuring costs amounted to EUR 1 (-3) million, including scheduled depreciation and amortization of EUR 8 (8) million.

Restructuring costs of EUR 0 (3) million and amortization of surplus values of EUR 2 (2) million were charged against consolidated earnings.

Net financial expenses for the quarter amounted to EUR -7 (-5) million, and were influenced by currency effects of EUR 0 (1) million. Profit before tax amounted to EUR -8 (-13) million, and net profit was EUR -6 (-11) million.

**Revenue and profit for January – September 2017**
Order intake rose by 22 percent during the period January to September. Sales volume amounted to 578 (532) thousand metric tons and revenue to EUR 675 (585) million. Sales volume was 9 percent higher than in the previous year and revenue rose by 15 percent. The greater increase in revenue relative to sales volume is explained mainly by higher raw materials prices.

Ovako's crude steel production volume (i.e. production in the steel mills but prior to further processing) was 6 percent higher than in the previous year and amounted to 739 (695) thousand metric tons.

A total of 32 full-time equivalent employees have left the company during the year under the restructuring program, mainly as an effect of the closure of the unit in Forsbacka, which was completed in the spring.

EBITDA before restructuring costs amounted to EUR 71 (51) million. Volume, price and mix effects had a positive impact on profit of EUR 14 million compared to the previous year, after combined costs for capacity increases. The restructuring program contributed EUR 15 million in reduced fixed and variable costs, before cost inflation of EUR 7 million. Timing effects of scrap and alloy prices affected profit by EUR -1 million and currency effects influenced profit by EUR -1 million compared to the previous year.

EBITA before restructuring costs amounted to EUR 47 (28) million, including scheduled depreciation and amortization of EUR 24 (24) million.

Restructuring costs of EUR 3 (5) million and amortization of surplus values of EUR 7 (7) million were charged against consolidated earnings.

*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.*

Net financial income for the period amounted to EUR -19 (-16) million, and was influenced by currency effects of EUR -1 (3) million. Profit before tax for the period amounted to EUR 18 (0) million, and net profit was EUR 14 (-1) million.

**Cash flow**

Cash flow from operating activities amounted to EUR 14 (3) million for the third quarter and EUR 20 (14) million for period January to September, and was strengthened by the improved result and a reduction in working capital. This includes payment of restructuring costs of EUR 1 (2) million and EUR 3 (6) million, respectively.

**New senior secured notes**

Refinancing of the group was secured in September through the issue of EUR 310 million in new five-year notes at a fixed interest rate of 5%, which provides a saving of EUR 4 million annually in interest expense. The new notes were issued in October, whereafter the existing notes (originally maturing in June 2019) were redeemed early. The new notes will be listed on the Euro MTF market of the Luxembourg Stock Exchange.

The financing costs for the new debt are expected to amount to EUR 8 million, which will be amortized over the maturity. Redemption costs of EUR 4.9 million for the previous notes were paid in October. Borrowing costs of EUR 3.5 million attributable to the previous notes and that have not yet been recognized in profit and loss (since the notes did not mature) will be recognized in the fourth quarter.

**Financial position**

On the reporting date the group's borrowing amounted to EUR 300 (31 December 2016: 300) million. As described above this was replaced with EUR 310 million in new notes during October.

Interest-bearing liabilities after deduction of financing costs recognized as a deduction from the liability on the balance sheet amounted to EUR 296 (31 December 2016: 295) million. Net debt (excluding pension liabilities) amounted to EUR 249 (31 December 2016: 246) million.

Equity amounted to EUR 127 (31 December 2016: 120) million, and the net debt/equity ratio (excluding pension liabilities) was 196 (31 December 2016: 205) percent.

The group's liquidity buffer of EUR 86 (31 December 2016: 88) million comprises cash and cash equivalents of EUR 47 (31 December 2016: 49) million and unutilized contracted loan commitments of EUR 39 (31 December 2016: 39) million.

**Events after the period**

As described above, Ovako has completed refinancing of the Group through redemption of existing notes and the issue of EUR 310 million in new five-year notes.

In order to present the financial statements in accordance with IFRS, the bond loan that has been replaced should be reported as a short term liability, since there was an intention at the balance sheet date to repay the loan, and since the issue of new notes represents a new loan and not an extension of an existing facility.

The new bond loan of EUR 310 million will be reported as a long term loan in future financial reports.

**Investments**

Net investments in intangible assets and property, plant and equipment amounted to EUR 11 (13) million during the quarter and EUR 22 (24) million during the period January to September.

### Changes to the Board of Directors

Oskari Eskola has vacated his seat as a director of Ovako after leaving his employment with Triton.

### Parent company

The parent company of the group, Ovako Group AB (corporate registration number 556813-5361), directly and indirectly holds 100 percent of the shares in all subsidiaries of the group. Net profit in Ovako Group AB amounted to EUR 0.2 (0.2) million.

### Most significant risks and uncertainty factors

For information regarding the most significant risks and uncertainty factors, please refer to the description in the annual report for 2016. The company does not consider that there have been any material changes during the reporting period in the risks and factors of uncertainty presented in the annual report. The current macroeconomic uncertainty may influence the development of the business.

### Related-party transactions

The group is under the controlling influence of Triako Holdco AB, the parent company of Ovako Group AB. Triako Holdco AB is under the controlling influence of Triton Fund III and Triton Fund III F&F LP, which, directly and indirectly, together control 84.26% of the shares in the Ovako group. There are no material transactions with companies in which Triton Fund III and Triton Fund III F&F LP have significant or controlling influence.

### Accounting policies

The interim report for the group has been prepared in accordance with IAS 34 Interim Reporting. The interim report for the parent has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RFR 2 Accounting for Legal Entities.

The group applies the International Financial Reporting Standards (IFRS) adopted by the EU and the Swedish Annual Accounts Act. Segment information is presented based on the company management's perspective, and operating segments are identified based on the internal reporting to Ovako's chief operating decision maker. Ovako has identified the CEO as its chief operating decision maker, and the internal reporting used by this person to review operations and make decisions about resource allocation is the basis for segmentation. Ovako has combined its segments (business units) into one reportable operating segment in accordance with the rules for aggregation.

The accounting policies applied in this interim report are the same as those applied in the consolidated annual accounts for 2016. No new or revised IFRSs entering into force during 2017 have had any material effect on the group.

IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers, that will come into force in 2018, are not expected to have any significant impact on the results and financial position of the group.

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

Stockholm, October 25, 2017

Marcus Hedblom
President and CEO

## CONDENSED CONSOLIDATED INCOME STATEMENT

| EUR million | 2017 Q3 | 2016 Q3 | 2017 Q1-3 | 2016 Q1-3 | 2016 Full year |
|---|---|---|---|---|---|
| REVENUE | 197.1 | 165.0 | 674.8 | 585.0 | 780.8 |
| Cost of goods sold | -185.5 | -161.0 | -593.5 | -528.0 | -716.1 |
| **GROSS PROFIT** | **11.6** | **4.0** | **81.3** | **57.0** | **64.7** |
| Selling expenses | -6.6 | -6.2 | -22.8 | -21.7 | -30.1 |
| Administrative expenses | -6.9 | -6.0 | -23.5 | -21.3 | -28.6 |
| Other operating income | 0.7 | 0.4 | 2.7 | 2.3 | 3.0 |
| **OPERATING PROFIT/LOSS** | **-1.2** | **-7.8** | **37.7** | **16.3** | **9.0** |
| Financial income and expenses, net | -6.6 | -5.0 | -19.4 | -16.0 | -23.1 |
| **PROFIT/LOSS BEFORE TAX** | **-7.8** | **-12.8** | **18.3** | **0.3** | **-14.1** |
| Taxes | 1.8 | 1.7 | -4.4 | -1.3 | 2.3 |
| **NET PROFIT/LOSS FOR THE PERIOD** | **-6.0** | **-11.1** | **13.9** | **-1.0** | **-11.8** |
| Of which attributable to | | | | | |
| Owners of the parent | -6.0 | -11.1 | 13.9 | -1.0 | -11.8 |
| Non-controlling interests | – | – | – | – | – |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR million | 2017 Q3 | 2016 Q3 | 2017 Q1-3 | 2016 Q1-3 | 2016 Full year |
|---|---|---|---|---|---|
| **Net profit/loss for the period** | **-6.0** | **-11.1** | **13.9** | **-1.0** | **-11.8** |
| Items that will be reclassified to profit or loss | | | | | |
| Translation differences | -3.1 | -0.4 | -5.1 | -1.2 | -0.6 |
| Cash flow hedges | 2.8 | 1.3 | -0.1 | 0.0 | 5.9 |
| Tax attributable to cash flow hedges | -0.6 | -0.3 | 0.0 | 0.0 | -1.3 |
| | -0.9 | 0.6 | -5.2 | -1.2 | 4.0 |
| Items that will not be reclassified to profit or loss | | | | | |
| Revaluation of pension obligations | -0.8 | -4.3 | -1.8 | -13.0 | -9.3 |
| Tax attributable to revaluation of pension obligations | 0.1 | 1.0 | 0.4 | 2.9 | 2.0 |
| | -0.7 | -3.3 | -1.4 | -10.1 | -7.3 |
| Other comprehensive income, net of tax | -1.6 | -2.7 | -6.6 | -11.3 | -3.3 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | -7.6 | -13.8 | 7.3 | -12.3 | -15.1 |

## CONDENSED CONSOLIDATED BALANCE SHEET

| EUR million | 2017<br>30 Sep | 2016<br>30 Sep | 2016<br>31 Dec |
|---|---|---|---|
| Property, plant and equipment | 301.0 | 311.7 | 311.5 |
| Intangible assets | 9.0 | 9.9 | 9.8 |
| Other financial assets | 7.0 | 7.0 | 7.0 |
| Derivative assets | 0.3 | 0.1 | 0.2 |
| Deferred tax assets | 12.4 | 16.6 | 15.7 |
| Non-current assets | 329.7 | 345.3 | 344.2 |
| Inventories | 211.2 | 201.9 | 201.2 |
| Trade receivables | 109.8 | 92.8 | 85.7 |
| Other current receivables | 20.7 | 16.2 | 20.0 |
| Current tax assets | 0.8 | 2.2 | 1.2 |
| Derivative assets | 0.6 | 0.2 | 1.5 |
| Cash and cash equivalents | 47.3 | 38.7 | 49.2 |
| Current assets | 390.4 | 352.0 | 358.8 |
| TOTAL ASSETS | 720.1 | 697.3 | 703.0 |
| Equity | 127.1 | 122.6 | 119.8 |
| Non-current interest-bearing liabilities *) | – | 294.5 | 295.0 |
| Derivative liabilities | 2.3 | 7.1 | 4.3 |
| Deferred tax liabilities | 34.4 | 37.1 | 34.8 |
| Provisions for pensions | 75.8 | 77.6 | 74.8 |
| Other provisions | 1.8 | 2.1 | 2.9 |
| Other liabilities | 0.4 | 0.3 | 0.3 |
| Non-current liabilities | 114.7 | 418.7 | 412.1 |
| Current interest-bearing liabilities *) | 296.5 | – | – |
| Derivative liabilities | 2.9 | 3.3 | 1.7 |
| Trade payables | 107.6 | 98.2 | 109.4 |
| Current tax liabilities | 0.7 | 0.3 | 0.0 |
| Provisions | 1.5 | 2.8 | 2.6 |
| Other current liabilities | 69.1 | 51.4 | 57.4 |
| Current liabilities | 478.3 | 156.0 | 171.1 |
| TOTAL EQUITY AND LIABILITIES | 720.1 | 697.3 | 703.0 |

*) As described on page 5, a refinancing of the Group has been completed through which the bond loan existing at the date of the balance sheet has been repaid in advance after the balance sheet date and replaced by a new five year bond loan. In order to present the financial statements in accordance with IFRS, the loan that has been replaced is reported as a short term liability. The new bond loan of EUR 310 million will be reported as a long term liability in future financial reports.

In accordance with IFRS (IAS 1 section 69-73) the loan that has been repaid after the balance sheet date should be reported as a short term liability since there was an intention at the balance sheet date to repay the loan, and since the new notes issued in October represent a new loan and not an extension of an existing facility.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| EUR million | 2017 Q3 | 2016 Q3 | 2017 Q1-3 | 2016 Q1-3 | 2016 Full year |
|---|---|---|---|---|---|
| Operating profit/loss | -1.2 | -7.8 | 37.7 | 16.3 | 9.0 |
| Adjustment for depreciation and amortization | 10.0 | 10.1 | 30.2 | 30.5 | 40.9 |
| Adjustment for other non-cash items | -0.2 | 1.8 | 0.6 | 1.5 | 4.1 |
| Change in working capital | 8.0 | 1.5 | -36.1 | -20.7 | 3.2 |
| Cash flow from operations | 16.6 | 5.6 | 32.4 | 27.6 | 57.2 |
| Interest received and paid | -2.2 | -1.8 | -12.2 | -11.5 | -21.2 |
| Income tax paid | -0.1 | -0.4 | 0.2 | -2.0 | -1.3 |
| Cash flow from operating activities | 14.3 | 3.4 | 20.4 | 14.1 | 34.7 |
| Acquisition of property, plant and equipment | -11.4 | -13.0 | -23.1 | -24.1 | -34.3 |
| Sale of property, plant and equipment | – | – | 1.3 | – | – |
| Cash flow from investing activities | -11.4 | -13.0 | -21.8 | -24.1 | -34.3 |
| Cash flow before financing activities | 2.9 | -9.6 | -1.4 | -10.0 | 0.4 |
| Cash flow from financing activities | – | – | – | – | – |
| Cash flow for the period | 2.9 | -9.6 | -1.4 | -10.0 | 0.4 |
| Cash and cash equivalents at the beginning of period | 44.8 | 48.5 | 49.2 | 49.1 | 49.1 |
| Translation differences in cash and cash equivalents | -0.4 | -0.2 | -0.5 | -0.4 | -0.3 |
| Cash and cash equivalents at the end of period | 47.3 | 38.7 | 47.3 | 38.7 | 49.2 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 2017 | Equity attributable to owners of the parent | | | | |
|---|---|---|---|---|---|
| EUR million | Share capital | Translation reserve | Cash flow hedge reserves | Retained earnings | Total equity |
| Opening balance at 1 Jan | 0.0 | 0.9 | -3.3 | 122.2 | 119.8 |
| Comprehensive income | | | | | |
| Profit/loss for the period | – | – | – | 13.9 | 13.9 |
| Other comprehensive income | – | -5.1 | -0.1 | -1.4 | -6.6 |
| Comprehensive income | – | -5.1 | -0.1 | 12.5 | 7.3 |
| Closing balance at 30 Sep | 0.0 | -4.2 | -3.4 | 134.7 | 127.1 |

| 2016 | Equity attributable to owners of the parent | | | | |
|---|---|---|---|---|---|
| MEUR | Share capital | Translation reserve | Cash flow hedge reserves | Retained earnings | Total equity |
| Opening balance at 1 Jan | 0.0 | 1.5 | -7.9 | 141.3 | 134.9 |
| Comprehensive income | | | | | |
| Profit/loss for the period | – | – | – | -1.0 | -1.0 |
| Other comprehensive income | – | -1.2 | 0.0 | -10.1 | -11.3 |
| Comprehensive income | – | -1.2 | 0.0 | -11.1 | -12.3 |
| Closing balance at 30 Sep | 0.0 | 0.3 | -7.9 | 130.2 | 122.6 |

## KPIs - CALCULATIONS AND RECONCILIATION TO FINANCIAL STATEMENTS

| From Income Statement<br>EUR million (if not otherwise stated) | | | 2017<br>Q3 | 2016<br>Q3 | 2017<br>Q1-3 | 2016<br>Q1-3 | 2016<br>Full year |
|---|---|---|---|---|---|---|---|
| Revenue | A | | 197.1 | 165.0 | 674.8 | 585.0 | 780.8 |
| Net result | | | -6.0 | -11.1 | 13.9 | -1.0 | -11.8 |
| + Taxes | | | -1.8 | -1.7 | 4.4 | 1.3 | -2.3 |
| + Financial income and expenses, net | | | 6.6 | 5.0 | 19.4 | 16.0 | 23.1 |
| **EBIT** | B | | **-1.2** | **-7.8** | **37.7** | **16.3** | **9.0** |
| + Amortization of surplus values | | | 2.2 | 2.2 | 6.7 | 6.7 | 9.0 |
| **EBITA** | C | | **1.0** | **-5.6** | **44.4** | **23.0** | **18.0** |
| + Depreciation | | | 7.8 | 7.9 | 23.5 | 23.8 | 31.9 |
| **EBITDA** | D | | **8.8** | **2.3** | **67.9** | **46.8** | **49.9** |
| *EBIT margin %* | B/A*100 | | *-0.6* | *-4.7* | *5.6* | *2.8* | *1.2* |
| *EBITA margin %* | C/A*100 | | *0.5* | *-3.4* | *6.6* | *3.9* | *2.3* |
| *EBITDA margin %* | D/A*100 | | *4.5* | *1.4* | *10.1* | *8.0* | *6.4* |
| Net result (EUR thousand) | E | | -6,010 | -11,086 | 13,912 | -1,013 | -11,754 |
| Number of shares | F | | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| **Earnings per share** | E/F*1000 | | **-120** | **-222** | **278** | **-20** | **-235** |

| Adjusted for restructuring<br>EUR million (if not otherwise stated) | | | 2017<br>Q3 | 2016<br>Q3 | 2017<br>Q1-3 | 2016<br>Q1-3 | 2016<br>Full year |
|---|---|---|---|---|---|---|---|
| Impairments related to restructuring | G | 1) | – | – | – | – | – |
| Restructuring cost | H | 1) | 0.2 | 3.0 | 2.8 | 4.6 | 6.9 |
| **EBIT before restructuring** | I=B+G+H | | **-1.0** | **-4.8** | **40.5** | **20.9** | **15.9** |
| **EBITA before restructuring** | J=C+H | | **1.2** | **-2.6** | **47.2** | **27.6** | **24.9** |
| **EBITDA before restructuring** | K=D+H | | **9.0** | **5.3** | **70.7** | **51.4** | **56.8** |
| *Adjusted EBIT margin %* | I/A*100 | | *-0.5* | *-2.9* | *6.0* | *3.6* | *2.0* |
| *Adjusted EBITA margin %* | J/A*100 | | *0.6* | *-1.6* | *7.0* | *4.7* | *3.2* |
| *Adjusted EBITDA margin %* | K/A*100 | | *4.6* | *3.2* | *10.5* | *8.8* | *7.3* |

| From Balance Sheet<br>EUR million (if not otherwise stated) | | | 2017<br>30 Sep | 2016<br>30 Sep | 2016<br>31 Dec |
|---|---|---|---|---|---|
| **Equity** | L | | **127.1** | **122.6** | **119.8** |
| + Non-current interest-bearing liabilities | | | – | 294.5 | 295.0 |
| + Current interest-bearing liabilities | | | 296.5 | – | – |
| ./. Cash and cash equivalents | | | 47.3 | 38.7 | 49.2 |
| **Net debt, excl provisions for pension** | M | | **249.2** | **255.8** | **245.8** |
| + Provision for pension | | | 75.8 | 77.6 | 74.8 |
| **Net debt** | N | | **325.0** | **333.4** | **320.6** |
| *Net debt/equity ratio, excl provision for pension %* | M/L*100 | | *196* | *209* | *205* |
| *Net debt/equity ratio %* | N/L*100 | | *256* | *272* | *268* |
| Equity | | | 127.1 | 122.6 | 119.8 |
| + Non-current interest-bearing liabilities | | | – | 294.5 | 295.0 |
| + Current interest-bearing liabilities | | | 296.5 | – | – |
| + Provision for pension | | | 75.8 | 77.6 | 74.8 |
| **Capital Employed** | | | **499.4** | **494.7** | **489.6** |
| Average Capital Employed | O | 2) | 497.1 | 505.5 | 492.8 |
| EBIT LTM | P | 3) | 30.4 | -3.2 | 9.0 |
| *Return on Capital Employed %* | P/O*100 | | *6* | *-1* | *2* |

1, 2, 3) Definitions on page 14

## PARENT COMPANY CONDENSED INCOME STATEMENT

| EUR million | 2017 Q3 | 2016 Q3 | 2017 Q1-3 | 2016 Q1-3 | 2016 Full year |
|---|---|---|---|---|---|
| REVENUE | – | – | – | – | – |
| Administrative expenses | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 |
| OPERATING PROFIT/LOSS | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 |
| Interest income from group companies | 0.1 | 0.1 | 0.4 | 0.4 | 0.6 |
| PROFIT BEFORE TAX | 0.0 | 0.0 | 0.3 | 0.3 | 0.4 |
| Group contribution | – | – | – | – | 0.9 |
| Taxes | 0.0 | 0.0 | -0.1 | -0.1 | -0.2 |
| NET PROFIT/LOSS FOR THE PERIOD | 0.0 | 0.0 | 0.2 | 0.2 | 1.1 |

## PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

| EUR million | 2017 Q3 | 2016 Q3 | 2017 Q1-3 | 2016 Q1-3 | 2016 Full year |
|---|---|---|---|---|---|
| Net profit/loss for the period | 0.0 | 0.0 | 0.2 | 0.2 | 1.1 |
| Other comprehensive income | – | – | – | – | – |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 0.0 | 0.0 | 0.2 | 0.2 | 1.1 |

## PARENT COMPANY CONDENSED BALANCE SHEET

| EUR million | 2017 30 Sep | 2016 30 Sep | 2016 31 Dec |
|---|---|---|---|
| Shares in subsidiaries | 139.8 | 139.8 | 139.8 |
| Receivables from subsidiaries | 24.9 | 24.7 | 24.9 |
| Deferred tax asset | 2.6 | 2.8 | 2.7 |
| Non-current assets | 167.3 | 167.3 | 167.4 |
| Receivables from subsidiaries | 38.2 | 37.0 | 37.8 |
| Current assets | 38.2 | 37.0 | 37.8 |
| ASSETS | 205.5 | 204.3 | 205.2 |
| Equity | 192.0 | 191.0 | 191.8 |
| Current liabilities to subsidiaries | 13.5 | 13.3 | 13.4 |
| Current liabilities | 13.5 | 13.3 | 13.4 |
| EQUITY AND LIABILITIES | 205.5 | 204.3 | 205.2 |
| Pledged collateral | 179.3 | 179.3 | 179.3 |
| Contingent liabilities | None | None | None |

## FINANCIAL INSTRUMENTS DISCLOSURE – GROUP

**Fair value of financial instruments:**
Ovako's financial instruments include derivatives, unlisted equities, loan receivables, accounts receivable and cash and cash equivalents, interest-bearing liabilities, trade payables and other liabilities. Derivatives are measured at fair value in Level 2 as defined by IFRS 13 i.e. fair value determined using valuation techniques with observable market data, either directly (such as prices) or indirectly (derived from prices). Other financial instruments are measured at amortised cost. The fair value of the bond loan was determined based on the redemtion price at the time of repayment in October. Depending on market conditions, the company may from time to time buy back its own bonds in the market. The table below shows the carrying amounts and fair values of financial instruments.

| | 30 Sep 2017 | | 30 Sep 2016 | | 31 Dec 2016 | |
|---|---|---|---|---|---|---|
| EUR million | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Derivatives | 0.9 | 0.9 | 0.3 | 0.3 | 1.7 | 1.7 |
| Financial non-current assets | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| Trade and other receivables | 110.7 | 110.7 | 93.4 | 93.4 | 86.5 | 86.5 |
| Cash and cash equivalents | 47.3 | 47.3 | 38.7 | 38.7 | 49.2 | 49.2 |
| **Total assets** | **165.8** | **165.8** | **139.3** | **139.3** | **144.3** | **144.3** |
| Derivatives | 5.2 | 5.2 | 10.4 | 10.4 | 6.0 | 6.0 |
| Interest-bearing liabilities | 296.5 | 304.9 | 294.5 | 259.1 | 295.0 | 275.5 |
| Trade and other payables | 86.0 | 86.0 | 98.6 | 98.6 | 109.7 | 109.7 |
| **Total liabilities** | **387.7** | **396.1** | **403.5** | **368.1** | **410.7** | **391.2** |

**Financial assets and liabilities that are offset or subject to a legally enforceable framework agreement for netting or similar agreement:**
Financial assets and liabilities subject to offset consist of electricity derivatives and currency derivatives covered by legally binding master netting agreements.

| | 30 Sep 2017 | | 30 Sep 2016 | | 31 Dec 2016 | |
|---|---|---|---|---|---|---|
| MEUR | Financial assets | Financial Liabilities | Financial assets | Financial Liabilities | Financial assets | Financial Liabilities |
| Gross amount,derivatives | 0.9 | 5.2 | 0.3 | 10.4 | 1.7 | 6.0 |
| Amount offset | – | – | – | – | – | – |
| **Disclosed in balance sheet** | **0.9** | **5.2** | **0.3** | **10.4** | **1.7** | **6.0** |
| Amounts included in an offset agreement | -0.9 | -0.9 | -0.3 | -0.3 | -1.7 | -1.7 |
| **Net after amounts included in an offset agreement** | **0.0** | **4.3** | **0.0** | **10.1** | **0.0** | **4.3** |

**Other disclosures**
Management continuously reviews options to optimize the company's capital structure (including refinancing all or part of the group's debt) and the owner continually considers strategic options for its holdings, including a potential stock exchange listing, in both cases in light of the market situation and the company's development.

# Review report

Ovako Group AB corporate identity number 556813-5361

**Introduction**

We have reviewed the condensed interim report for Ovako Group AB as at 30th of September 2017 and for the nine months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

**Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

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

Stockholm, October 25, 2017
Ernst & Young AB

Heléne Siberg Wendin
Authorized Public Accountant

## DEFINITIONS OF KPIs

### Statistical KPIs

| | |
|---|---|
| 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

| | |
|---|---|
| EBIT | Profit before financial income and expenses and taxes |
| EBITA | Profit before financial income and expenses, taxes, amortization of surplus values from acquisitions and impairments. Shows the underlying operating profit development of the business |
| EBITDA | Profit before financial income and expenses, taxes, depreciation, amortization and impairments. EBITDA is a measure of the underlying cash-generating capacity of the business. |
| 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. Restructuring costs are excluded when calculating adjusted measurements below. Adjusted measurements are used to give a better understanding of the business development. |
| Adjusted EBIT | EBIT excluding restructuring costs and impairments associated with restructuring |
| Adjusted EBITA | EBITA excluding restructuring costs |
| Adjusted EBITDA | EBITDA excluding restructuring costs |
| 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 EBIT 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 |
| Calculations are presented in the table on Page 10 | |

For more information, please contact: ir@ovako.com

Ovako develops high-tech steel solutions for, and in cooperation with, its customers in the bearing, transport and manufacturing industries. Our steel makes our customers' end products more resilient and extends their useful life, ultimately resulting in smarter, more energy-efficient and more environmentally-friendly products.

Our production is based on recycled scrap and includes steel in the form of bar, tube, ring and pre-components. Ovako is represented in more than 30 countries, and has sales offices in Europe, North America and Asia. Ovako's sales in 2016 amounted to EUR 781 million, and the company had 2,773 employees at year-end. For more information, please visit us at www.ovako.com

OVAKO

Ovako AB (publ), Box 1721, SE-111 87 Stockholm, Sweden

Visiting address: Kungsträdgårdsgatan 10, Stockholm

Tel: +46 (0)8 622 13 00