OVAKO

INNOVATIVE STEEL

FOR A BETTER ENGINEERED FUTURE

ANNUAL REPORT 2014

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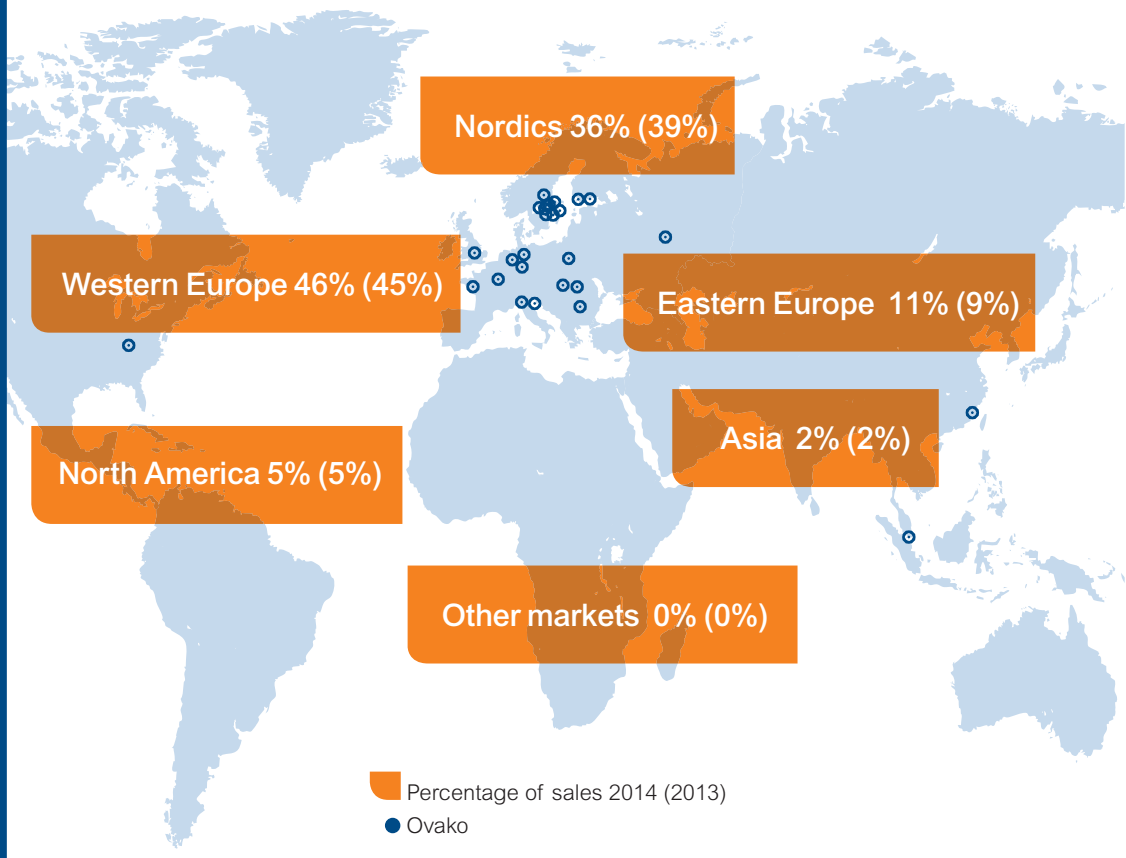
This is Ovako's Annual Report for the financial year 2014. The information provided on pages 25-60 constitutes the formal annual report for Ovako Group AB and has been audited by the company's independent auditor.

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.



Engineering steel is an advanced low-alloy steel used in industrial applications.

Ovako's sales volume increased by 3% to 697 thousand tonnes in 2014.

697,000

Ovako produced 887 (862) thousand tonnes of crude steel in 2014.

887,000

Ovako is underpinned by a 300-year foundation of solid Nordic expertise in steel production.

300 years

This is Ovako

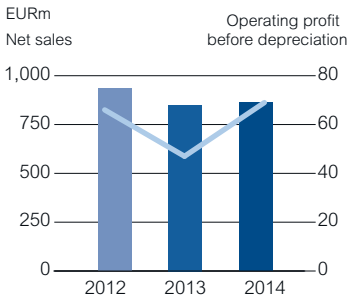
Ovako is a leading European producer of engineering steel for customers in the bearing, transport and manufacturing industries. Ovako's customers are found mainly in the European engineering industry and its subcontractors. Customers are generally leading premium manufacturers in their segments that 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, powertrains, 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. The company'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.

Sales in 2014 amounted to EUR 862 million and the company had 2,925 employees.

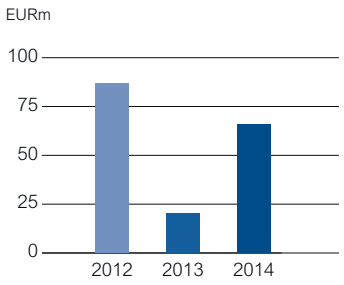
Performance in 2014

Net sales and operating profit before depreciation

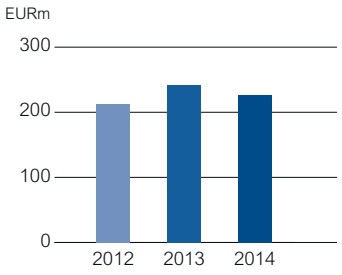


- Sales volumes increased by 3 percent compared to the previous year, and revenue by 1 percent
- Operating profit before depreciation and amortisation (EBITDA) amounted to EUR 69 (47) million, supported by higher volumes, improved product mix, implemented cost reduction programme and a weaker Swedish krona
- Operating profit (EBIT) amounted to EUR 15 (-1) million
- Cash flow from operating activities after interest paid amounted to EUR 66 (20) million
- Net debt amounted to EUR 226 (242) million
- The Group's previous financing was replaced with EUR 300 million in senior secured notes with a 5-year maturity

Cash flows from operations after interest paid



Net debt



Group key figures	2014	2013	2012
Sales volume, thousand tonnes	697	675	694
Net sales, EURm	862	850	937
Operating profit before depreciation (EBITDA), EURm	69	47	66
EBITDA margin	7.9%	5.5%	7.0%
Operating profit (EBIT), EURm	15	-1	20
EBIT margin	1.7%	0.0%	2.1%
Net profit, EURm	-15	-21	-4
Earnings per share, EUR	-302	-412	-74
Cash flows from operating activities after interest paid, EURm	66	20	87
Net debt/equity ratio	152%	160%	130%
Return on capital employed (ROCE)	3%	0%	4%
Number of employees at 31 December (FTE)	2,925	2,995	3,040

Q1

Preparations for new continuous casting
Ovako approved the investment in its new continuous casting machine in the first quarter. The installation was then completed during an extended summer shutdown. The new continuous casting provides Smedjebacken with a larger range of dimensions, better quality and an improved cost position. This also marks the final phase of a three-year investment programme in Smedjebacken, with the rebuilding of the scrap yard, new high-tech flue gas filters, adjustments to the rolling mill and increased cutting capacity. The de-dusting project has also won an award for its low energy consumption.

Q2

Ovako completed successful refinancing
In May, Ovako successfully completed its refinancing. The previous bank financing was replaced by a European bond of EUR 300 million. The bond was well received by the market and has a maturity of five years at a fixed rate of 6.50%. The bonds are listed on the Luxembourg Stock Exchange.

Part of the winning bid for the assets of Ascometal
In May the court of Nanterre, France, ruled the consortium which included Ovako could acquire the assets of the bankrupt Ascometal. Ovako's investment of EUR 5 million corresponds to a stake of 8.5%. The group was led by Frank Supplisson, former chief of staff to former French industry minister Christine Lagarde. The consortium also includes Ascometal's founder and the former CEO of Airbus as well as Arcelor's former CEO.

Q3

Ovako received renewed climate certificate
Ovako has chosen a rail-based logistics solution, which has reduced carbon emissions. The climate certificate means that Ovako's total freight transport in Sweden, conducted by Green Cargo in 2013, had a climate impact of less than 10 grams of carbon dioxide per net tonne kilometre. The freight was mostly by electrically powered trains run on electricity from hydropower.

Launch of three attribute brands
Efforts are ongoing to strengthen Ovako's customer offering, and resulted in the launch of three attribute brands during the autumn: IQ-Steel®, BQ-Steel® and WR-Steel®. These three, along with the already launched M-Steel®, are based on the concepts for improved wear characteristics and extremely clean steel with excellent fatigue properties. They are all well positioned to meet demands for lightweight and durable products that can withstand high loads.

New North America Head
Jamie Price was recruited by Ovako in July as President and Head of Sales Unit North America, a position that involves responsibility for the management of operations in North America and for strengthening and expanding our presence with both existing and new customers.

New board members

Sakari Tamminen was elected as a new member of Ovako's board of directors. Sakari Tamminen has extensive experience in developing and managing large international industrial companies. Oskari Eskola also replaced Simon Andberg on the board.

Appointed Bosch preferred supplier for the seventh year in a row
Ovako manufactures and supplies IQ-Steel tailored for diesel injection parts manufactured by Bosch. The certification is awarded to suppliers that are considered important partners for the future success of Bosch and that provide outstanding performance when it comes to manufacturing and supplying products or services – especially when it comes to quality, pricing, reliability, technology and continuous improvement. Ovako is a preferred supplier in the steels group of materials.

Launch of vision and core values
In the spring, Ovako launched its vision and core values. The vision of "Innovative steel for a better engineered future" was formulated as a reminder of where Ovako is heading. This involves working together with customers to develop high-quality and innovative steel that shapes a better future. Ovako's three core values are Innovative, Skilled and Responsible, and describe what the company stands for today and in the future.

Q4

Investment decisions for increased productivity in Hofors steel and rolling mills
A decision was taken during the third quarter to begin a multi-year process to develop the Hofors steel and rolling mills. The first steps will be taken in 2015 with an investment to increase the productivity of the rolling mill. Work is also taking place to produce larger castings in sizes of 6–8 tonnes to supply, through forging, Ovako's large ring mill.

New heat-treatment furnace in Imatra
In the autumn, Ovako installed a new heating furnace in Imatra to improve manufacturing processes and capacity. The manufacturing processes require large amounts of energy and the majority is used by the furnaces. Ovako therefore strives to both save energy and improve the use of the furnaces to achieve high productivity, low operating costs and low energy consumption.

Cromax unit in Mora closes
A production phase-out at the Cromax chrome-plated bar unit in Mora was initiated as part of Ovako's efficiency programme. The unit was closed as planned during the autumn and production volumes have been distributed to other units within the group.

2014 – An innovative year

The gradual market improvement that started mid-2013 continued in the first half of 2014. Ovako took advantage of the favourable markets, with growth of 9% and a strong development of its EBITDA margin in the first six months of the year. Markets slowed again in the second half of 2014, with order intake and invoicing ending somewhat lower than in 2013. The contribution margin per tonne stayed stable throughout the year, but the EBITDA margin decreased in the second half due to under absorption in production and lower sales volumes overall. For the full year Ovako grew 3% in volume, and EBITDA improved by 47% to EUR 69 million. This was a good step forward in a volatile market.

Our investments in new markets continued to gain momentum during the year. I am pleased to note that our new sales companies in China, Italy and Eastern Europe, together with the increased efforts in the US and Russia, all grew ahead of the group average and now account for 22% of our total business. Our customer portfolio and prospects strengthened significantly, and we expect these markets to continue to grow towards our target level of 30% of our total business in 2017.

Exciting launches strengthen our portfolio

From a product point of view, 2014 has been a very exciting year. Our portfolio of M-Steel for improved machinability, WR-Steel for improved wear resistance, and our BQ-Steel and IQ-Steel to avoid metal fatigue are now improved and launched in the market. After the launch in 2015 of SZ-Steel®, a material with stable performance in arctic climates, Ovako will offer customers in the engineering industry a wide range of benefits. High productivity and long tool life in machining, the ability to reduce weight in critical components without risking fatigue and extended durability in heavy-wear applications are at the core of our customer offering.

Investments in our production system were still significant during 2014 and reached EUR 34 million, but decreased compared to the year before. The biggest project by far was the installation of a new continuous caster in the steel mill in Smedjebacken. The installation was completed during an extended summer break, and production was ramped up during the rest of the year. The team has done an outstanding job to keep the project on target while maintaining customer service at a high level during this period. Also, the Smedjebacken filter project from 2013, Ovako's single largest environmental investment, received an award during the year for its low energy consumption.

Operational efficiency high on the agenda

Operational efficiency has remained high on the agenda to ensure long-term competitiveness and an acceptable position on the cost curve. In late 2013 Ovako announced a 3-year programme aimed at reducing costs by EUR 34 million. The programme includes productivity improvements, cost reductions in purchasing and an energy efficiency programme, and resulted in savings of EUR 15 million for 2014. Another EUR 9 million is planned for 2015. These savings are offsetting inflationary pressure, especially on salaries and wages, and they are also contributing to the funding of growth initiatives and improvements in the bottom line.

As part of the efficiency programme, the Cromax unit in Mora was closed as planned during the autumn. Production volumes have been distributed to other units in the group. Furthermore, the total number of employees in the group continued to decrease in 2014, to around 2,900. The productivity improvement of 5% in 2014 was slightly lower than planned, due to weak

»From a product point of view, 2014 has been a very exciting year. Our portfolio of M-Steel® for improved machinability, WR-Steel® for improved wear resistance, and our BQ-Steel® and IQ-Steel® to avoid metal fatigue are now improved and launched in the market.«

volumes at the end of the year, but it is still a step in the right direction.

In 2014, Ovako launched a European bond, which is now trading on the Luxembourg Stock Exchange. This was an EUR 300 million bond issue and was used to replace all commercial credits. With five-year financing in place and net debt of EUR 226 million at year-end 2014, Ovako has built a strong and stable platform from which we can execute our business plan.

Focus on health and safety

Ovako's programme to improve health and safety was accelerated at the end of 2014. Although a big effort has been made to build a safer workplace, we still have too many incidents and accidents. The action programme for 2015 is our biggest ever, and includes training for all personnel, reporting and resolving risks, and selective investments to eliminate equipment risks where possible. Safety is top of the agenda in management meetings and has been included as a target in the variable management compensation programmes since 2014. This work involves all of us in the group.

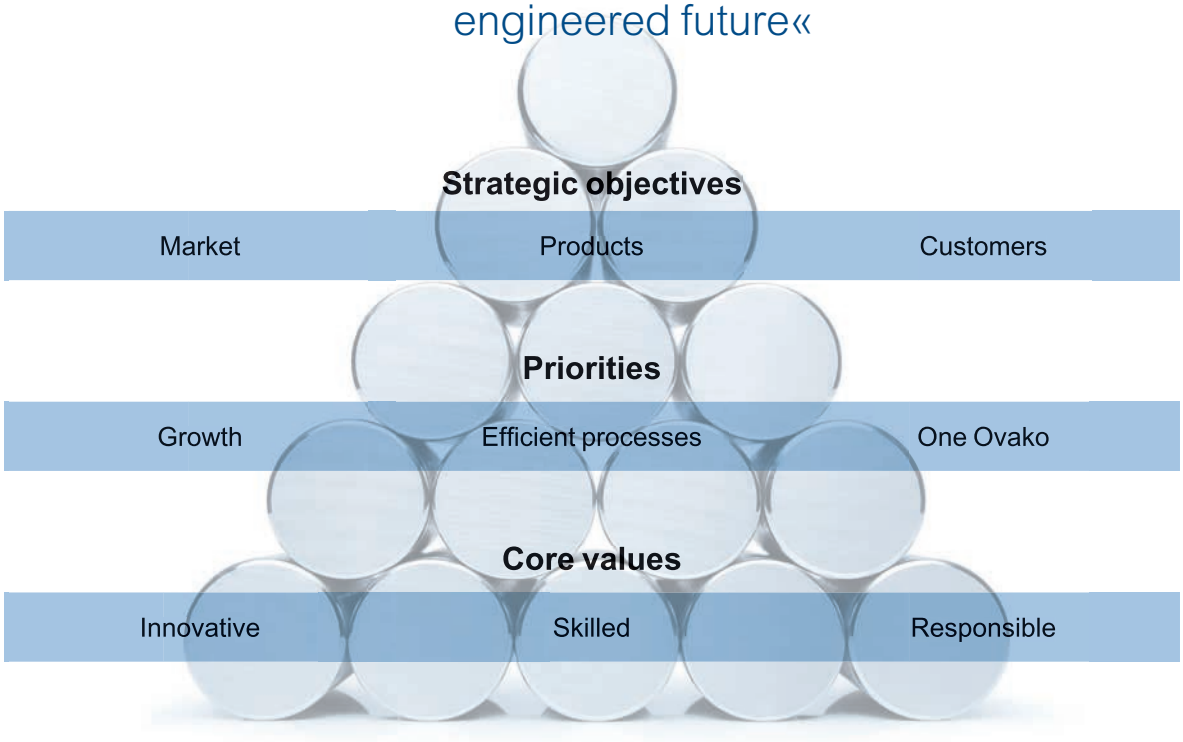
We took several important steps internally to further build One Ovako. We now have a new vision and core values. Our vision, Innovative steel for a better engineered future, maps out the direction for the company's long-term development. In addition, we developed ambitions and goals for several areas of Ovako's sustainability work during the year, to enable the group to strive in the same direction.

Ready for 2015

As we start 2015, our product offering with clear customer benefits is in place. The sales and marketing organisation is now well established. The efficiency programmes are continuing to strengthen our cost position. Many important and innovative steps have been taken, but we need to strengthen our company even further to achieve our long-term strategic goals. Although there are macroeconomic concerns related to the conflict in Ukraine, a possible slowdown in China, and the recent drop in energy and raw materials prices, we expect the market for engineering steel in Europe to remain at a stable level compared to 2014. We are ready for an exciting year!

Tom Erixon
President and CEO

»Innovative steel for a better engineered future«



Strategy for attractive position in the long-term

Ovako's overall strategy is intended to create an attractive position in the long-term in the European steel market by being the leader in engineering steel, continuously developing the product offering and strengthening customer relationships. All work at Ovako should be founded on the company's vision, core values and strategic objectives. In 2014, Ovako has continued to work to achieve a desirable position in the market.

Business concept

Ovako works closely with its customers in the bearing, 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 makes Ovako the foremost supplier of engineering steel in Europe. To best meet customer needs, Ovako's approach is decentralised and flexible and decision paths are short.

Vision

"Innovative steel for a better engineered future"

Ovako's new 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, today 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.

Strategic objectives

Market
Ovako will be the premier manufacturer and supplier of engineering steel in Europe, with a broader international position in selected niche areas. This leading position will be achieved by the company growing organically in existing and new geographical markets, as well as through acquisitions and mergers.

Products
Ovako will, under a highly reputable brand and associated attribute brands, supply world-class products based on leading application development, metallurgical expertise and production technology. This position will be achieved through long-term investments in production equipment, personnel, and research and development. The new products will increasingly lead customers to choose to replace existing products with Ovako's products.

Customers
Ovako will develop existing strengths with the objective of becoming the most customer-oriented supplier of engineering steel. Through long-term relationships Ovako will become a supplier throughout the lifecycles of its customers' products. This will be achieved by continuing to adapt to our customers' value chains, through increased integration with our customers' product development and by offering a high-quality service concept and reliable delivery.

Priorities

During 2011, Ovako developed a strategy with the objective to become the leading European manufacturer of engineering steel. Ovako is prioritising three areas over the long term in order to achieve its financial targets and strategic objectives: Growth, Efficient Processes and One Ovako. Each area has a number of sub-targets. Working with these objectives means that the company will be well equipped to handle the challenges, and to draw benefit from the opportunities, that are brought about by the structural changes in the steel market.

Growth
Ovako has implemented a number of measures in order to ensure long-term growth and competitiveness. This includes the development of new and more efficient sales processes with a focus on the customer, and the development of new applications for creating growth in niche segments.

Over the past two years, Ovako has launched four attribute brands, each with unique properties based on customer requirements. Understanding where our customers use our products is crucial and the development of new applications has therefore been given special priority. Ovako often conducts development work together with customers and partners. An important component is to invest in future technologies and eco-efficient solutions and to produce more effective products without higher costs for customers. Ovako will continue to develop a high level of delivery service based on close customer partnerships.

In the future, Ovako will work to improve its presence in new and existing markets. This means mainly markets where the opportunities for growth are considered to be good, such as in Eastern Europe, China and Italy. Through its presence in more markets, Ovako is better able to support its customers, while its international position is broadened in specific niche products.

Efficient processes
A comprehensive effort to streamline Ovako's processes has been ongoing for a number of years. The goal is for Ovako to strengthen our proximity to customers with a decentralised and flexible approach, reducing lead times, increasing security of supply and reducing costs.

Undertaking the capacity-enhancing investments that the company is making in the steel mills has also been critical to achieving long-term profitability. In Smedjebacken, Ovako has during the year installed a continuous casting machine that

permits a larger range of dimensions, better quality and an improved cost position for the products, an important step in the development and strengthening of Ovako's offering.

In 2014, implementation of a group-wide Operational Excellence programme was initiated throughout the group. The programme aims to continuously improve all processes, from production to administration. The goal is to raise internal efficiency and delivery performance, improve lead times and inventory levels and reduce the number of complaints and accidents.

Looking ahead, Ovako will implement further efficiency, both operational and in various energy initiatives, through continued implementation of the group-wide efficiency programme.

One Ovako

Ovako has focused for a number of years on increasing coordination and economies of scale within the group and on acting as one company. In the past two years, Ovako has both created a more efficient business and developed shared capacity in areas such as sales, finance and IT.

In line with Ovako's objectives, a common brand platform has been developed, with a strong corporate brand and specific attribute brands with distinct application areas for customers, see page 17.

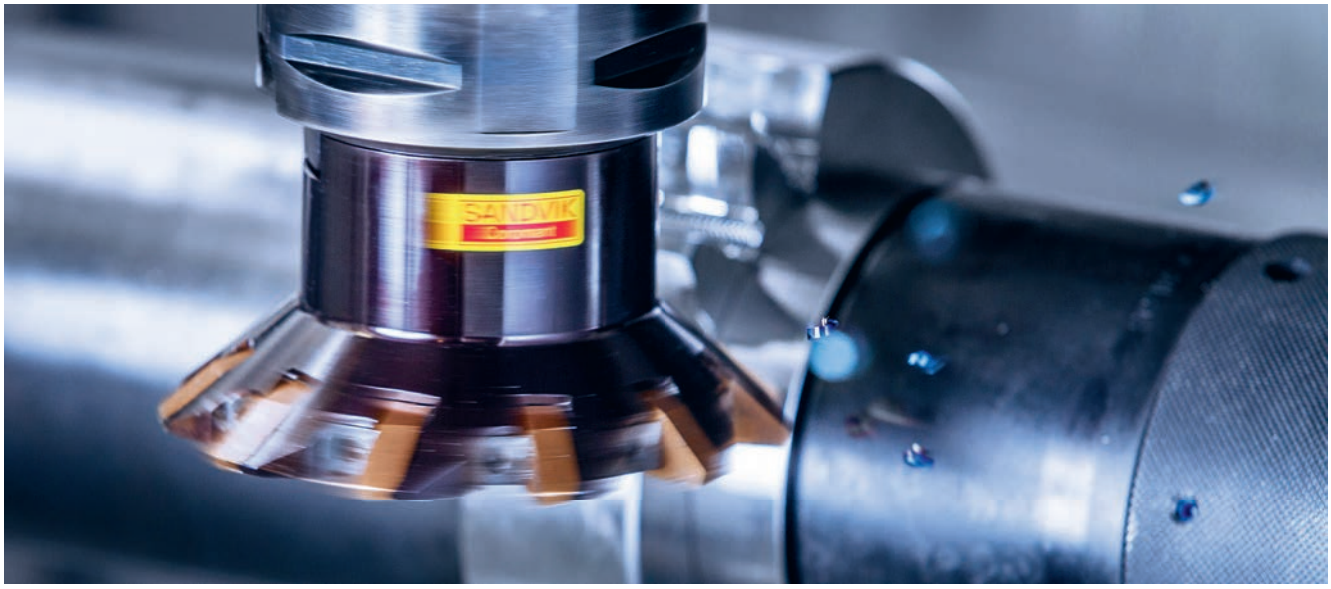
Ovako will be constantly driven towards optimum functionality in all areas of its business, from purchasing to application development. This is being achieved through increased focus on research and development and sharing of best practice internally.

Through various internal initiatives, Ovako intends to create better conditions in order to act as a single group. This includes a number of training initiatives implemented for employees. During the year, a corporate vision and core values were drawn up. The core values are intended to describe the company's soul and culture. The core values help to guide the organisation by supporting the strategy and long-term objectives. Work has begun on implementation and will continue in the coming years.

Ovako will continue to prioritise safety and the ongoing improvement efforts to create One Ovako. One part of this is efforts to train employees at all levels of the business.

Strategic priorities 2011–2014

	2011	2012	2013	2014
Growth	Increased levels of product specialisation Several investment decisions made in accordance with the strategic direction of future growth segments Decision to strengthen the sales organisation in Europe	Focus on identifying development potential for new product and customer segments Broadened offering in Germany and the US Investment in future technologies, including new tube technology to address demand for bearing steel in larger dimensions Expansion of sales organisation in Eastern Europe and Russia	Launch of M-Steel Focus on organic growth through development of new steel materials based on clear customer needs Increased focus on Southern and Eastern Europe and China/Asia through acquisitions and establishment of new sales offices Establishment of new structure for sales units Establishment of service centre in China	Launch of three new attribute brands IQ-Steel, BQ-Steel and WR-Steel Continued focus on meeting customer needs through development of new applications and presence in more markets
Efficient processes	Production processes optimised for the production of clean steel for bearings Decision to invest in a new peeling line in Hällefors and a new ring mill in Hofors Decentralised and flexible working approach introduced	Cost saving initiatives and actions to achieve a more flexible cost structure Strategic initiatives implemented to become a more customer-oriented supplier Extensive investment in, among other things, new a new de-dusting filter in Smedjebacken	Operational Excellence implemented in selected parts of the organisation Continued implementation of the investment programme	Operational Excellence implemented across the entire group Installation of new continuous casting machine in Smedjebacken Investment in a new heat-treatment furnace in Imatra 3-year efficiency programme initiated in all parts of the group
One Ovako	Tom Erixon takes over as CEO and new group management formed Coordination of the sales function Measures implemented to achieve a more flexible cost structure	Establishment of more effective innovation structure Central organisation strengthened for increased coordination Upgrading and development of joint capabilities in sales, finance and IT Key account managers introduced for largest global customers	Joint capacity developed in sales, finance and IT Development of joint brand platforms Establishment of best practice culture throughout the group	New vision and new core values developed and implemented Ambitions and objectives developed for several areas of Ovako's sustainability initiatives Consolidation of Ovako's product management and development organisation continues



»A collaboration that helps our customers«

Mats Wennmo is technical gear milling manager at Sandvik Coromant. Sandvik Coromant and Ovako have collaborated for two years in gear applications, mainly for gearboxes in the automotive industry.

Why did you start to work together?
Our collaboration began with a meeting in Sandviken in January 2013. We discussed how we could jointly develop a complete solution for our mutual customers since we represent different areas of the customer requirement – Ovako provides the steel and we provide the machining of the steel. Previously we each worked with our own offering and separate dialogues with customers when selling our products or services, which often led to a number of questions from the customer. In our case, it was about which steel is best for our machining solutions and tools, and in Ovako's case about possible applications.

Now that we address the market with mutual understanding of our respective offerings, customers can also clearly see the added value this creates. In this way, both parties increase their competitiveness while customers can reduce their lead times for decision making. It becomes more obvious to customers how they should use both companies' products and services. The collaboration also helps our efforts to address future customer needs and requirements.

Why did you choose to work with Ovako?
Ovako's steel improves the strength of transmissions. It's become apparent that we have many common objectives in this area and, together, our offering is even stronger. For example, solutions in next generation gearboxes require that customers can create lighter and stronger designs to meet statutory emission requirements. The combination of simultaneously providing optimised material choices, tooling and machining methods often contributes to the success of the customer.

Mats Wennmo, technical gear milling manager at Sandvik Coromant. Sandvik Coromant is part of the Sandvik Machining Solutions business unit within the global Sandvik group, and is a world-leading supplier of tools, tooling solutions and know-how to the metalworking industry. Sandvik Coromant has 8,000 employees and locations in 130 countries.

How has this collaboration affected your business?
We have set aside resources that work solely with this partnership because we believe it has great potential. Joint training has also been an important part in the implementation. For example, we have conducted highly successful training for selected parts of the marketing departments at Ovako so that they can better understand our joint offering. This streamlines the sales process, and we have also seen that it facilitates customers' decision-making. It simply takes less time for the customer to identify their own profitability improvement when switching to our suggestions.

What markets are included in your collaboration?
Our initial focus is on Europe and the United States. The collaboration has worked very well so far and we have a number of both commercial and technical development projects, with global customers. There is interest from both parties to take this forward, and we believe the timing is right to contribute to our success and the success of our shared customers.

Steel market recovery continues

The uncertainty that has characterised the steel market since the financial crisis has been replaced with a gradual improvement in demand starting in the middle of 2013. In a longer term perspective, however, current demand is at a relatively low level. Ovako's strategy supports efforts for a continued strong position in the Nordic countries and within specific application and product segments in Europe and worldwide. Our objective is to be the European leader in engineering steel.

Steel market development

Like many other industries, the European steel market was hit hard by the economic crisis, and noted a clear shift in demand during and after the crisis year of 2009. In one single year, more than half of the market disappeared. Before that the underlying volume growth had long averaged 2–3 percent per year.

Since 2009, the market has been characterised by a slow, volatile recovery. The steel market has stabilised and embarked on a weak recovery in the past 18 months, but demand has not reached the levels that were prevalent in the market before 2009.

The reason for this is not only the weak economic activity, but also a structural change in demand. Before 2009, it was insufficient capacity for manufacturing machinery and equipment in Asia that fuelled European demand. Since Asian capacity has caught up with local demand, the need for imports from Europe is not as great. The European market is currently experiencing overcapacity, which has resulted in lower profitability for the steel market in its entirety. There is a high probability that the current situation will lead to increased consolidation. Capacity and demand will eventually achieve equilibrium at a level that is economically sustainable, particularly for producers with value-added products and demanding technical applications.

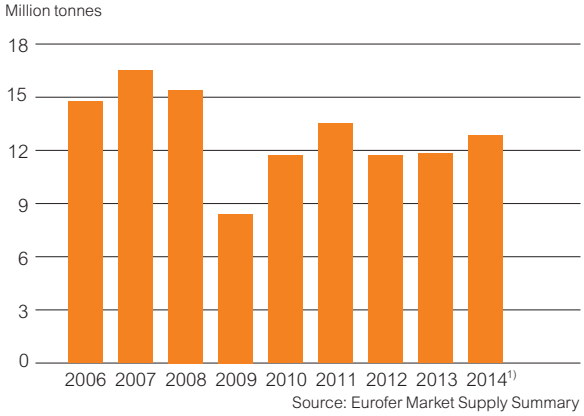
The improved market situation over the past 18 months is primarily due to improved underlying demand from the German automotive industry. The position for European long products, which include engineering steel, is stable and growth for the year was relatively good, although it slackened slightly at the end of the year as growth in the German automotive industry slowed down. According to the European trade association Eurofer, deliveries of bar products to the EU rose by 5,5 percent[1)] during the year compared to 2013.

Facts: The steel market

The global market for merchant bars is estimated to be more than 40 million tonnes, of which European supply accounts for 20–25 percent. In total, merchant bars make up about 3 percent of total world steel production.

Market development

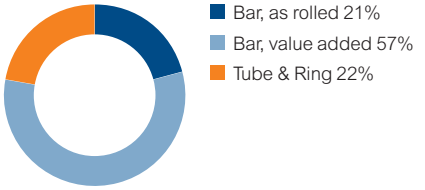
Supply of long products in Europe



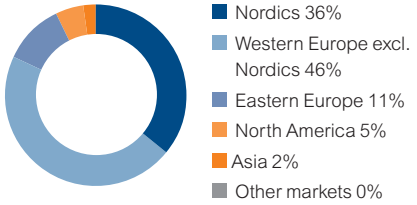
Source: Eurofer Market Supply Summary

1) December 2013 – November 2014

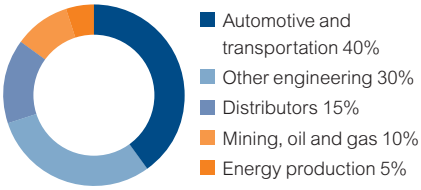
Sales by product %



Sales by market %



Sales by end-customer segment %



Market position and competition

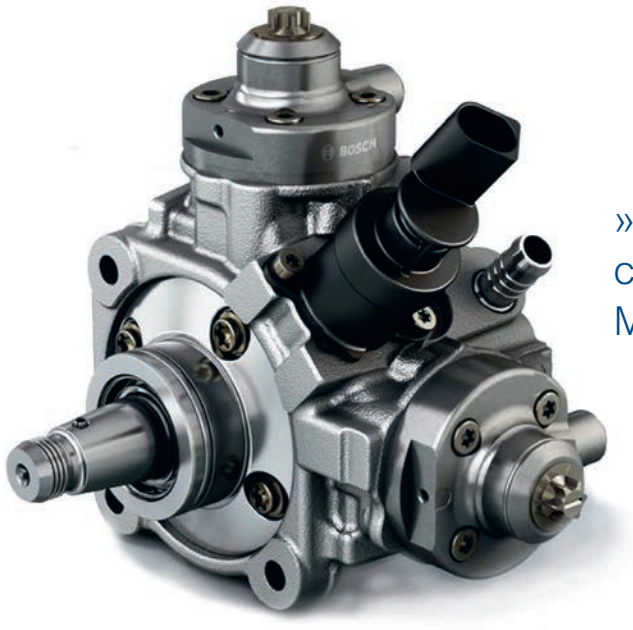
Ovako operates in the market for long, low-alloy steel products, called engineering steel. Ovako is the only Nordic company in its product segment, and holds a leading position in the European engineering steel market and in a number of global niches. Ovako has competitive products that act as a counter-weight to intensifying competition. This competitiveness is based in Ovako's ability to manufacture specialised products that generally create more benefit for customers without increasing their costs. The increasing demand for advanced products, for applications in demanding transmission solutions or for high-productivity machining, therefore benefits Ovako.

It is essentially the European engineering industry and its subcontractors 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 requirement for Ovako's steel in the most demanding applications is also high from customers in North America and Asia. Ovako's presence in Eastern Europe, Italy, and China has continued to strengthen.

In the Nordics, Ovako has a large market share. Competition from other European suppliers has increased in the Nordic countries. Ovako's close customer relationships, specialised products and high level of service contribute to a competitive offering and provide a significant advantage over competitors from other European countries. Ovako also has a leading cost position in the Nordic market in relation to its competitors.

In the European market, which is relatively fragmented, there are principally about ten suppliers from Germany, France and Italy in addition to Ovako. Competition from non-European suppliers is limited. Ovako' specialisation in different product segments provides significant competitive advantages in the form of higher quality and lower costs. Germany, France and the UK are still the main markets for Ovako. Eastern European countries are also growing stronger and are offering greater opportunities for growth. Ovako also has a good cost position, which ranks Ovako as an attractive long-term partner and supplier.

In the rest of the world, Ovako supplies steel within a number of global niches where only Ovako and a small number of other manufacturers are able to satisfy the advanced customer requirements. Ovako's specialised products make North America and Asia increasingly important markets for continued expansion.



»More than 50% of newly registered cars in Europe have diesel engines. Many use Ovako's IQ-Steel«

Trends

Changes in the world economy have a strong impact on Ovako's business, and present both challenges and opportunities. Operations are affected by a number of long-term drivers and trends, and the most important of these are presented below.

Materials customised for specific applications are winning ground in pace with the increasing performance demands and advances in metallurgical processes. Advanced engineering steel is often assessed to be the most financially advantageous way to reach the next level of product performance, such as for lower fuel consumption, longer useful life and higher safety standards. With leading expertise in engineering steel, good flexibility and application expertise, Ovako is a strong industrial partner that can help its customers to become more efficient.

Industrialisation in Asia is the main driver of growth in the global market. Rising consumption in Asia is driving demand for machinery and equipment in which engineering steel is a component. This means that Ovako is recording higher demand from European companies with strong market positions in Asia, and that manufacturing is increasingly moving to Asia. Ovako has therefore developed logistics solutions and local application development to ensure a presence where advanced engineering steel is increasingly required.

Restriction of carbon emissions to mitigate global warming is imposing greater demands for increased production of renewable energy and cleaner burning of fossil fuels. Wind power is being expanded, and requirements for internal combustion engines are being tightened, leading to demand for steel with excellent fatigue characteristics. A new standard for truck emissions, Euro VI, was gradually introduced in 2013 and 2014, and this also affects the development of steel, including Ovako's IQ-Steel, a world-leading steel for diesel injection systems.

Efficiency and automation of production solutions continue to develop at a rapid pace, and the technology required is becoming increasingly available and cost-effective. This means that the economics of production are controlled to a lesser extent by pure labour costs. Furthermore, improved performance in processing technology means that customers are increasingly choosing a pre-hardened engineering steel. Ovako has historically worked in several ways to deliver value-added steel products that match well with a cost-effective and capital-effective solution for customers.

The increasing degree of consolidation in the steel industry stems from the long-term weakening market and the structural shift in demand following the financial crisis, which affects the entire industry. An increasing number of market providers in both China and Europe are expected to review the opportunities to participate in consolidation in order to ensure long-term profitability.

»We are focusing on structured change management«

Emilia Waldehag has worked for over two years at Ovako in Hällefors. Emilia was chosen along with a handful of other employees to provide assistance and support for the implementation of Lean in the organisation.

Why has Ovako introduced Lean?
Lean philosophy means that we can continuously improve in many respects. In addition to benefitting customers, it improves production and occupational health and safety. Lean allows us to create a better working environment, and our daily work will flow better.

In practice, it is about introducing a number of key components into our daily work, such as orderliness, improvement groups, daily stand-up meetings, flow analysis and rules or checklists for various processes. We see a particularly clear link between Lean and the ongoing efforts to improve safety.

What is your role in the Lean work?
Implementing a Lean philosophy and culture throughout the group means it is important to have engaged, available and supportive leadership. I have a more supportive role and I'm part of a group – the TQ team – whose job is to help out around the operations if there are any difficult issues or if a working group needs to be set up to solve a problem. I have committed myself to the Lean work because I see the clear benefit it brings. I have also had the opportunity to further my training in this field and it has been very useful.

How far have you come in the implementation of Lean?
With the help of Lean, we have managed to establish continuous and systematic improvement. We have come a long way, but there is still much to learn and develop, which is also part of Lean – it's more an ongoing process than a time-limited project.

Our daily work is already permeated by a high level of skill and responsible employees. We need to work more on innovation, and Lean is an important part of this. Lean ensures that we work smarter, more efficiently and more flexibly, and makes it easier for all employees to see opportunities in new areas.

This is Lean

Lean is a philosophy originating in Japan that aims to enable an organisation to work smarter and be more flexible, and ultimately to deliver better and more competitive products to its customers.

Dedicated and specialised customer offering

Ovako's longstanding experience of working closely with some of the most demanding steel segments has conferred it with unique expertise and a competitive advantage. Ovako knows its customers well, and adapts its offering to their needs and thus creates added value. During the year, Ovako has launched three attribute brands: BQ-Steel, IQ-Steel and WR-Steel.

Ovako's value creation

Ovako offers a diversified product portfolio to customers in a variety of industries worldwide. Together with its customers, Ovako constantly strives to find new applications for its products or develop new products tailored to the identified needs of the customer. Many times the customer has an idea that they need help to develop, and is thus not looking for a finished product, but rather a collaboration in a process of development.

Since 2012, Ovako's research and development has been conducted within networks of dedicated clusters as a further step in developing the customer offering and reaching out to more and new markets. These clusters are specialised in steel manufacturing, metalworking and product features, cutting through Ovako's geographical and functional units. These also overlap each other in order to increase the exchange of knowledge within Ovako and to create the best possible benefit to the customer.

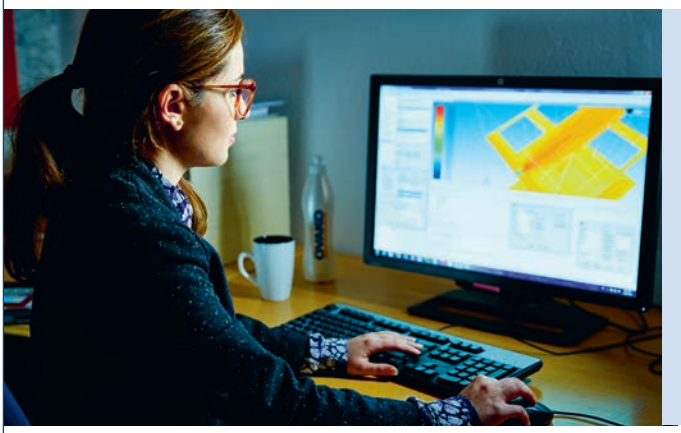
Ovako's attribute brands

Efforts have been ongoing for several years to strengthen Ovako's customer offering. Several key launches with a focus on solving customer challenges were conducted during 2014. Ovako has gathered together its offering within families of steel, optimised for different customer needs and specific attribute brands. So far, four such attribute brands have been launched, and a fifth, SZ-Steel, will be launched in 2015. The attribute brands have different applications, and build on the concepts of improved wear characteristics and extremely clean steel with excellent fatigue properties. They are well positioned to meet the demand for lightweight and durable products that can withstand high loads. This has contributed to a highly competitive and clear customer offering within the selected areas.

Ovako's products

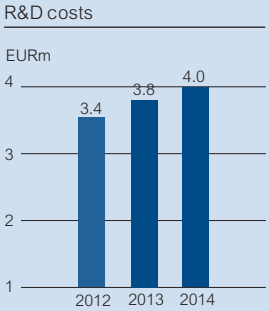
Ovako collaborates with its customers through their entire production chain; from selection of raw materials to finishing. Ovako's main product categories are bars of various designs, tubes, rings, grinding balls and hard chrome products. Ovako does not produce any standard products, and its market segment is characterised by the ability to adapt to customers' production processes and the final product application. Ovako's sales are based on its attribute brands.

Thanks to optimised production flows, Ovako has a broad offering of engineering steel. This has meant that, during the year, Ovako has started deliveries to customers in new markets such as Indonesia, Malaysia and China. Moreover, its various product flows allow Ovako to offer a variety of combinations of additional services, such as heat treatment, warehousing and transportation.



Research and development

Ovako works extensively with development and innovation, and this is also reflected in Ovako's vision and values. The central R&D unit is responsible for driving advanced research and development of entirely new products and for making the results of this work available within the company.



Ovako's attribute brands

M-Steel

More than 400 companies worldwide, including automotive and engineering industries, use Ovako's M-Steel in their production. Generally, the machinability of steel, that is to say how easy it is to process the steel, has enormous impact on the manufacturing costs and production time for Ovako's customers. M-Steel allows our customers to increase their machining rates by up to 30 percent and significantly reduce their production costs.

M stands for Machinability. You can even hear the difference when machining M-Steel compared to conventional steel. The secret of M-Steel is the formation of controlled slag inclusions so that the cutting speed can be increased and so that blades are not worn as heavily, while other steel properties are not adversely affected.

BQ-Steel

The cleanliness of Ovako's BQ-Steel has been a crucial factor in today's bearings having an almost unlimited life. It is this cleanliness and the consistent quality of the steel that customers value. One of Ovako's most important challenges in the future is therefore to find other applications for BQ-Steel in addition to bearings.

BQ-Steel stands for Bearing Quality Steel. With a low proportion of impurities, components can endure higher levels of stress, making them more reliable in use. At the same time, BQ-Steel possesses characteristics that ensure it can be adapted to the latest design and technical developments.

IQ-Steel

Ovako has long supplied steel for diesel injection systems in cars, trucks and ships. The steel's unique qualities have made it possible to reduce diesel consumption by around 1 litre/100 km. In terms of only cars that use diesel injection systems with Ovako's IQ-Steel, calculations show that CO_2 emissions have been reduced by a total of 80 million tonnes over the past 10 years.

IQ stands for Isotropic Quality. IQ-Steel has in recent years consolidated its position as one of the world's cleanest steels. Its purity gives great strength, and this is in demand from many industries. IQ-Steel was originally developed for fuel injection in diesel engines, with high pressure and a requirement for strength in all directions. Ovako continuously works together with its customers to develop additional applications for IQ-Steel, one example of which is gearboxes.

WR-Steel

Ovako's customers usually have to process, shape and weld their steel in the manufacturing phase to meet production needs. WR-Steel facilitates these processes and subsequent tempering, and allows for optimal durability. The surface of the steel has a longer lifespan, which means fewer wear-part replacements and, ultimately, lower costs for customers.

WR-Steel stands for Wear Resistance Steel. This is used primarily for its high durability in demanding environments. This group of steels includes steel alloyed with boron, which increases the hardness of the steel and reduces the amount of carbon and other alloying materials. WR-Steel is used mainly in wear parts, from construction equipment to agricultural and forestry machinery, and off-road vehicles.

SZ-Steel®

The Arctic environment presents particular challenges in terms of severe cold and a sensitive environment. High-strength steel is required in many applications, but at low temperatures steels show a more brittle behaviour. Ovako has a special family of steel products that combine high strength with particularly good resistance to sudden shock.

SZ stands for Sub-Zero since the steel has properties that make it resilient and thus reliable even in very cold applications and extreme climates. SZ-Steel is used for many types of products in the oil and gas industry, and for bolts used at low temperatures. In the longer term, these characteristics mean that customers reduce their maintenance costs and increase the reliability of their equipment.

Facts: Slag

Slag is a non-metallic substance, a residual product resulting from different types of metallurgical smelting processes. The solidified slag can be utilised as a raw material in other industries, such as in the production of asphalt.

»Steel manufacturing produces two types of product – steel and residual products«

Kjell Pålsson has worked with residual products at Ovako in Hofors for 15 years. "It rarely gets monotonous because there are always new things to develop."

In what way does Ovako use the large amounts of residues formed during steel production?
Ovako sells most of the residual products to other companies, both in Sweden and abroad. Simply put, there are two major uses for residual products, either as a processing agent or as a construction material.

Can Ovako influence what residues are formed and, if so, how?
You can see it in two ways. Until now we have very much worked on the basis of the waste product produced in our production and we have tried to find uses for it. Nowadays it is becoming increasingly common that during the steel production we adapt the manufacturing process to obtain a residual product with the properties that there is demand for. In this way, for example, we produce a slag containing the minerals that provide good properties from both technical and environmental perspectives.

What waste products are most in demand in the market?
We are seeing increasing demand for iron oxide materials, such as mill scale, which is an exciting development because we couldn't really see this market just a few years ago, and did not know what to do with all the iron oxide. An important step in the development of the iron oxide market has been productisation of this type of residual product.

Kjell Pålsson

Title: Residual product manager at Ovako in Hofors

Joined Ovako in: 1998

There are a number of uses for slag in the construction sector, including as aggregate in asphalt. Slag asphalt is far superior to conventional asphalt in applications with very high load and tyre rotation, such as on roundabouts and in industrial areas. In addition, slag asphalt produces a much lower noise level.

Can residuals completely replace previously used input goods?
From a component perspective, yes, but certain parameters may need to be adjusted. Some of our residual products, for example, are more iron-rich than iron ore and also less expensive. In the long term, it is our hope that our waste products will replace the largest possible part of current inputs because this will lead to improved resource management. However, the volumes will of course not go a long way towards replacing natural materials.

How do you see the future of residual products?
It looks bright and it is an important issue for creating more sustainable and resource-efficient steel production. Residual products are a resource we must make use of and that gives both us and our customers an environmental benefit. Putting them in landfill like we used to must be a last resort.

For Ovako, it's primarily about finding new markets and deals for the sale of residuals. Together with the Royal Institute of Technology, Luleå University of Technology and the rest of steel Sweden, for example, we are starting up a new research project within the Swedish Steel Producers' Association to investigate how slag can be used in water purification.

Ovako's responsibility

Ovako takes responsibility as a leading steel manufacturer for conducting its business in a sustainable manner from all aspects. This includes quality, customer relations, employees, safety, the environment and acting responsibly in the communities in which Ovako operates. This responsibility is set out in Ovako's long-term strategy, its environmental policy, its health and industrial safety, and in the company's code of conduct and core values.

Ovako has been working for many years with sustainability. A number of initiatives have been undertaken in addition to compliance with existing legislation covering the environment and working conditions. These efforts have been further structured during the year. Ambitions and goals for several parts of Ovako's sustainability initiatives have been developed to get the whole business striving in the same direction.

Ovako's units are already certified in accordance with the international standard for environmental management, ISO 14001. The operations are also quality assured in compliance with ISO 9001 and some units are certified in accordance with ISO/TS 16949 for the automotive industry, ISO 50001 energy management system and OHSAS 18001 management system for occupational health and safety.

Ovako's sustainability targets

Field	Ambition/target
Employees and working environment • Performance management • Succession planning • Leadership • Safety • Health	• Strong leadership that enables growth, retaining at least 95% of employees under the age of 35 • 50% women in white collar recruitment and an increase in the total number of women in production • Full implementation of Ovako's Safety at Work programme • Reduce accident rate by at least 50 percent by 2015 (base year 2012) • Maintaining health during the entire period of employment
Society	• Be a key and attractive employer • Continued support for partnerships with local community and business • Invest in selected local sponsorship
Environment	• Use primarily scrap-based production • Increase utilisation of residual products • Reduce energy consumption • Minimise emissions to air, land and water • Define corporate environmental goals

Stakeholder dialogue

Each year Ovako conducts dialogue with a number of relevant stakeholder groups that influence, or are influenced by, Ovako's business. This dialogue is an important part of Ovako's continued development as it helps to expand the knowledge of how stakeholders view the business, offering and sustainability efforts.

Ovako's most important stakeholders are customers, employees, suppliers, partners, society and professional organisations. The table below presents the most significant issues that have arisen in dialogue with each stakeholder group in the past year.

Stakeholder group	Dialogue	Monitoring	Key issues
Customers	Provision of products and services	Customer satisfaction surveys, customer visits, ongoing dialogue	Product benefits, quality and reliability
Employees	Regular workplace meetings, individual follow-ups, performance appraisals and internal training	Employee surveys to identify strengths and areas for improvement	Safety, continuous improvement and professional development
Suppliers/Partners	Development and improvement of supply chain	Ongoing dialogue in daily operations and agreements	Quality, innovation, sustainability, common offering
Society	Ovako's role and responsibility in society	Ongoing dialogue and evaluation of projects and initiatives	Role as employer, energy and social issues, promoting rural livelihoods and innovation
Professional organisations	The best possible conditions for the steel industry	Ongoing dialogue, joint evaluation of initiatives, cooperation within the framework of Swedish Steel Producers' Association	Development of common standards, working conditions and promoting development of steel manufacturing

Role in society

Ovako has a long tradition of working in and engaging with the communities where the company has production facilities. In many of these locations in both Sweden and Finland, Ovako is a dominant employer, and works closely with the local community by engaging in activities to promote local growth.

In order to secure the industry's future skills needs, Ovako works with a number of colleges and universities in both Sweden and Finland. Engineering students are offered the opportunity of graduate work and traineeships in both countries. For example, Ovako collaborates with Teknikcollege in Hällefors, Smedjebacken and Hofors. Teknikcollege is a quality stamp for training in which municipalities, providers of education and businesses work together to enhance the attractiveness and quality of technology-oriented courses.

Ovako is also involved with local business organisations that work to promote local entrepreneurship and growth. Examples of this kind of collaboration are Entré Hofors, Samarkand2015 and Triple Steelix, which are regional development initiatives between industry, local authorities and universities to strengthen the steel and engineering industries in Bergslagen. In Finland, Ovako is a member of Finncham, the Chamber of Commerce of South Karelia, which aims to promote the competitiveness of local business. In addition, Ovako sponsors local sporting activities.

During the year, Ovako began collaboration with "Äntligen Jobb", a project run by the Swedish Public Employment Service. The aim is to secure the long-term supply of skills and to facilitate the integration of new arrivals into Swedish society. This is achieved by assessing skills and preparing internships and ultimately permanent employment for individuals with an academic background. In 2014 Ovako began preparations to receive around five engineers and economists during 2015 in the first phase of the project. In addition to Ovako, Volvo, ABB, Sandvik, SSAB and E.On are participating in the project, which is also taking place in collaboration with Teknikföretagen and the Swedish Association of Graduate Engineers.

Participation in industry initiatives

Ovako participates in the strategic innovation programme Metallic Materials. This programme brings together Sweden's metal industries: steel, aluminium, cast steel, cast iron and cast non-ferrous metals and is an initiative run by VINNOVA in collaboration with the Swedish innovation agency, the Swedish Energy Agency and the Swedish Research Council Formas. The idea behind the initiative is to increase innovation in industries that are important for Sweden and that have the potential to become even more important by encouraging collaboration between industry, government and academia.

Ovako has for several years supported the World Steel Association's policy on sustainable development and is affiliated with the Swedish and Finnish industry bodies and the European Steel Association (EUROFER). Through these collaborations Ovako participates in work to promote environmental issues and other sustainability issues.

Employees and working environment

Ovako is responsible for making sure that approximately 3,000 employees in over ten countries develop and have a good understanding of customer and market needs. Ensuring that the employees have the right knowledge is essential for business development in both the short and long term and for ensuring that work can be carried out safely.

During the year, Ovako has developed new core values: Innovative, Skilled and Responsible, that are intended to permeate the organisation. Work is ongoing to implement these in all business processes.

Continuous professional development

Maintaining Ovako's competitiveness requires continuous professional development, which is achieved through training and learning in the day-to-day work. During the year, Ovako developed a plan for integrated learning in the organisation in order to streamline learning and adapt it to Ovako's business needs. The training platform is regularly reviewed and updated to ensure that Ovako's employees assimilate knowledge in the best possible way.

Managers at Ovako play a central role in continuous learning. A plan for employee development is produced in conjunction with performance and development discussions, held at least twice per employee per year. The model for performance and development reviews will be developed in 2015 to include employees in the manufacturing operations.

Ambition for Ovako's safety initiatives

- Zero accidents in the workplace
- No one should be exposed to risks while working at Ovako
- No psychological distress in the workplace
- Ovako employees should be healthy throughout their working life and when they retire – both mentally and physically

Safety

Safety is a top priority. During the year, Ovako for the first time conducted a group-wide management meeting focused on safety issues. Ovako's ambitions and principles for safety were established in conjunction with this. To succeed in this aim, it is important to work with production conditions, machinery and equipment as well as employees' own attitude to, and awareness of, safety in the workplace. Behaviour-based safety has also been strengthened in order that all employees should be made aware of how their own actions affect operational safety.

As part of its safety initiative, Ovako has developed Safety at Work – Ovako's corporate safety programme. This programme sets the framework for the group's safety initiatives and clarifies which parts of the efforts are group-wide and how work should be conducted in order to achieve the set objectives.

The ambition is that no accidents should occur in the workplace. Accident rates have been reduced by 24 percent since 2011. The goal is to further reduce the number of accidents that result in sick leave by at least 50 percent by 2015, from reference year 2012. Ovako is working at a high intensity to achieve the set goals. This requires great commitment from managers and employees as well as integration of safety into the day-to-day work.

Ovako's safety initiatives are based on clear structures and working methods. Ovako always conducts safety audits in connection with investments and major projects. Legislation, regulations and requirements are then reviewed, as well as internal rules that must be considered during purchasing, installation and use. Risk analysis of production processes have been a natural part of the business for a number of years. Ovako today sets higher demands for old plants, which means that safety is continuously improved.

Focus on health and wellness

Ovako's ambition is for all employees to be healthy during their working years and when they retire. This requires Ovako as an employer to be sensitive to how employees perceive their work situation and that the workplace takes into account both the company and the individual.

Supporting health and wellness is proactively important. Ovako deals with signs of poor health at an early stage by observing individuals and managing the warning signs. Health initiatives largely take place at a local level and include health promoters, fitness subsidies, training opportunities and financial support for leisure clubs.

Ovako's student programme

The Ovako student programme was completed for the first time in summer 2014. The programme caters to both masters and undergraduate engineers with one year of studies remaining. The goal of the programme is to strengthen Ovako's recruitment base and for students it will be a first contact with the world of work and the opportunity to translate theory into practice. The programme consists of a joint introduction and conclusion, with project work and a thesis in between. From a total of 42 applicants, nine students were given the opportunity to participate in the programme. The programme was received extremely well, and in the spring of 2015 the students will write their thesis, followed by a joint conclusion.

Environment

Ovako is working hard to reduce the environmental impact of its operations. This is achieved through more efficient use of raw materials and energy, and by constantly trying to minimise emissions to air and water. Manufacturing and processing steel requires a lot of energy. The group is actively working to make its energy use more efficient and to reduce greenhouse gas emissions.

Steel production has an impact on the environment. At the same time, Ovako's steel is used in products that contribute to reducing environmental impact at the user end. An example of this is Ovako's IQ-Steel. Learn more about IQ-Steel on page 17.

All of Ovako's operations have environmental permits that comply with each country's prevailing environmental legislation. During the year, Imatra renewed its environmental permit until 2024. The new permit tightened only the conditions for emissions to air, due to changes in environmental legislation. Efforts are ongoing to renew environmental permits at Hofors and Smedjebacken.

Ovako's operations in Smedjebacken and Boxholm have implemented the ISO 50001 energy management system. Work is ongoing in Hofors and Hällefors to implement the energy management system, and the operations will be certified to ISO 50001 during 2016.

Steel lifecycle

Steel is an important construction material and is found everywhere in society. As a material, it can be recycled indefinitely without any loss of properties. Ovako's steel production is completely scrap-based, making Ovako the Nordic region's biggest consumer of steel scrap. Scrap use means that no new iron ore is mined for steel production. This means, among other things, reduced resource consumption and reduced emissions of carbon dioxide.

The scrap used in the operations is sorted and handled in different grades depending on content, size and shape. The purpose of this is to optimally use the alloying elements contained in the scrap and thus reduce the proportion of new alloying elements which otherwise would have to be added. Actively working to optimise scrap sorting based on alloy content brings economic and environmental benefits.

Ovako closed its landfill in Hofors at the start of 2009. The company has authorisation to open a new landfill, but the aim is not to use this permit. Ovako instead focuses on developing new uses for residual products, as this contributes to a resource efficient society. Learn more about Ovako's work with residues on page 18.

Facts: Environmental permits

An environmental permit regulates, among other things, production levels, emissions to air and water, and noise levels. Monitoring programmes specify what should be measured and followed up, and the results are reported to the appropriate regulatory agency. Read more in the administration report on page 28.

Local environmental work

Ovako's environmental work is conducted locally at each operating location since their environmental impact is primarily local and regional. Each unit works with self-monitoring of its environmental impact. This is achieved through sampling and monitoring of emissions to air and water and by measuring and calculating the external noise levels. Noise surveys have been conducted at a number of units to identify the operation's total noise level. Based on these surveys, Ovako works to reduce noise levels, among other things by installing mufflers and putting up noise shields.

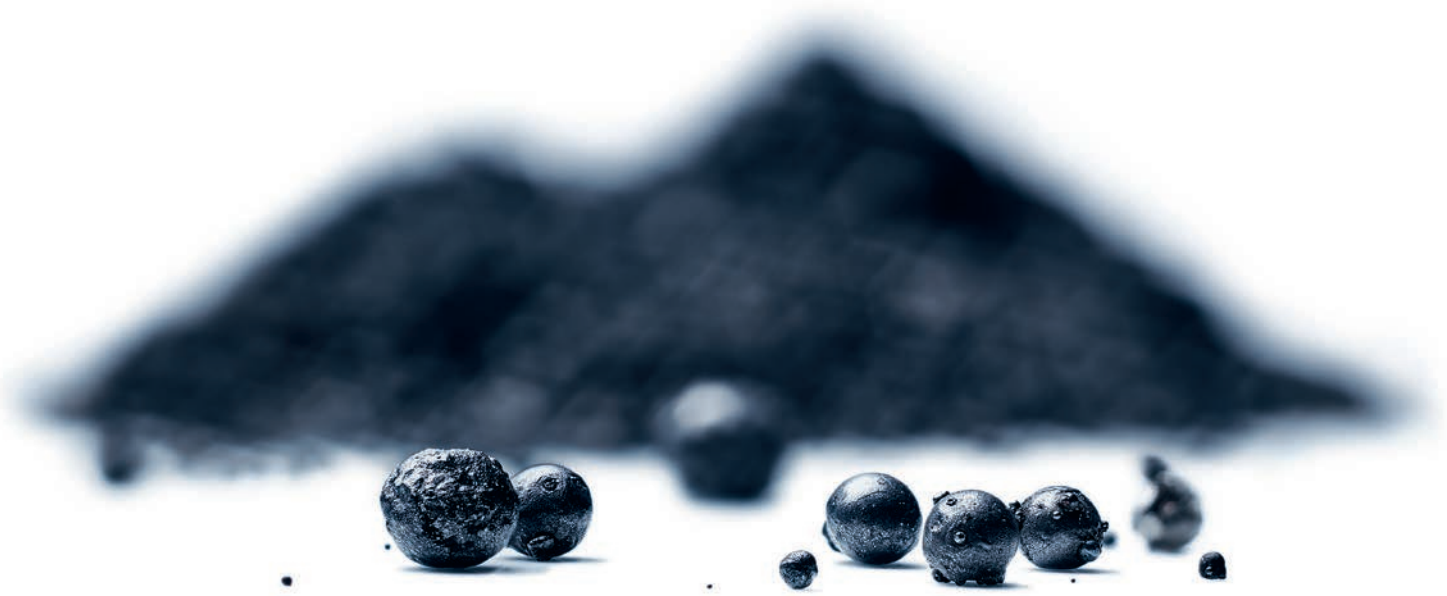
Energy efficiency

All operating locations work continuously on improving energy efficiency. Imatra, Smedjebacken and Boxholm are all involved in various energy efficiency programmes. In Hofors a heat treatment furnace was converted in 2014 from LPG to electric operation, which reduces overall energy consumption and eliminates emissions of carbon dioxide and nitrogen oxides. Safety is also considerably improved through the elimination of LPG handling. This conversion has been so successful that Ovako is planning furnace conversions at more locations.

Investments

In Smedjebacken, rebuilding of the rolling mill heating furnace was completed in 2014. The heating furnace has been fitted with a new control system and with lances for oxygen enrichment. This investment reduces both energy consumption and emissions of nitrogen oxides into the air.

In 2013 the steel mill in Smedjebacken installed a new de-dusting plant. This investment is Ovako's single largest environmental initiative. The new filter has 50 percent higher extraction capacity than the previous filter, while providing energy savings of 40 percent. The de-dusting plant is designed to comply with future environmental requirements regarding emissions of dust, dioxins and mercury. The filter has also improved the indoor environment in the steel plant.



CONTENTS

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 2014.

Operations

Ovako is a leading European producer of engineering steel used in the bearing, transport and manufacturing industries. 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, powertrains, 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. The company'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's overall strategy is intended to create a desirable long-term position in the European steel market by being the leader in engineering steel, continuously developing the product offering and strengthening customer relationships. All work at Ovako should be founded on the company's vision, core values and strategic objectives. In 2014, Ovako has continued to work to achieve a desirable position in the market.

Business concept: Ovako works closely with its customers in the bearing, 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 new 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.

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 group's Swedish parent company is Triako Holdco AB, which is 100% owned by Oven Luxco Sarl. The group is controlled directly and indirectly by Triton Fond III, which owns 83.27% of the equity in the Ovako group. Triako Holdco AB owns 100 % of equity in Ovako Group AB, which in turn owns 100% of equity in Ovako AB (publ) (company registration no. 556813-5338). Ovako AB (publ) owns, directly and indirectly, 100% of equity in the group's subsidiaries.

Key data	2014	2013	2012
Sales volume, thousand tonnes	697	675	694
Net sales, EURm	862.1	849.9	937.1
Operating profit before depreciation and amortisation (EBITDA), EURm	68.5	46.5	66.0
EBITDA margin, %	7.9	5.5	7.0
Operating profit (EBIT), EURm	14.7	-0.6	19.9
EBIT margin, %	1.7	0.0	2.1
Profit/loss for the year, EURm	-15.1	-20.6	-3.7
Cash flow from operating activities, EURm	65.8	19.8	86.9
Net debt/equity ratio, %	152	160	130
Return on capital employed (ROCE), %	3	0	4
Employees at the end of the period, FTE	2,925	2,995	3,040

Performance in 2014

The gradual market improvement that started mid-2013 continued in the first half of 2014. Ovako took advantage of the favourable markets, with volume growth of 9 percent and a strong development of its EBITDA margin in the first six months of the year. Markets slowed again in the second half of 2014, with order intake and invoicing ending somewhat lower than in 2013. The EBITDA margin decreased in the second half due to under absorption in production and lower sales volumes overall. For the full year Ovako grew 3 percent in volume, and EBITDA improved considerably to EUR 69 million, mainly as an effect of higher volumes, better product mix, implemented cost-cutting programmes and a weaker Swedish krona.

New markets continued to gain momentum during the year. The new sales offices in China, Italy and Eastern Europe, together with the increased efforts in the US and Russia, all grew ahead of the group average and now account for 22 percent of total sales.

From a product point of view, 2014 has been a very exciting year. Ovako's product portfolio of M-Steel® for improved machinability, WR-Steel® for improved wear resistance, and Ovako's BQ-Steel® and IQ-Steel® to avoid metal fatigue are now improved and launched in the market. After the launch in 2015 of SZ-Steel®, a material with stable performance in arctic climates, Ovako will offer customers in the engineering industry a wide range of benefits. High productivity and long tool life in machining, the ability to reduce weight in critical components without risking fatigue and extended durability in heavy-wear applications are at the core of our customer offering.

Operational efficiency has remained high on the agenda. Ovako's cost reduction programme includes productivity improvements, cost reductions in purchasing and energy efficiencies. The Cromax unit in Mora was also closed as planned during the fourth quarter. These savings are offsetting inflationary pressure, especially on salaries and wages, and they are also contributing to the funding of growth initiatives and improvements in the bottom line.

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 subcontractors 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 requirement for Ovako's steel in the most demanding applications is also high from customers in North America and Asia. The uncertainty that has characterised the steel market since the financial crisis has been replaced with a gradual improvement in demand starting in the middle of 2013. In a longer term perspective, however, current demand is at a relatively low level.

Sales and profit

Ovako's sales volume amounted to 697 (675) thousand tonnes, an increase of 3 percent. Ovako's production increased to 887 (862) thousand tonnes, up 3 percent compared to the previous year.

The group's revenues amounted to EUR 862 (850) million, an increase of 1 percent compared to the previous year. The relatively lower increase in revenues is largely explained by reduced scrap and alloy surcharges as a result of lower raw material prices.

Operating profit before depreciation and amortisation (EBITDA) amounted to EUR 69 (47) million. The margin increased to 8 percent from 6 percent. The profit increase of EUR 18 million (after taking into account restructuring costs of EUR 3.7 million charged to earnings in 2013) is a result of higher volumes, a better product mix, implemented cost reduction programmes and a weaker Swedish krona.

Total depreciation and amortisation amounted to EUR 54 (47) million. The increase in depreciation and amortisation is explained by accelerated depreciation of surplus values on older assets and, to a lesser extent, the closure of the operations in Mora. In view of the renewal work in progress, depreciation of older assets has been accelerated where new investment has been completed or is planned. Operating profit (EBIT) was EUR 15 (-1) million.

Net financial income amounted to EUR -33 (-26) million. As a result of the refinancing in May (see also the section on financial position), financing costs that were amortised over the term of the previous loan were expensed and charged against financial income at EUR 8 million. Foreign exchange effects positively influenced net financial income by EUR 5 (3) million.

Profit before tax amounted to EUR -18 (-27) million, and net profit was EUR -15 (-21) million. Return on capital employed (ROCE) increased to 3 (0) percent.

Cash flow

Cash flows from operating activities amounted to EUR 66 (20) million and cash flows before financing activities were EUR 27 (-26) million. The change in working capital contributed EUR 19 (-4) million during the full year. Continued focus on improving the efficiency of working capital has, among other things, meant that inventory levels have been held down. The strong cash flow compared with the previous year is in addition explained by a significantly improved operating profit and lower expenses for investment.

Financial position

Refinancing was conducted in May 2014. The new financing consists of senior secured notes of EUR 300 million and a revolving credit facility of EUR 40 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 percent.

At the refinancing all obligations associated with the previous financing agreement were settled.

Total interest-bearing net debt after deduction of financing costs, recognised as a deduction from the liability on the balance sheet, amounted to EUR 226 (242) million.

The expenses for the refinancing conducted in May amounted to EUR 10 million, of which EUR 9 million was paid in 2014. These expenses are recognised as a deduction from the liability on the balance sheet and the cost is amortised over the duration of the loan.

The pension liability has increased by EUR 8 million due to changes in the assumptions used for actuarial valuation of the group's pension liabilities, primarily against the background of low interest rates. The revaluation has affected equity negatively by EUR 6 million. Equity has increased by a net EUR 16 million from shareholder contributions after deducting group contributions and amounted to EUR 149 (151) million. The net debt/equity ratio therefore amounted to 152 (160) percent.

The group's liquidity buffer of EUR 104 (71) million comprises cash and cash equivalents of EUR 65 (21) million and unutilised contracted loan commitments of EUR 39 (50) million.

Investments

Investments in intangible assets and property, plant and equipment amounted to EUR 34 (45) million for the full-year. Of the year's investments, EUR 19 million relates to process and capacity improvements, such as the continuous casting machine in Smedjebacken and a new heat treatment furnace in Imatra, and EUR 15 million to regular maintenance investments.

During the year, a small minority stake of approximately 8.5% in the French steel company Ascometal was acquired for a value of EUR 5.0 (0.0) million.

Employees

Ovako had a total of 2,925 (2,995) 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 75 (75) % and 19 (19) %. The workforce percentage in other countries was 6 (6)%.

Information on the remuneration of senior executives is shown in Note 28.

Research and development

Costs for research and development were EUR 4.0 (3.8) million. These are recognised in profit and loss. This includes only work related to dedicated 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 applications 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.

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 response 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.

Ovako's larger production units, which include electric arc furnaces (EAFs) in the steel production process, require substantial quantities of energy. The units in the group that consume the most electricity are located in Finland and Sweden. 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. New hedges were entered into in 2014 for the next three to five years as management decided that prices were relatively favourable. At year-end 2014 (2013), anticipated future electricity consumption was hedged as follows: 55 (57) % for 2015 (2014), 39 (38) % for 2016 (2015), 19% for 2017, 19% for 2018 and 10% for 2019. Hedge accounting is applied since electricity derivatives are designated as cash flow hedges. Find more details on electricity price risks 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. 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, 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 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. 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.

During the year, Ovako Imatra in Finland renewed its environmental licence until 2024. Ovako Bar in Smedjebacken started the process to apply for a new licence to operate under the Environmental Code in 2012 and the new licence is expected to be issued in 2015. The Ovako units in Hofors submitted their application for a new licence in 2014.

Events after the reporting date

Björn Nilsson has replaced Magnus Lindquist on Ovako's Board of Directors from February 10, 2015. Björn Nilsson has been an investment advisory professional and a member of the Investment Committee at Triton since inception in 1997. Before Triton, Björn Nilsson was with Chase Manhattan in New York.

Ovako has signed an agreement with SSAB to acquire steel and metals distributor Tibnor Oy in Finland. The deal has been approved by the European Commission and will now be examined by competition authorities in Finland and Estonia for final approval. Tibnor Oy purchases, warehouses, processes and distributes steel and other metals for the engineering, process and construction industries. The company has approximately 50 employees and sales amounted to EUR 66.6 million in 2013. The acquisition is expected to have a slightly positive impact on Ovako's operating profit and a slightly negative impact on cash flows for 2015.

Short-term outlook

Although the economic recovery in Europe is characterised by uncertainty, we expect the market for engineering steel in Europe to remain at a similar level compared to 2014. We expect Ovako sales volumes in the first quarter to be in line with or slightly lower than in the same quarter last year, but significantly above the seasonally weak fourth quarter.

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 2014. Revenues consist of interest on receivables from subsidiaries. Operating expenses consist primarily of directors' fees. Operating profit amounted to EUR -0.2 (-0.3) million and net profit was EUR -1.0 (0.0) million. The parent company has assets of EUR 201 (179) million and equity of EUR 200 (163) 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	201,166,230
Profit/loss for the year, EUR	-996,515
Total	**200,169,715**

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

Consolidated income statement

EURm	Note	2014	2013
Revenue	2,3	862.1	849.9
Cost of goods sold	3,4	-795.7	-806.6
GROSS PROFIT		**66.4**	**43.3**
Selling expenses	3,4	-25.6	-22.0
Administrative expenses	3,4	-30.1	-32.0
Other operating income	5	4.0	10.1
OPERATING PROFIT		**14.7**	**-0.6**
Financial income	6	5.7	4.0
Financial costs	7	-38.4	-30.2
Share in profit of associates	11	0.0	0.0
PROFIT/LOSS BEFORE TAX		**-18.0**	**-26.8**
Taxes	8	2.9	6.2
PROFIT/LOSS FOR THE YEAR		**-15.1**	**-20.6**
Profit/loss for the year attributable to:			
Owners of the parent		-15.1	-20.6
Non-controlling interests		-	-
Total		**-15.1**	**-20.6**
Earnings per share, EUR	18	-302	-412

Consolidated statement of comprehensive income

EURm	Note	2014	2013
Profit/loss for the year		**-15.1**	**-20.6**
Items that will be reclassified as profit or loss			
Exchange differences	18	-0.9	-1.9
Cash flow hedges	18	-0.9	2.6
Tax attributable to cash flow hedges	14	0.2	-0.6
		-1.6	0.1
Items that will not be reclassified as profit or loss			
Revaluation of pension obligations, net	19	-7.5	13.0
Tax attributable to revaluation of pension obligations	14	1.5	-2.9
		-6.0	10.1
Other comprehensive income for the year, net of tax		**-7.6**	**10.2**
Total comprehensive income for the year		**-22.7**	**-10.4**
Comprehensive income for the year attributable to:			
Owners of the parent		-22.7	-10.4
Non-controlling interests		-	-
Total		**-22.7**	**-10.4**

Consolidated balance sheet

EURm	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Non-current assets			
Property, plant and equipment	9	327.0	347.4
Intangible assets	10	8.4	7.4
Investments in associates	11	0.1	0.1
Other non-current financial assets	12,13	6.8	1.8
Other non-current receivables	13	0.0	0.0
Derivative assets	13	0.0	1.0
Deferred tax assets	14	13.4	11.7
Total non-current assets		**355.7**	**369.4**
Current assets			
Inventories	15	200.9	198.7
Trade receivables	13,23	86.2	87.4
Other current receivables	13,16	22.6	21.3
Current tax assets		0.8	1.4
Derivative assets	13	1.2	2.1
Cash and cash equivalents	13,17	65.0	20.6
Total current assets		**376.7**	**331.5**
TOTAL ASSETS		**732.4**	**700.9**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	18	0.0	0.0
Reserves	18	-6.8	-5.2
Retained earnings		155.5	155.9
Total equity attributable to owners of the parent		**148.7**	**150.7**
Non-current liabilities			
Non-current interest-bearing liabilities	13,21	291.0	221.5
Derivative liabilities	13	1.7	3.0
Deferred tax liabilities	14	38.0	47.7
Provisions for pensions and similar obligations	19	76.7	72.5
Other provisions	20	7.3	9.6
Other non-current liabilities	13	0.3	0.3
Total non-current liabilities		**415.0**	**354.6**
Current liabilities			
Current interest-bearing liabilities	13,21	0.1	40.7
Derivative liabilities	13	8.0	7.7
Trade payables	13	108.0	83.6
Current tax liabilities		0.1	0.3
Other current liabilities	13,22	52.5	63.3
Total current liabilities		**168.7**	**195.6**
TOTAL EQUITY AND LIABILITIES		**732.4**	**700.9**

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	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		14.7	-0.6
Non-cash adjustments:			
Depreciation, amortisation and impairment		53.8	47.1
Other adjustments	24	0.0	2.4
Cash flows from operations before changes in working capital		**68.5**	**48.9**
Changes in working capital			
Changes in trade and other current receivables		0.7	2.0
Changes in inventories		-1.2	5.5
Changes in trade and other current payables		26.2	-5.3
Changes in provisions		-6.4	-6.4
Cash flows from operations before interest and tax		**87.8**	**44.7**
Interest received		0.7	0.5
Interest paid		-21.1	-25.5
Income tax paid		-1.6	0.1
Cash flows from operating activities		**65.8**	**19.8**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of businesses		-	-0.7
Acquisition of intangible assets	10	-1.9	-1.1
Acquisition of property, plant and equipment	9	-32.2	-43.8
Other investing activities	12	-5.0	-0.2
Cash flows from investing activities		**-39.1**	**-45.8**
Cash flows before financing activities		**26.7**	**-26.0**
CASH FLOWS FROM FINANCING ACTIVITIES	21		
Repayment of borrowings		-282.0	-15.1
New borrowings		310.0	20.0
Other		-9.4	-
Cash flows from financing activities		**18.6**	**4.9**
Increase/decrease in cash and cash equivalents		**45.3**	**-21.1**
Cash and cash equivalents at 1 January		20.6	42.6
Exchange differences in cash and cash equivalents		-0.9	-0.9
Cash and cash equivalents at 31 December		**65.0**	**20.6**
Liquidity buffer including non-utilised credits	21	**103.8**	**71.3**

Consolidated statement of changes in equity

2014		Attributable to owners of the parent				
EURm	Note	Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 January 2014		**0.0**	**0.7**	**-5.9**	**155.9**	**150.7**
Comprehensive income						
Profit/loss for the year		-	-	-	-15.1	-15.1
Translation differences	18	-	-0.9	-	-	-0.9
Cash flow hedges, net of tax	18	-	-	-0.7	-	-0.7
Actuarial gains and losses on pension obligations, net of tax	19	-	-	-	-6.0	-6.0
Total other comprehensive income		0.0	-0.9	-0.7	-6.0	-7.6
Total comprehensive income		**0.0**	**-0.9**	**-0.7**	**-21.1**	**-22.7**
Transactions with shareholders						
Group contribution, net of tax [1]		-	-	-	-17.8	-17.8
Shareholder contribution received					38.5	38.5
Balance at 31 December 2014		**0.0**	**-0.2**	**-6.6**	**155.5**	**148.7**

1) Tax on group contribution recognised in profit and loss amounts to EUR 5.0 million

2013		Attributable to owners of the parent				
EURm	Note	Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 January 2013		**0.0**	**2.6**	**-7.9**	**168.9**	**163.6**
Comprehensive income						
Profit/loss for the year		-	-	-	-20.6	-20.6
Translation differences	18	-	-1.9	-	-	-1.9
Cash flow hedges, net of tax	18	-	-	2.0	-	2.0
Actuarial gains and losses on pension obligations, net of tax	19	-	-	-	10.1	10.1
Total other comprehensive income		0.0	-1.9	2.0	10.1	10.2
Total comprehensive income		**0.0**	**-1.9**	**2.0**	**-10.5**	**-10.4**
Transactions with shareholders						
Group contribution, net of tax [1]		-	-	-	-2.5	-2.5
Balance at 31 December 2013		**0.0**	**0.7**	**-5.9**	**155.9**	**150.7**

1) Tax on group contribution recognised in profit and loss amounts to EUR 0.7 million

NOTE 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. Triako Holdco AB is 100 % owned by Oven Luxco Sarl in Luxembourg. Triton Fund III controls, directly and indirectly, 83.27% of equity in the Ovako 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 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 2014 were authorised by the Board of Directors for publication on 2 March 2015. The consolidated and parent company financial statements will be presented to the annual general meeting for adoption on 30 March 2015.

Changes to accounting policies 2014

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

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

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

There are no comments on other changes to IFRS since these have had no material impact on the consolidated financial statements.

Basis of preparation

The consolidated financial statements for the 2014 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 2014. 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 euro (EUR) rounded to the nearest million. All individual figures (including subtotals and totals) are rounded to the nearest million. 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:	
	2014	**2013**	**2014**	**2013**
SEK	9.4746	8.9283	9.0985	8.6507
GBP	0.7823	0.8364	0.8064	0.8493
USD	1.2160	1.3783	1.3271	1.3279
PLN	4.3103	4.1487	4.1873	4.1977
CNY	7.5442	8.3555	8.1711	8.1639
RUB	69.1315	45.1700	51.1178	42.3252

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 2014 (2013: 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. 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 2014 no goodwill (2013: 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 2014 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 is intended to replace IAS 39 Financial Instruments: Recognition and Measurement, and deals with the classification and measurement of financial instruments. It will probably affect Ovako's recognition of financial assets and financial liabilities. The date of entry into force is not yet decided, but will not be earlier than 1 January 2017. A complete position on how Ovako's financial reporting will be affected will be taken once all aspects of the project are published in the final version. The EU has indefinitely postponed approval of the standard.

IFRS 15 Revenue Recognition:
This standard will replace all existing standards for revenue recognition. The standard enters into force on 1 January 2017. The impact of this new standard on the consolidated earnings and financial position has not yet been investigated.

NOTE 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.

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. Following a review, the data for the comparative year was reclassified, and the main change is that sales to Mexico are now included in North America. One customer accounts for 16 (15)% of group sales.

EURm	2014	2013
Sale of goods		
Sweden	234.0	254.8
Nordics excl. Sweden	73.8	78.9
Western Europe excl. Nordics	394.8	378.4
Eastern Europe	92.6	78.8
North America	45.3	41.2
Asia	19.8	15.7
Rest of the world	1.8	2.1
Total	**862.1**	**849.9**

EURm	2014	2013
Sales by product		
Bar, as rolled	180.6	189.3
Bar, value added[1)]	493.9	473.1
Tube & Ring	187.6	187.5
Total	**862.1**	**849.9**

EURm	2014	2013
Non-current assets by country		
Sweden	272.2	289.7
Finland	57.1	58.6
Other countries	6.1	6.5
Total	**335.4**	**354.8**

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

NOTE 3. EXPENSES BY NATURE

EURm	Note	2014	2013
Change in inventories and work in progress		*-1.2*	*-2.7*
Raw materials and supplies		-357.9	-364.7
Exchange differences on purchased goods		2.4	1.4
Energy		-88.9	-93.3
Freight and other distribution costs		-49.1	-47.7
Repairs and maintenance		-42.9	-41.6
External services in production		-34.9	-35.8
Raw materials, services and supplies		*-571.3*	*-581.7*
Salaries and benefits		-139.1	-139.3
Pension expense		-11.2	-11.6
Social insurance fees		-39.6	-42.3
Employee benefits expense	4	*-189.9*	*-193.2*
Buildings[1)]		-11.3	-11.0
Machinery and equipment [2)]		-41.6	-35.5
Other intangible assets		-0.9	-0.6
Depreciation, amortisation and impairments		*-53.8*	*-47.1*
Rents		-12.8	-12.9
Bad debt losses		0.0	-0.1
Administration and other expenses	26	-22.4	-22.9
Other external expenses		*-35.2*	*-35.9*
Total cost of goods sold and selling and administrative expenses		**-851.4**	**-860.6**
Depreciation and amortisation expenses are included in the following line items in profit and loss			
Cost of goods sold		-53.5	-47.0
Selling expenses		-0.2	-0.1
Administrative expenses		-0.1	0.0
Total		**-53.8**	**-47.1**

Research and development costs

Research and development costs amount to EUR -4.0 (-3.8) 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 3.7 (0.6) 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 14 years after the closing date.

1) Of which EUR -8.9 (-8.9) million for amortisation of surplus values allocated in conjunction with acquisitions.
2) Of which EUR -17.4 (-10.5) million for amortisation of surplus values allocated in conjunction with acquisitions. The increase in amortisation expense is attributable to accelerated depreciation of the surplus value of older assets, and to a lesser extent closing of operations in Mora. See also the statutory administration report.

NOTE 4. AVERAGE NUMBER OF EMPLOYEES

Average number of employees by country 2014	Men	Women	Total
Sweden	1,793	429	2,222
Finland	487	71	558
Italy	37	8	45
France	23	10	33
Germany	25	10	35
Netherlands	25	4	29
United Kingdom	8	5	13
United States	7	3	10
Russia	3	2	5
Poland	2	1	3
China	4	2	6
Total	**2,414**	**545**	**2,959**
Number of employees at year-end			2,925

Average number of employees by country 2013	Men	Women	Total
Sweden	1,820	437	2,257
Finland	490	79	569
Italy	38	7	45
France	24	9	33
Germany	26	9	35
Netherlands	25	3	28
United Kingdom	8	5	13
United States	7	2	9
Russia	3	1	4
Poland	2	1	3
China	4	1	5
Total	**2,447**	**554**	**3,001**
Number of employees at year-end			2,995

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

NOTE 5. OTHER OPERATING INCOME

EURm	2014	2013
Income from sale of property, plant and equipment	0.2	0.0
Insurance compensation	1.8	8.0
Rents and other income items	2.0	2.1
Total	**4.0**	**10.1**

NOTE 6. FINANCIAL INCOME

EURm	2014	2013
Interest income arising from loans and receivables	0.7	0.6
Total interest income	**0.7**	**0.6**
Dividend income arising from available-for-sale assets	0.0	0.0
Exchange rate gains, net	5.0	3.4
Total other finance income	**5.0**	**3.4**
Total	**5.7**	**4.0**

NOTE 7. FINANCIAL COSTS

EURm	2014	2013
Interest expenses for financial liabilities at amortised cost [1]	-30.8	-21.0
Interest expense, pension liability	-2.5	-2.4
Fixed income derivatives, realised	-2.1	-3.1
Total interest expenses	**-35.4**	**-26.5**
Costs for loan commitments and guarantees	-2.0	-3.1
Other financial costs	-1.0	-0.6
Total other financial costs	**-3.0**	**-3.7**
Total	**-38.4**	**-30.2**

1) This item includes the cost of financing amortised over the term of the loan. In connection with the refinancing in 2014 financing costs of EUR 8.2 million attributable to the group's previous loan were expensed.

NOTE 8. TAXES

EURm	2014	2013
Current tax	-7.0	-1.8
Deferred tax	9.9	8.0
Total	**2.9**	**6.2**

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	-18.0	-26.8
Income tax calculated on the Swedish corporate tax rate of 22%	3.9	5.9
Effects of different tax rates in foreign jurisdictions [1]	-0.3	-0.3
Changes in deferred tax due to reductions of local corporate tax rates [2]	-	0.8
Other non-deductible expenses	-0.1	-0.7
Use of loss carry-forwards previously not valued	0.0	0.4
Loss carry-forwards not valued	-0.3	-
Adjustments relating to previous years, current tax	-0.4	0.1
Adjustments relating to previous years, deferred tax	0.1	0.0
Income taxes recognised in profit and loss	**2.9**	**6.2**

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.

2) Change in the corporate tax rate in Finland from 24.5 to 20.0 percent 1 January 2014.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

2014 EURm	Buildings and land	Machinery and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2014	150.8	288.4	29.5	468.7
Additions during the year	0.4	4.3	27.5	32.2
Disposals and sales	-0.8	-19.8	-	-20.6
Reclassification	3.5	36.6	-40.1	0.0
Translation differences for the year	-0.2	-0.4	-0.1	-0.7
Balance at 31 December 2014	**153.7**	**309.1**	**16.8**	**479.6**
Cumulative depreciation				
Balance at 1 January 2014	-34.7	-86.6	-	-121.3
Depreciation and impairments for the year	-11.3	-41.6	-	-52.9
Disposals and sales	0.6	19.7	-	20.3
Translation differences for the year	0.2	1.1	-	1.3
Balance at 31 December 2014	**-45.2**	**-107.4**	**-**	**-152.6**
Carrying amount at 1 January 2014	**116.1**	**201.8**	**29.5**	**347.4**
Carrying amount at 31 December 2014	**108.5**	**201.7**	**16.8**	**327.0**

2013 EURm	Buildings and land	Machinery and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2013	146.5	247.8	41.2	435.5
Additions during the year	0.1	6.0	37.7	43.8
Disposals and sales	-0.2	-5.7	-	-5.9
Reclassification	4.5	41.3	-45.6	0.2
Reclassification intangible assets	-	-	-3.8	-3.8
Translation differences for the year	-0.1	-1.0	-	-1.1
Balance at 31 December 2013	**150.8**	**288.4**	**29.5**	**468.7**
Cumulative depreciation				
Balance at 1 January 2013	-24.0	-57.6	-	-81.6
Depreciation and impairments for the year	-11.0	-35.5	-	-46.5
Disposals and sales	0.2	5.7	-	5.9
Translation differences for the year	0.1	0.8	-	0.9
Balance at 31 December 2013	**-34.7**	**-86.6**	**-**	**-121.3**
Carrying amount at 1 January 2013	**122.5**	**190.2**	**41.2**	**353.9**
Carrying amount at 31 December 2013	**116.1**	**201.8**	**29.5**	**347.4**

One group company has leased machinery under finance lease arrangements. The value of the assets is EUR 0.1 (0.2) million.

Amortisation of the debt amounts to EUR 0.1 (0.1) million. The term of the lease is 84 months beginning in March 2009.

See Note 25 for disclosures concerning operating leases.

NOTE 10. INTANGIBLE ASSETS

EURm	31 Dec 2014	31 Dec 2013
Cost		
Balance at 1 January	9.4	4.5
Additions during the year	1.9	1.1
Reclassification of property, plant and equipment	-	3.8
Balance at 31 December	**11.3**	**9.4**
Cumulative amortisation		
Balance at 1 January	-2.0	-1.4
Amortisation for the year	-0.9	-0.6
Balance at 31 December	**-2.9**	**-2.0**
Carrying amount at 1 January	7.4	3.1
Carrying amount at 31 December	**8.4**	**7.4**

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

NOTE 11. INVESTMENTS IN ASSOCIATES

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

Name of associate	Group interest (%)	31 Dec 2014 Carrying amount, EURm	31 Dec 2013 Carrying amount, EURm
Owned by Ovako Bar AB:			
AB Järnbruksförnödenheter	25	0.0	0.0
Owned by Ovako Sweden AB:			
AB Järnbruksförnödenheter	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 Järnbruksförnödenheter (company registration no. 556014-7083) at 31 December 2014 amounted to EUR 0.7 (0.8) million, net sales were EUR 0.9 (0.8) million and profit was EUR 0.1 (0.0) million. The company had no contingent liabilities at 31 December 2014 or 2013.

NOTE 12. OTHER NON-CURRENT FINANCIAL ASSETS

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

Name of company	Group interest (%)	31 Dec 2014 Carrying amount, EURm	31 Dec 2013 Carrying amount, EURm
Jernkontoret	12.0	0.0	0.0
Tågåkeriet i Bergslagen AB	10.0	0.0	0.0
Ascometal SAS	8.5	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-El		0.0	0.0
Total other non-current financial assets		**6.8**	**1.8**

EURm	31 Dec 2014	31 Dec 2013
Balance at 1 January	1.8	1.6
Investments	5.0	0.2
Balance at 31 December	**6.8**	**1.8**

NOTE 13. FINANCIAL ASSETS AND LIABILITIES

31 Dec 2014	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	-	0.0	-	0.0	0.0
Derivative assets	0.0	-	-	0.0	0.0
Total	**0.0**	**0.0**	**6.8**	**6.8**	**6.8**
Current financial assets					
Trade receivables	-	86.2	-	86.2	86.2
Other current receivables	-	0.5	-	0.5	0.5
Derivative assets	1.2	-	-	1.2	1.2
Cash and cash equivalents	-	65.0	-	65.0	65.0
Total	**1.2**	**151.7**	**-**	**152.9**	**152.9**
Total financial assets	**1.2**	**151.7**	**6.8**	**159.7**	**159.7**

31 Dec 2013	Derivatives for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying amount	Fair value
EURm					
Non-current financial assets					
Other financial assets	-	-	1.8	1.8	1.8
Other non-current receivables	-	0.0	-	0.0	0.0
Derivative assets	1.0	-	-	1.0	1.0
Total	**1.0**	**0.0**	**1.8**	**2.8**	**2.8**
Current financial assets					
Trade receivables	-	87.4	-	87.4	87.4
Other current receivables	-	0.4	-	0.4	0.4
Derivative assets	2.1	-	-	2.1	2.1
Cash and cash equivalents	-	20.6	-	20.6	20.6
Total	**2.1**	**108.4**	**-**	**110.5**	**110.5**
Total financial assets	**3.1**	**108.4**	**1.8**	**113.3**	**113.3**

31 Dec 2014	Held for trading	Derivatives for hedge accounting	Other financial liabilities	Carrying amount	Fair value
EURm					
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	-	291.0	291.0	283.5
Derivative liabilities	0.1	1.7	-	1.7	1.7
Other non-current liabilities	-	-	0.3	0.3	0.3
Total	**-**	**1.7**	**291.3**	**293.0**	**285.5**
Current financial liabilities					
Current interest-bearing liabilities	-	-	0.1	0.1	0.1
Derivative liabilities	0.2	8.0	-	8.0	8.0
Trade payables	-	-	108.0	108.0	108.0
Total	**0.2**	**8.0**	**108.1**	**116.1**	**116.1**
Total financial liabilities	**0.2**	**9.7**	**399.4**	**409.1**	**401.6**

31 Dec 2013	Held for trading	Derivatives for hedge accounting	Other financial liabilities	Carrying amount	Fair value
EURm					
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	-	221.5	221.5	231.6
Derivative liabilities	-	3.0	-	3.0	3.0
Other non-current liabilities	-	-	0.3	0.3	0.3
Total	**-**	**3.0**	**221.8**	**224.8**	**234.9**
Current financial liabilities					
Current interest-bearing liabilities	-	-	40.7	40.7	40.7
Derivative liabilities	-	7.7	-	7.7	7.7
Trade payables	-	-	83.6	83.6	83.6
Other current liabilities	-	-	15.6	15.6	15.6
Total	**-**	**7.7**	**139.9**	**147.6**	**147.6**
Total financial liabilities	**-**	**10.7**	**361.7**	**372.4**	**382.5**

NOTE 13. FINANCIAL ASSETS AND LIABILITIES cont.

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. The fair value of interest-bearing liabilities for the comparative year has been calculated based on the discounted value of future payments, including interest and amortisation. In the calculation, management has found no reason to presume changes have occurred in the interest margin that existed when the loans were raised.

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 belong to Level 1, interest-bearing loans for the comparison year belong to Level 3.

Information on derivative assets and liabilities

EURm	31 Dec 2014	31 Dec 2013
Non-current derivative assets		
Fair value of electricity derivatives	0.0	1.0
Total	**0.0**	**1.0**
Current derivative assets		
Fair value of foreign exchange derivatives	-	0.5
Fair value of electricity derivatives	1.2	1.6
Total	**1.2**	**2.1**
Total derivative assets	**1.2**	**3.1**

EURm	31 Dec 2014	31 Dec 2013
Non-current derivative liabilities		
Fair value of foreign exchange derivatives	0.9	-
Fair value of electricity derivatives	0.8	3.0
Total	**1.7**	**3.0**
Current derivative liabilities		
Fair value of interest rate swaps	-	2.1
Fair value of foreign exchange derivatives	3.6	-
Fair value of electricity derivatives	4.4	5.6
Total	**8.0**	**7.7**
Total derivative liabilities	**9.7**	**10.7**

NOTE 13. FINANCIAL ASSETS AND LIABILITIES cont.

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

31 Dec 2014

EURm

Remaining maturity	2015	2016	2017–2019	Total
Derivatives designated as cash flow hedges				
Foreign exchange forwards	90.0	34.0	-	124.0
Foreign exchange options	48.0	20.0	-	68.0
Total	**138.0**	**54.0**	**-**	**192.0**

Volume GWh

Remaining maturity				
Cash flow hedges				
Electricity derivatives	421.8	362.0	438.0	1,221.8
Total	**421.8**	**362.0**	**438.0**	**1,221.8**

31 Dec 2013

EURm

Remaining maturity	2014	2015	2016–2018	Total
Derivatives designated as cash flow hedges				
Foreign exchange forwards	75.0	-	-	75.0
Interest rate swaps	150.0	-	-	150.0
Total	**225.0**	**-**	**-**	**225.0**

Volume GWh

Remaining maturity				
Cash flow hedges				
Electricity derivatives	384.9	260.1	-	645.0
Total	**384.9**	**260.1**	**-**	**645.0**

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 0.3 (1.4) 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, interest rate derivatives and foreign exchange derivatives that are covered by legally enforceable master netting agreements.

	31 Dec 2014		31 Dec 2013	
EURm	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Gross amount, derivatives	1.2	9.7	3.1	10.7
Amount offset	-	-	-	-
Recognised on balance sheet	**1.2**	**9.7**	**3.1**	**10.7**
Amount covered by netting agreements	-1.1	-1.1	-2.3	-2.3
Net amount after netting agreements	**0.1**	**8.6**	**0.8**	**8.4**

NOTE 14. DEFERRED TAX ASSETS AND TAX LIABILITIES

EURm	Balance at 1 January 2014	Recognised in profit and loss	Recognised in other comprehensive income	Acquisitions	Exchange differences and reclassifications	Balance at 31 December 2014
Deferred tax assets						
Inventories	1.8	-0.2	-	-	0.0	1.6
Provisions	1.2	-0.4	-	-	0.0	0.8
Pension obligations and other employee benefits	6.0	0.3	1.4	-	0.1	7.8
Derivative assets	1.8		0.1	-	-	1.9
Losses	-	0.6	-	-	0.1	0.7
Other items	0.9	-0.2	-	-	-0.1	0.6
Total	**11.7**	**0.1**	**1.5**	**-**	**0.1**	**13.4**
Deferred tax liabilities						
Property, plant and equipment	45.2	-9.7	-	-	-0.1	35.4
Inventories	2.4	-0.1	-	-	0.3	2.6
Derivative liabilities	0.1	-	-0.1	-	-	0.0
Pension obligations	0.0	0.0	-0.1	-	0.1	0.0
Total	**47.7**	**-9.8**	**-0.2**	**-**	**0.3**	**38.0**
Net deferred tax liability	**-36.0**	**9.9**	**1.7**	**-**	**-0.2**	**-24.6**

At 31 December 2014, the group had loss carry-forwards of EUR 3.7 million, of which EUR 3.1 million relating to Sweden.

EURm	Balance at 1 January 2013	Recognised in profit and loss	Recognised in other comprehensive income	Acquisitions	Exchange differences and reclassifications	Balance at 31 December 2013
Deferred tax assets						
Inventories	2.3	-0.5	-	-	0.0	1.8
Provisions	1.2	0.0	-	-	0.0	1.2
Pension obligations and other employee benefits	8.5	0.4	-2.9	-	-	6.0
Derivative assets	2.6	-0.3	-0.5	-	-	1.8
Other items	0.5	0.3	-	0.1	0.0	0.9
Total	**15.1**	**-0.1**	**-3.4**	**0.1**	**0.0**	**11.7**
Deferred tax liabilities						
Property, plant and equipment	53.1	-7.9	-	-	0.0	45.2
Inventories	2.7	-0.2	-	-	-0.1	2.4
Derivative liabilities	0.0	0.0	0.1	-	-	0.1
Total	**55.8**	**-8.1**	**0.1**	**-**	**-0.1**	**47.7**
Net deferred tax liability	**-40.7**	**8.0**	**-3.5**	**0.1**	**0.1**	**-36.0**

At 31 December 2013, the group had loss carry-forwards of EUR 0.0 million relating to Sweden.

NOTE 15. INVENTORIES

EURm	31 Dec 2014	31 Dec 2013
Raw materials and supplies	40.3	40.8
Parts	2.5	2.5
Work in progress	113.5	110.2
Finished goods	44.6	45.2
Total	**200.9**	**198.7**
Cost of impairments to inventories	-0.6	-1.3

NOTE 16. OTHER CURRENT RECEIVABLES

EURm	31 Dec 2014	31 Dec 2013
VAT receivable	5.4	7.3
Interest-bearing receivables	0.5	0.4
Accrued income and prepaid expenses	16.7	13.6
Total	**22.6**	**21.3**

NOTE 17. CASH AND CASH EQUIVALENTS

EURm	31 Dec 2014	31 Dec 2013
Cash and bank	65.0	20.6
Total	**65.0**	**20.6**

NOTE 18. EQUITY

There are 50,000 (2013: 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 2014	31 Dec 2013
Balance at 1 January	0.7	2.6
Changes for the year	-0.9	-1.9
Balance at 31 December	**-0.2**	**0.7**

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 2014	31 Dec 2013
Balance at 1 January	-5.9	-7.9
Realised and reallocated to profit and loss	-1.5	5.1
Tax on amount realised and reallocated to profit and loss	0.4	-1.1
Change in fair value	0.6	-2.5
Tax on change in fair value	-0.2	0.5
Balance at 31 December	**-6.6**	**-5.9**

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.

NOTE 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 6.9 (6.7) million. Cash flows associated with defined benefit plans are expected to amount to EUR 3.2 million in 2015.

Defined benefit plans:
The largest plan, which accounts for 87 (89)% 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 2014	31 Dec 2013
Pension benefits, FPG/PRI system	61.9	60.7
Special payroll tax, FPG/PRI system	4.7	3.7
Other pension provisions	8.3	6.6
Other post-employment benefits	1.8	1.5
Total	**76.7**	**72.5**

The defined benefit obligations in the balance sheet comprise the following items:		
Present value of unfunded obligations, excl. special payroll tax	68.5	66.5
Special payroll tax, FPG/PRI system	4.7	3.7
Present value of funded obligations	9.8	7.8
Fair value of plan assets	-6.3	-5.5
Net liability	**76.7**	**72.5**

Amount recognised in profit and loss (+= income)		
Cost of service in current period	-0.9	-1.5
Special payroll tax, FPG/PRI system	-0.2	-0.2
Interest on obligation, funded	-0.3	-0.3
Interest on obligation, unfunded	-2.5	-2.2
Estimated return on plan assets	0.3	0.2
Exchange differences	4.0	2.9
Amount recognised in profit and loss	**0.4**	**-1.1**

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 below refer to translation differences included in the translation reserve in equity.

NOTE 19. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS cont.

Recognised in the balance sheet

31 Dec 2014	PRI/FPG system	PRI/FPG system, special payroll tax	Other	Total
Pension obligation at 1 January	60.7	3.7	13.5	77.9
Cost of service in current period	0.9	0.2	0.0	1.1
Interest expense	2.3	0.0	0.5	2.8
Pensions paid	-2.8	-	-0.4	-3.2
Revaluation of pension obligation – demographic assumptions	-3.5	-0.9	-	-4.4
Revaluation of pension obligation – other	8.0	2.0	2.1	12.1
Exchange differences	-3.7	-0.3	0.7	-3.3
Pension obligation at 31 December	**61.9**	**4.7**	**16.4**	**83.0**
Fair value of plan assets at 1 January	-	-	5.4	5.4
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	-	-	0.2	0.2
Exchange differences	-	-	0.4	0.4
Fair value of plan assets at 31 December	**-**	**-**	**6.3**	**6.3**
Changes in net debt in the balance sheet				
Net pension obligation at 1 January	60.7	3.7	8.1	72.5
Cost of service in current period	0.9	0.2	0.0	1.1
Interest expense	2.3	0.0	0.2	2.5
Pensions paid	-2.8	-	-0.4	-3.2
Contributions from the employer, net after deductions	-	-	0.0	0.0
Revaluation gains/losses	4.5	1.1	1.9	7.5
Exchange differences	-3.7	-0.3	0.3	-3.7
Net pension obligation at 31 December	**61.9**	**4.7**	**10.1**	**76.7**

31 Dec 2013	PRI/FPG system	PRI/FPG system, special payroll tax	Other	Total
Pension obligation at 1 January	73.4	6.2	13.9	93.5
Cost of service in current period	1.2	0.2	0.3	1.7
Interest expense	2.1	0.0	0.4	2.5
Pensions paid	-3.0	-	-1.0	-4.0
Revaluation of pension obligation – demographic assumptions	-	-	-	-
Revaluation of pension obligation – other	-10.3	-2.5	0.0	-12.8
Exchange differences	-2.7	-0.2	-0.2	-3.1
Reclassification	-	-	0.1	0.1
Pension obligation at 31 December	**60.7**	**3.7**	**13.5**	**77.9**
Fair value of plan assets at 1 January	-	-	5.2	5.2
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	-	-	0.2	0.2
Exchange differences	-	-	-0.1	-0.1
Fair value of plan assets at 31 December	**-**	**-**	**5.4**	**5.4**
Changes in net debt in the balance sheet				
Net pension obligation at 1 January	73.4	6.2	8.7	88.3
Cost of service in current period	1.2	0.2	0.3	1.7
Interest expense	2.1	0.0	0.2	2.3
Pensions paid	-3.0	-	-1.0	-4.0
Contributions from the employer, net after deductions	-	-	0.1	0.1
Revaluation gains/losses	-10.3	-2.5	-0.2	-13.0
Exchange differences	-2.7	-0.2	-0.1	-3.0
Reclassification	-	-	0.1	0.1
Net pension obligation at 31 December	**60.7**	**3.7**	**8.1**	**72.5**

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

NOTE 19. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS cont.

EURm	2014	2013	Net liability EURm 2014	Net liability EURm 2013
Sweden			**61.9**	**60.7**
Discount rate	2.50%	4.00%		
Future salary increases	2.50%	3.00%		
Increase in income base amount	2.50%	3.00%		
Inflation	1.50%	2.00%		
Germany			**3.6**	**3.2**
Discount rate	2.25%	3.50%		
Future salary increases	2.50%	2.50%		
Inflation	1.75%	1.75%		
UK			**3.5**	**2.2**
Discount rate	3.50%	4.40%		
Future salary increases	3.00%	3.30%		
Inflation	2.10%	2.40%		
USA			**1.3**	**1.0**
Discount rate	3.83%	4.75%		
Future cost increases	7.00%	7.40%		
Other countries			**1.7**	**1.7**
Special payroll tax liability			**4.7**	**3.7**
Net liability in balance sheet			**76.7**	**72.5**

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. The data for the comparison year has been adjusted to take into account special payroll tax.

EURm	2014	2013
Discount rate +0.5%	-5.5	-5.0
Discount rate -0.5%	6.2	5.6
Salary increases +0.5%	3.0	3.4
Salary increases -0.5%	-2.8	-2.1
Inflation +0.5%	5.6	5.5
Inflation -0.5%	-5.0	-5.0
Longevity +1 year	3.4	2.5
Longevity -1 year	-3.4	-2.5

NOTE 20. OTHER PROVISIONS

EURm	Restructuring provisions	Environmental provisions	Other provisions	Total
Balance at 1 January 2014	4.8	4.8	0.0	9.6
Provisions during the year	-	0.7	-	0.7
Provisions used during the year	-3.0	0.0	0.0	-3.0
Effect of movements in foreign exchange	0.0	-	-	0.0
Balance at 31 December 2014	**1.8**	**5.5**	**0.0**	**7.3**

EURm	Restructuring provisions	Environmental provisions	Other provisions	Total
Balance at 1 January 2013	3.3	5.1	0.1	8.5
Provisions during the year	3.7	0.1	-	3.8
Provisions used during the year	-2.2	-0.4	-0.1	-2.7
Effect of movements in foreign exchange	-	0.0	-	0.0
Balance at 31 December 2013	**4.8**	**4.8**	**0.0**	**9.6**

NOTE 20. OTHER PROVISIONS cont.

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.

NOTE 21. INTEREST-BEARING LIABILITIES

EURm	31 Dec 2014	31 Dec 2013
Interest-bearing liabilities		
Senior secured notes	300.0	-
Term loan	-	252.0
– Maturing next year	-	-20.6
Finance lease liabilities	-	0.3
– Maturing next year	-	-0.1
Other non-current interest-bearing borrowings	0.0	0.0
Borrowing costs	-9.0	-10.1
Total non-current interest-bearing liabilities	**291.0**	**221.5**
Current interest-bearing liabilities		
Term loan	0.0	20.6
Utilised credit	0.0	20.0
Current portion of finance lease liabilities	0.1	0.1
Total current interest-bearing liabilities	**0.1**	**40.7**
Total interest-bearing liabilities	**291.1**	**262.2**

Maturity information for interest-bearing liabilities per 31 Dec 2014:

EURm	2015	2016–2018	2019	Total
Nominal amounts:				
Senior secured notes	-	-	300.0	300.0
Finance lease liabilities	0.1	-	-	0.1
Borrowing costs	-2.0	-6.1	-0.9	-9.0
Other	0.0	0.0	0.0	0.0
Total	**-1.9**	**-6.1**	**299.1**	**291.1**

Maturity information for interest-bearing liabilities per 31 Dec 2013:

EURm	2014	2015	2016	2017	Total
Nominal amounts:					
Term loan	20.6	21.4	210.0	-	252.0
Utilised credit	20.0	-	-	-	20.0
Finance lease liabilities	0.1	0.1	0.1	-	0.3
Borrowing costs	-5.1	-4.6	-0.4	-	-10.1
Other	0.0	0.0	0.0	0.0	0.0
Total	**35.6**	**16.9**	**209.7**	**0.0**	**262.2**

NOTE 21. INTEREST-BEARING LIABILITIES cont.

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

EURm	31 Dec 2014	31 Dec 2013
EUR	300.0	231.4
SEK	0.1	0.2
	300.1	**231.6**

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

%		
Loans	6.50	6.23
Lease liabilities	-	3.22

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

EURm		
EUR	-	40.6
SEK	0.1	0.1
	0.1	40.7

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

%		
Loans	-	5.73
Lease liabilities	3.22	3.22

Financing agreements

Refinancing was conducted in May 2014. The new financing consists of senior secured notes of EUR 300 million and a revolving credit facility of EUR 40 million. Of the revolving credit facility, EUR 5 million has been earmarked for bank guarantees. There are no amortisation requirements during the loan term. Of the revolving facility, EUR 1.2 (4.3) million was utilised in the form of issued bank guarantees, which means that the unutilised credit facility amounts to EUR 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 percent. 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 beyond the scope of the bank guarantees (EUR 5 million) and beyond the scope of an overdraft facility (EUR 10 million). This EBITDA requirement was met at the reporting date, but this was not necessary since the utilisation of the revolving facility was only for issued bank guarantees.

Borrowing costs for the notes and the revolving facility amount to EUR 10.2 million, of which EUR 9.4 million was paid in 2014. 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.

At the refinancing all obligations associated with the previous financing agreement were settled. The remaining amortised borrowing costs of EUR 8.2 million attributable to the earlier agreement were expensed.

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.

NOTE 22. OTHER CURRENT LIABILITIES

EURm	31 Dec 2014	31 Dec 2013
Accrued employee benefits expense, social insurance fees and pension costs	36.0	33.5
VAT liability	1.3	1.7
Accrued costs, claims	0.6	0.3
Liability to parent company	-	15.6
Other liabilities and accrued expenses and prepaid income	14.6	12.2
Total	**52.5**	**63.3**

NOTE 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 treated 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

NOTE 23. FINANCIAL RISK MANAGEMENT cont.

in the value of net assets in subsidiaries that have SEK or USD as their functional currency by EUR 3.3 and 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 66.6 (64.4) 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 18 (19) million based on 2014 (2013) 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 2014 (2013) were divided by currency approximately as follows: 63 (61)% EUR; 26 (28)% SEK; and other currencies 11 (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/may be hedged and the length of the hedge horizon. The maximum applicable hedge horizon is currently 24 months.

During the second half of 2014, Ovako gradually extended its foreign exchange hedges relating to net outflows in SEK, mainly for flows in 2015, and to some extent also in 2016. Of the expected net exposure in SEK for 2015 (2014), approximately 72 (37)% is hedged for foreign exchange at an average rate of approximately 9.22 to a total nominal value of EUR 138 (75) million. Of the expected net exposure in SEK for 2016 (2015), approximately 28 (0)% is hedged for foreign exchange at an average rate of approximately 9.35, to a total nominal value of EUR 54 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 45.3 (47.4) 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 are also used to a limited extent. At year-end 2014 (2013), anticipated future electricity consumption[1] was hedged as follows:

Hedging of future electricity consumption[1] through electricity derivatives as of 31 Dec 2014

Year	Hedged volume GWh	Percentage of consumption	Average price EUR	Nominal value of derivative, net EURm	Hedged purchasing value EURm
2015	421.8	46 (55)[2]	37.36	-3.2	15.8
2016	362.0	39	31.15	-0.5	11.3
2017	175.2	19	29.99	-0.2	5.3
2018	175.2	19	29.78	-0.2	5.2
2019	87.6	10	29.35	0.0	2.6
Total				**-4.1**	

Hedging of future electricity consumption[1] through electricity derivatives as of 31 Dec 2013

Year	Hedged volume GWh	Percentage of consumption	Average price EUR	Nominal value of derivative, net EURm	Hedged purchasing value EURm
2014	385.0	42 (57)[3]	41.98	-4.0	16.2
2015	260.1	28 (38)[3]	40.88	-2.0	10.6
Total				**-6.0**	

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

2) In addition, there are fixed-price purchase contracts of 87.6 GWh. The percentage hedged for 2015 is thus 55%.

3) In addition, there are fixed-price purchase contracts for 2014 of 131.4 GWh and 2015 of 87.6 GWh. The percentage hedged for 2014 and 2015 was therefore 57% and 38%, respectively.

NOTE 23. FINANCIAL RISK MANAGEMENT cont.

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 rise of 10% in the price of electricity compared to the price at 31 December 2014 (2013) would have an impact on Ovako's comprehensive income, before tax, of EUR 3.6 (2.1) million 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 described 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 new financing agreement has considerably fewer covenants than the earlier financing. This new financing also differs from the previous financing in that there is now is no amortisation requirement on the debt.

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 approximately EUR 1.2 million which is utilised in the form of issued bank guarantees. The group's available liquidity amounted to EUR 103.8 million, consisting of EUR 38.8 million in unused revolving facility and cash in hand of EUR 65.0 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. Cash flows for interest derivatives for the comparison year are stated net.

Contractual cash flows as of 31 Dec 2014

EURm	Nominal value	Total	2015	2016–2018	2019
Senior secured notes	-300.0	-386.1	-19.5	-58.5	-308.1
Lease liabilities	-0.1	-0.1	-0.1	-	-
Trade payables	-108.0	-108.0	-108.0	-	-
Foreign exchange derivatives					
– Outflow	-192.0	-192.0	-138.0	-54.0	-
– Inflow	192.0	187.5	134.3	53.2	-
Electricity derivatives	-4.1	-4.1	-3.2	-0.9	0.0
Total		**-502.8**	**-134.5**	**-60.2**	**-308.1**

Contractual cash flows as of 31 Dec 2013

EURm	Nominal value	Total	2014	2015	2016
Term loan	-252.0	-288.8	-35.3	-34.9	-218.6
Interest derivatives		-2.0	-2.0	-	-
Utilised credit	-20.0	-20.6	-20.6	-	-
Lease liabilities	-0.3	-0.3	-0.1	-0.1	-0.1
Trade payables	-83.6	-83.6	-83.6	-	-
Foreign exchange derivatives					
– Outflow	-75.0	-75.0	-75.0	-	-
– Inflow	75.0	75.1	75.1	-	-
Electricity derivatives	-6.0	-6.0	-4.0	-2.0	-
Total		**-401.2**	**-145.5**	**-37.0**	**-218.7**

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 0.5 (0.4)%. At year-end, 95 (95)% of Ovako's outstanding trade receivables were covered by credit insurance.

The five largest customers (groups including subsidiaries) account for 30 (30)% of consolidated sales and trade receivables.

At 31 December, trade receivable ageing was as follows

EURm	31 Dec 2014	31 Dec 2013
Ageing structure of trade receivables		
Trade receivables not due	68.7	72.9
Trade receivables 1–30 days overdue	16.5	13.6
Trade receivables 31–60 days overdue	0.7	0.8
Trade receivables more than 60 days overdue	0.3	0.1
Total	**86.2**	**87.4**

Provisions for anticipated bad debt losses amount to EUR 0.2 (0.2) million. There were no significant credit losses or provisions for anticipated credit losses during 2014 (2013). 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.

NOTE 24. ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

EURm	31 Dec 2014	31 Dec 2013
Non-cash transactions:		
Gain/loss from sale of non-current assets	0.0	0.0
Restructuring costs not settled	-	3.8
Effects of movements in foreign exchange etc	-0.0	-1.4
Total	**0.0**	**2.4**

NOTE 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 2014	31 Dec 2013
Due within 1 year	8.5	9.2
Due within 2 to 5 years	9.6	11.5
Due later than 5 years	1.1	0.4
Total	**19.2**	**21.1**
Lease expense for the period	9.1	8.6

Following a review of contracts relating to transports within Ovako's production areas, certain agreements for transportation services, previously considered as cost of services, are now completely or partially classified as leases. The data for the comparative year has therefore been correspondingly adjusted.

NOTE 26. AUDIT FEES

EURm	2014	2013
Ernst & Young:		
Audit assignments	-0.5	-0.5
Other auditing	-0.3	0.0
Tax advice	0.0	0.0
Other services	-0.1	0.0
Total	**-0.9**	**-0.6**

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.

NOTE 27. SUBSIDIARIES AND RELATED-PARTY TRANSACTIONS

27.1 Related-party transactions

The group is under the controlling influence of Triako Holdco AB, which through its subsidiary Ovako Group AB controls 100% of the equity in Ovako AB (publ). Triako Holdco AB is under the controlling influence of Triton Fund III, which directly and indirectly controls 83.27% of the equity in the Ovako group. There were no significant transactions with companies over which Triton Fund III has significant or controlling influence. Reimbursement for services and expenditures totalling EUR 220 (217) thousand has been paid to West Park Management Services.

A group contribution of EUR 22,821 (3,182) thousand has been provided to Triako Holdco AB. Triako Holdco AB has waived the claim on Ovako Group AB, which arose when the group contribution was provided, in the form of a shareholder contribution. During the year, a further EUR 15,691 thousand was received in shareholder contribution through Triako Holdco AB waiving receivables related to group contributions made during the years 2011 to 2013. The total value of shareholder contribution in 2014 was therefore EUR 38,512 thousand.

27.2 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 AB	556690-6094	Sweden	100	100
Ovako Sweden AB[1)]	556692-1317	Sweden	100	100
Triako Finco AB	556816-0526	Sweden	100	100
Ovako Steel Marketing AB	556341-4522	Sweden	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

NOTE 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 Finland Oy Ab:				
Ovako Imatra Oy Ab	2067276-0	Finland	100	100
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 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[1]:				
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

1) During 2014, Ovako Hellefors AB and Ovako Tube & Ring AB merged with Ovako Hofors AB, which changed its name to Ovako Sweden AB.

27.3 Key management personnel compensation

See Note 28.

NOTE 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 2014 as for 2013. Variations in the composition of the board and in exchange rates between the years may affect the expense presented in EUR. Board members are shown on Page 61.

Board members	Position	Committee	Fee 2014 (EURk)	Fee 2013 (EURk)
Finn Johnsson [1]	Chairman	Remuneration Committee Chairman	60	62
Simon Andberg [2]	Director	Audit Committee Chairman [2]	25	27
Jorma Eloranta [3]	Director	Audit Committee [3]	8	31
Oskari Eskola [5]	Director		8	-
Nizar Ghoussaini	Director	Audit Committee	31	32
Martin Ivert	Director	Remuneration Committee	29	31
Jyrki Lee Korhonen [4]	Director		-	12
Magnus Lindquist	Director	Audit Committee Chairman [2], Remuneration Committee	32	31
Sakari Tamminen [5]	Director	Audit Committee [5]	9	-
Robert Nilsson	Director (Employee Representative)		-	-
Per Pettersson	Director (Employee Representative)		-	-
Total			202	226

1) In addition to the fee, the chairman has received compensation for office and secretarial costs totalling EUR 15 (11) thousand.
2) Simon Andberg resigned at the 9 September 2014 EGM, Magnus Lindquist took over chairmanship of the Audit Committee but was replaced by Sakari Tamminen 10 February 2015.
3) Jorma Eloranta resigned at the 10 April 2014 AGM.
4) Jyrki Lee Korhonen resigned at the 23 April 2013 AGM.
5) Oskari Eskola and Sakari Tamminen joined the board 9 September 2014.

Remuneration policy

According to the remuneration policy adopted by the Board of Directors in November 2011, 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.

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

2014 EURk	CEO	Group management (excluding CEO)	Total
Base salary	532	1,964	2,496
Variable pay	53	268	321
Other benefits	16	75	91
Total remuneration	**601**	**2,307**	**2,908**
Pension benefits	182	501	683
Total including pension benefits	**783**	**2,808**	**3,591**

2013 EURk	CEO	Group management (excluding CEO)	Total
Base salary	541	2,255	2,796
Variable pay	94	377	471
Other benefits	51	91	143
Total remuneration	**687**	**2,723**	**3,410**
Pension benefits	186	644	830
Total including pension benefits	**873**	**3,367**	**4,240**

Remuneration to the CEO

Tom Erixon was paid salary and other employee benefits by the company totalling EUR 601 (687) thousand during the year.

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 20 months. The age of retirement for the CEO is 65. Pension benefits are a defined contribution plan and equal 35% of base salary. The pension benefits expense amounted to EUR 182 (186) thousand.

Remuneration to group management (excluding the CEO)

Group management is composed of 8 (8) individuals in addition to the CEO and is shown on Page 62. Members of group management excluding the CEO were paid salary and other employee benefits by the company totalling EUR 2,307 (2,723) 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 501 (644) thousand. The expense for 2013 included a provision for severance pay (incl. pension benefits expense) for management personnel who left the group management in early 2014.

	2014		2013	
Management gender distribution at 31 December	**Female**	**Male**	**Female**	**Male**
Board and CEO	-	9	-	9
Other senior executives	1	7	-	8

NOTE 29. PLEDGED COLLATERAL AND CONTINGENT LIABILITIES

EURm	31 Dec 2014	31 Dec 2013
Pledged collateral		
Pledged assets	906.5	1,040.2

As explained in Note 21, all shares in major group subsidiaries are pledged as collateral for loans from financial institutions. 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 total assets in the pledged subsidiaries.

Contingent liabilities		
Guarantees	2.8	3.2
Pension liabilities	0.9	0.9

NOTE 30. LEGAL DISPUTES

The group is not involved in any significant legal disputes.

Parent company income statement

EURk	Note	2014	2013
Revenue		-	-
Administrative expenses	3	-230	-262
OPERATING PROFIT		**-230**	**-262**
Interest income from group companies	4	542	527
Interest expense from group companies	4	-12	-4
Other		26	4
Profit after financial items		**326**	**265**
Group contribution	4	-1,603	-266
Taxes	5	280	0
Profit/loss for the year		**-997**	**-1**

Parent company statement of comprehensive income

EURk	Note	2014	2013
Profit/loss for the year		**-997**	**-1**
Other comprehensive income		-	-
Total comprehensive income for the year		**-997**	**-1**

Parent company balance sheet

EURk	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Non-current assets			
Non-current financial assets			
Investments in subsidiaries	2	139,823	139,823
Receivables from group companies	4	23,406	22,668
Deferred tax assets	5	280	-
Total		163,509	162,491
Total non-current assets		**163,509**	**162,491**
Current assets			
Receivables from group companies	4	37,279	16,256
Total current assets		**37,279**	**16,256**
TOTAL ASSETS		**200,788**	**178,747**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	18(*)		
Share capital		6	6
Retained earnings		201,166	162,655
Profit/loss for the year		-997	-1
Total equity attributable to owners of the parent		**200,175**	**162,660**
Current liabilities			
Liabilities to parent	4	-	15,691
Liabilities to group companies	4	613	396
Total current liabilities		**613**	**16,087**
TOTAL EQUITY AND LIABILITIES		**200,788**	**178,747**
Pledged collateral	29(*)		
Investments in subsidiaries		139,823	-
Receivables from group companies		39,467	-
Total pledged collateral		179,290	-
Contingent liabilities		None	None

(*) Consolidated financial statements

Parent company statement of cash flows

EURk	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		-230	-262
Change in working capital		230	262
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

2014	Restricted equity:	Non-restricted equity:	
EURk	Share capital	Retained earnings	Total equity
Equity at 1 January 2014	**6**	**162,654**	**162,660**
Comprehensive income for the year	-	-997	-997
Shareholder contributions received		38,512	38,512
Equity at 31 December 2014	**6**	**200,169**	**200,175**

2013	Restricted equity:	Non-restricted equity:	
EURk	Share capital	Retained earnings	Total equity
Equity at 1 January 2013	**6**	**162,655**	**162,661**
Total comprehensive income	-	-1	-1
Equity at 31 December 2013	**6**	**162,654**	**162,660**

Share capital comprises 50,000 A-shares with a quotient value of EUR 0.11.

NOTE 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 2014 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).

NOTE 2. INVESTMENTS IN SUBSIDIARIES

Name of company	Interest and voting rights, %	Number of shares	31 Dec 2014 Carrying amount	31 Dec 2013 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

NOTE 3. AUDIT FEES

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

NOTE 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 21,218 (2,919) thousand was received from the subsidiary Ovako AB (publ) and a group contribution of EUR 22,821 (3,185) thousand was provided to the parent Triako Holdco AB.

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. For 2013 there was a liability to the parent company of EUR 15,691 thousand relating to group contributions provided from 2011 to 2013. This liability has been waived through shareholder contributions in 2014. The liability for group contributions provided to the parent company in 2014 has also been waived in the form of shareholder contributions.

NOTE 5. TAXES

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

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, 2 March 2015

Finn Johnsson
Board Chairman

Tom Erixon
President and CEO

Oskari Eskola

Nizar Ghoussaini

Martin Ivert

Björn Nilsson

Sakari Tamminen

Robert Nilsson
Employee Representative

Per Pettersson
Employee Representative

Our audit report was submitted on 2 March 2015
Ernst & Young AB

Heléne Siberg Wendin
Authorised Public Accountant

Independent auditor's report

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

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Ovako Group AB for the year 1 January 2014 – 31 December 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 25–59.

Responsibilities of the Board of Directors and the CEO for the annual accounts and consolidated accounts
The Board of Directors and the CEO are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the CEO 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.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
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 2014 and of its financial performance and its cash flows 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 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the CEO of Ovako Group AB for the financial year 1 January 2014 – 31 December 2014.

Responsibilities of the Board of Directors and the CEO
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the CEO are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the CEO is liable to the company. We also examined whether any member of the Board of Directors or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions
We recommend to the annual 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 CEO be discharged from liability for the financial year.

Stockholm, 2 March 2015
Ernst & Young AB

Heléne Siberg Wendin
Authorised Public Accountant

Board of directors

Finn Johnsson, Chairman

Birth year: 1946
Elected to the board: 2010
Education: Bachelor of Business Administration
Other board assignments: Chairman of Geveko AB, Luvata Ltf, European Furniture Group AB, Thomas Concrete Group AB, Gransäter & Partners, Poseidon, Handelskammaren i Västra Götaland, Byggdelsbolaget i Kungshamn. Director of Norske Skog.

Oskari Eskola, Director

Birth year: 1985
Elected to board: 2014
Education: M.Sc. Industrial Engineering and Management
Operational position: Investment Advisory Professional at Triton Advisers (Sweden) AB
Other board assignments: Deputy Director Papyrus

Nizar Ghoussaini, Director

Birth year: 1950
Elected to board: 2010
Education: M.Sc. (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: Chairman Åkers Group. Director FLSmidth & Co. A/S.

Björn Nilsson, Director

Birth year: 1964
Elected to board: 2015
Education: Economics graduate
Operational position: Investment Advisory Professional at Triton Advisers (Sweden) AB and member of Triton investment committee.
Other board assignments: Director Nordic Tankers AB.

Sakari Tamminen, Director

Birth year: 1953
Elected to board: 2014
Education: M.Sc. (Econ)
Other board assignments: Deputy Director Sanoma Corporation. Chairman Industry Investment Ltd and Association of Finnish Steel and Metal Producers and Vice President Eurofer.

Robert Nilsson, Employee Representative

Birth year: 1981
Elected to board: 2011
Employed at Ovako: 2007

Per Pettersson, Employee Representative

Birth year: 1951
Elected to board: 2013
Employed at Ovako: 1995

Deputy Employee Representatives:

Anders Nilsson
Birth year: 1959 **Elected to board:** 2010
Employed at Ovako: 1975

Patrik Undvall
Birth year: 1968 **Elected to board:** 2010
Employed at Ovako: 1998

Jorma Eloranta left the board at the 10 April 2014 AGM.
Simon Andberg left the board 9 September 2014.
Magnus Lindquist left the board 10 February 2015.

Management

Tom Erixon
President and CEO

Birth year: 1960
Education: Master of Law and Master of Business Administration
Previous positions: CEO of Sandvik Coromant, senior positions at Sandvik, Partner and Consultant at Boston Consulting Group.

Marcus Hedblom
EVP and Chief Financial Officer

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.

Karin Lagerstedt Woolford
EVP Human Resources

Birth year: 1969
Education: Bachelor of Business Administration
Previous positions: Senior Vice President of HR at Green Cargo, Deputy HR Director at SEB AB, Head of HR Division Retail SEB and Management Consultant at Ernst & Young and Capgemini

Göran Nyström
EVP Marketing and 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.

Anders Henström
President of Ovako Bar Hofors-Hällefors

Birth year: 1958
Education: M.Sc. (Metallurgy)
Previous positions: Senior positions at Ovako and SKF Steel.

Heikki Nyholm
President of Ovako Bar Imatra

Birth year: 1956
Education: Master of Business Administration and Master of Science (Eng.)
Previous positions: Senior positions at Ovako and Imatra Steel.

Rickard Qvarfort
President of Ovako Bar 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 of Ovako Tube and Ring

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 of Ovako Bright Bar

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.

Definitions

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

EBIT Earnings before financial income and expenses and taxes (operating profit)

Operating margin Operating profit as a percentage of revenue

Net debt Interest-bearing liabilities (excluding pension liabilities) less cash and cash equivalents

Net debt/equity ratio (percent) (Net debt/equity) x 100

Earnings per share, before and after dilution Net profit/loss for the period divided by weighted average shares outstanding during the period

Return on capital employed (ROCE) EBIT/equity plus finance liabilities (the average of the opening and closing balances for the period)

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