OVAKO

ANNUAL REPORT

2017

CONTENTS

This is Ovako's Annual Report for the financial year 2017. The information provided on pages 42–87 constitutes the formal annual report for Ovako Group AB and has been audited by the company's independent auditor.

Financial information
Current information about Ovako and its performance is provided on Ovako's website, www.ovako.com, in Swedish, English and Finnish. The annual report (in Swedish and English) can be downloaded from the website.

Ovako's Sustainability Report is on pages 26–40.

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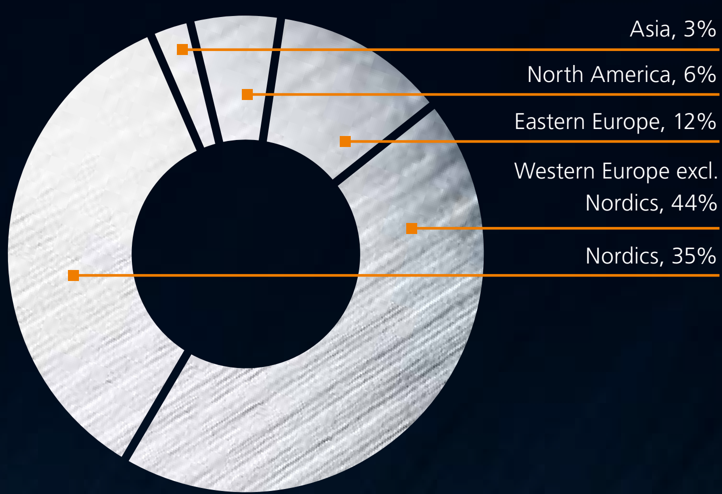
A year focused on ramping up

MARCUS HEDBLOM, PRESIDENT AND CEO

> Read more on pages 4–5

2017

PERCENTAGE OF SALES



KEY FIGURES 2017

Sales volume
783
KTON (708 KTON)

Revenue
921
EURm (781 EURm)

EBITDA before restructuring costs
100
EURm (57 EURm)

EBITA before restructuring costs
69
EURm (25 EURm)

Net result
15
EURm (–17 EURm)

Cash flow from operating activities
39
EURm (35 EURm)

KEY EVENTS DURING THE YEAR

Q1

- Higher production rate due to new customer contracts
- Opening of new production process including a new forge in Hofors
- Investment in increased heat treatment capacity in Smedjebacken

Q2

- Strengthened order intake and increased market shares
- Ingalill Östman joins the board of directors of Ovako

Q3

- Refinancing of existing senior secured notes assured access to long-term financing and lower interest expenses
- Launch of Hybrid Steel® – a steel with unique properties

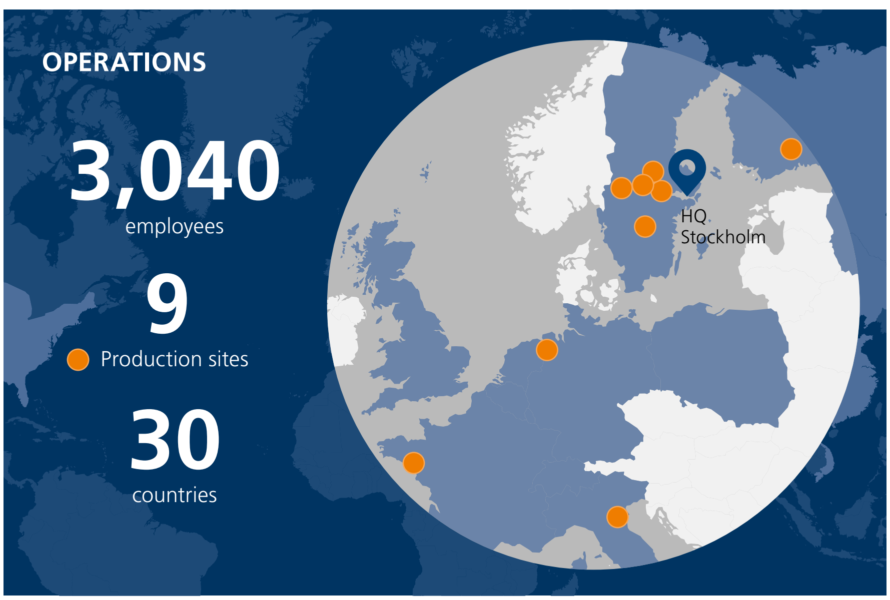
Q4

- Ramp up of Hofors and Hällefors production flow to five shift
- Publication of climate declarations to help customers make climate-smart purchasing decisions

Innovative steel solutions for a sustainable future

Ovako is a leading European manufacturer of engineering steel for customers in the bearing, transportation and manufacturing industries. With geographical presence in Europe, North America and Asia and a steel product line that includes niche products and customized solutions, Ovako is contributing to create value for its customers and their customers.

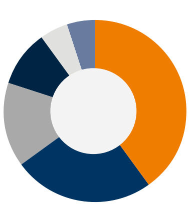
VISION INNOVATIVE STEEL FOR A BETTER ENGINEERED FUTURE



> Read more about Ovako's business on pages 14–25

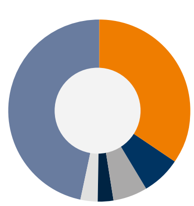
SALES

PER END-CUSTOMER INDUSTRIES (EUR)*



- General engineering, 40%
- Trucks and yellow goods, 25%
- Passenger cars, 15%
- Mining, oil and gas, 10%
- Energy production, 5%
- Distributors, 5%

PER BRAND (EUR)



- BQ-Steel, 35%
- M-Steel, 7%
- WR-Steel, 6%
- IQ-Steel, 3%
- SZ-Steel, 3%
- Other, 47%

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

GREEN CLEAN STEEL

Ovako manufactures clean, strong and sustainable steel. Sustainable because the production process is based on scrap and a Nordic low-carbon electricity mix. As a result, the carbon footprint of Ovako's steel products is a full 80 percent lower than the global average. It is also clean and strong because Ovako minimizes impurities in the steel during the production process. This gives the steel high-quality properties that enable customers to create lighter, stronger, more durable end products.

We call it Green Clean Steel.

> Read more about steel with low carbon footprint on pages 28–29

STRONG BRANDS WITH UNIQUE CHARACTERISTICS

Ovako generates value for its customers by enabling simplified production and improving end products. The products are categorized into various brands with unique characteristics and applications.

BQ-Steel®

Hybrid Steel®

IQ-Steel®

M-Steel®

SZ-Steel®

WR-Steel®

Cromax®

> Read more about our brands on page 23

Safety is the top priority and the long-term objective is to completely eliminate accidents.

> Read more about safety improvement on page 34

LONG RELATIONSHIPS WITH CUSTOMERS CREATE VALUE IN MANY INDUSTRIES

Ovako manufactures engineering steel with characteristics such as high strength and wear resistance. The steel is used for demanding applications such as in bearings, powertrains, hydraulic cylinders and rock drills. Ovako's customers are found mainly among the European engineering industries and their suppliers. By manufacturing steel with tailor-made characteristics and high quality Ovako creates value for customers in a number of industries.

The main end-customer industries are:

- GENERAL ENGINEERING
- TRUCKS AND YELLOW GOODS
- PASSENGER CARS
- MINING, OIL AND GAS
- ENERGY PRODUCTION
- DISTRIBUTORS

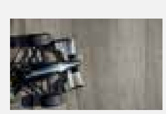
> Read more about the end-customer industries on page 22

HIGH PERFORMANCE STEEL ENABLES INNOVATIVE APPLICATIONS

Ovako's steel gives customers unique design opportunities, which gives better performance, lower manufacturing cost and the possibility to improve its carbon footprint.

Read more about how Ovako's steel is used in customer applications:

HYBRID STEEL – Steel for the future
pages 8–9



UNIC TRANSMISSION – World-Class performance, lightweight design
pages 24–25

RESIDUALS – Strong roads with by-products
pages 30–31

A year focused on ramping up

We ended 2017 in a better position than in a long time, with lower structural costs, new business, increased market shares, higher demand and an updated strategy in place that will continue to create growth for Ovako.

With new business and a lower cost platform than ever, we began the year from a strong position. Customer activity also improved considerably in the first two quarters, which together with market share gains, further increased demand.

We have seen steady improvements in earnings during the year due to increased sales and lower structural costs along with wide growth linked to most of our markets.

To meet the higher demand, we have increased the number of shifts in Hofors, Hällefors, Imatra (2018) and, to a certain extent, Smedjebacken and Boxholm. With the new shifts up and running, some of our production flows have increased capacity by up to 40 percent since the beginning of the year.

Order intake measured as volume rose during the year by 24 percent compared with the preceding year. With continued growth in the order book from both the short-term and long-term perspectives, conditions for the coming year are favorable. Sales volume was 783 (708) thousand metric tons, 11 percent higher year-on-year, and revenue rose by 18 percent to EUR 921 (781) million. There was substantial improvement in EBITDA before restructuring costs, from EUR 57 million to EUR 100 million, corresponding to a margin of 11 (7) percent. Earnings were also strengthened by higher volumes, a better product mix, higher prices and lower costs achieved in the restructuring program.

In September, we secured refinancing of the Group through the issue of EUR 310 million in new five-year senior secured notes at a fixed interest rate of 5.0 percent. This reduces interest expenses by EUR 4 million annually. The new bonds were issued in October and the earlier notes were redeemed ahead of maturity.

Strategy for continued growth

Our focus in recent years has been on safety, greater competitiveness and generating new business. Our situation with regard to volumes and financial position is now improved and we drafted an updated strategy during the year with the aim to take Ovako to the next level.

We will continuously implement improvements to optimize operations. Trough clear segment strategies and our high quality brands we will continue to grow in our areas of outstanding performance. At the same time, we will lay a strong platform for the future, with ongoing development of our offering and our products. Our strong product position is a solid foundation for continued growth.

Based on the updated strategy, we have set the following financial targets to be achieved by 2020: Sales volume above 850 thousand metric tons per year, EBITDA margin above 13 percent, and net debt (excluding pension liabilities) to equity ratio below 40 percent.

FOCUS 2018

- Continue implementing Ovako’s updated strategy to increase competitiveness, growth and profitability.
- Continue our effective safety improvement program to meet the long-term objective of zero accidents.
- Continue to develop our sustainability work to offer products with even less climate impact.

> *With new business and a lower cost platform than ever, we began the year from a strong position.*

Investing in the future

When it comes to developing our offering, we are extremely proud to have launched an entirely new steel family during the year: Hybrid Steel. Hybrid Steel combines the properties of several types of steel for entirely new applications. Hybrid Steel remains very strong at high temperatures and is ideal for demanding applications.

For several years, we have been investing in expanding operations to meet the demand for large bearings for heavy industrial applications. A new forge and production process for large ingots in Hofors was inaugurated, which enables production of rings with a diameter of more than four meters and weight of five metric tons. For example, this helps our customers manufacture large wind turbines that can produce more renewable electricity for society.

We have also invested in increased heat treatment capacity in Smedjebacken, which is cutting lead times for the production and delivery of heat-treated steel. In parallel, the volume of material transports within the Group has been significantly reduced.

Close customer relationships

We are a steel company with long and close relationships with our customers. We collaborate with our customers in ongoing development of technology and new applications, as well as commercially. We also have one of the world's most carbon-efficient steel production processes: our carbon footprint is 80 percent lower than the global average, from "cradle to gate."

We possess cutting-edge expertise at producing ultra clean steel. Our main success factors are found primarily in these aspects. And they also equip us to help our customers develop their offerings so that they can provide smarter, more resource-efficient and more climate-smart products to their customers. Put together with lower costs, new business and a generally stronger market, the outlook for Ovako in upcoming years looks very strong.

Marcus Hedblom
President and CEO

Global trends are creating growth opportunities

Several general driving forces are affecting the steel industry and Ovako's business. Ovako continuously analyzes global trends in order to optimally adjust operations and manage all opportunities that arise.

In recent years, customer demand has continuously changed with higher requirements for quality and technical development. Sustainability has also taken on increasing importance to Ovako's business and customers.

HIGHER DEMANDS FOR QUALITY AND TECHNOLOGY

To an increasing extent, customers are demanding premium or processed products rather than standard varieties. Demands for technical performance are also rising. It is thus increasingly important for the steel industry to be able to deliver advanced, customized solutions that have a genuine positive impact on the customer's business.

Ovako produces and offers superior products with high strength and functionality tailored to customer needs. The company works constantly with product development to meet customer demand.

DEVELOPMENT OF DIGITAL TOOLS AND SOLUTIONS

Digitalization is having major impact on all industrial sectors and creating opportunities to improve operational efficiency and develop better customer service.

Ovako is taking digitalization initiatives on an ongoing basis to streamline the business and offer services that generate value for its customers. The Steel Navigator is one such solution: a tool that helps customers search Ovako's extensive product line to find the steel that best meets their needs. The Steel Navigator also works as a platform for a growing selection of digital expert tools in areas including machining and heat treatment.

FOCUS ON SUSTAINABILITY AND THE CIRCULAR ECONOMY

Demand for sustainable products is rising alongside increased customer awareness. The trend is moving toward a more circular economy, with materials reused in a cycle. Steel is highly suitable for recycling because its properties remain equally good no matter how many times it is reused.

Ovako is one of the largest recycler of steel scrap in the Nordics and is engaged in sustainable business across the entire supply chain. The company is a leader in sustainability and minimization of carbon emissions per metric ton of finished steel products, with the entire supply chain taken into account. Ovako is far below the global average for the carbon footprint of steel products.

A STRONGER STEEL MARKET

Global steel demand is heavily dependent on changes in the global economy, raw material prices and the conditions for international trade.

Industrial production in Europe is the main driver of Ovako's development. The company is one of the first links in a relatively long value chain. As a result, changes in demand have clear impact on operations and are strengthened as they move along the value chain.

End customers are found primarily in the automotive industry, yellow goods, the oil, gas and mining industries, energy production and general engineering industry. The trend has been increasingly strong in industrial production since the end of 2016, bringing higher demand for steel products.

After some years of low growth, global demand for steel rose in 2017. According to the World Steel Association's estimates, global steel consumption rose by nearly 3 percent, which also entails higher global steel production.

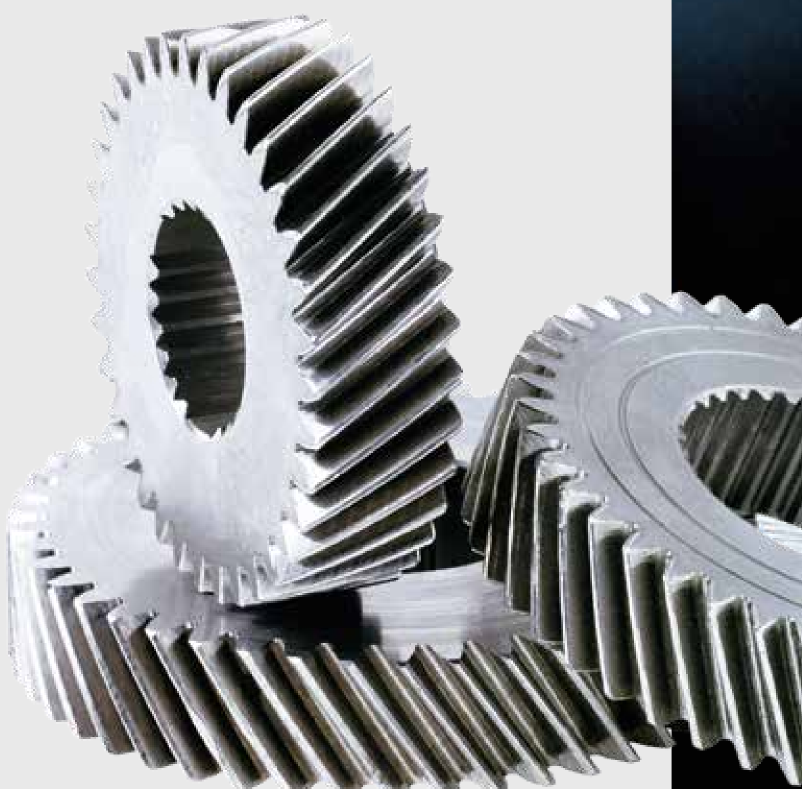
Steel consumption increased by 7 percent during the year in the Swedish market, considerably higher than in the rest of the EU. Growth is being driven by all industrial sectors that use steel in production, not only the automotive and construction industries that have accounted for the majority of demand in recent years.

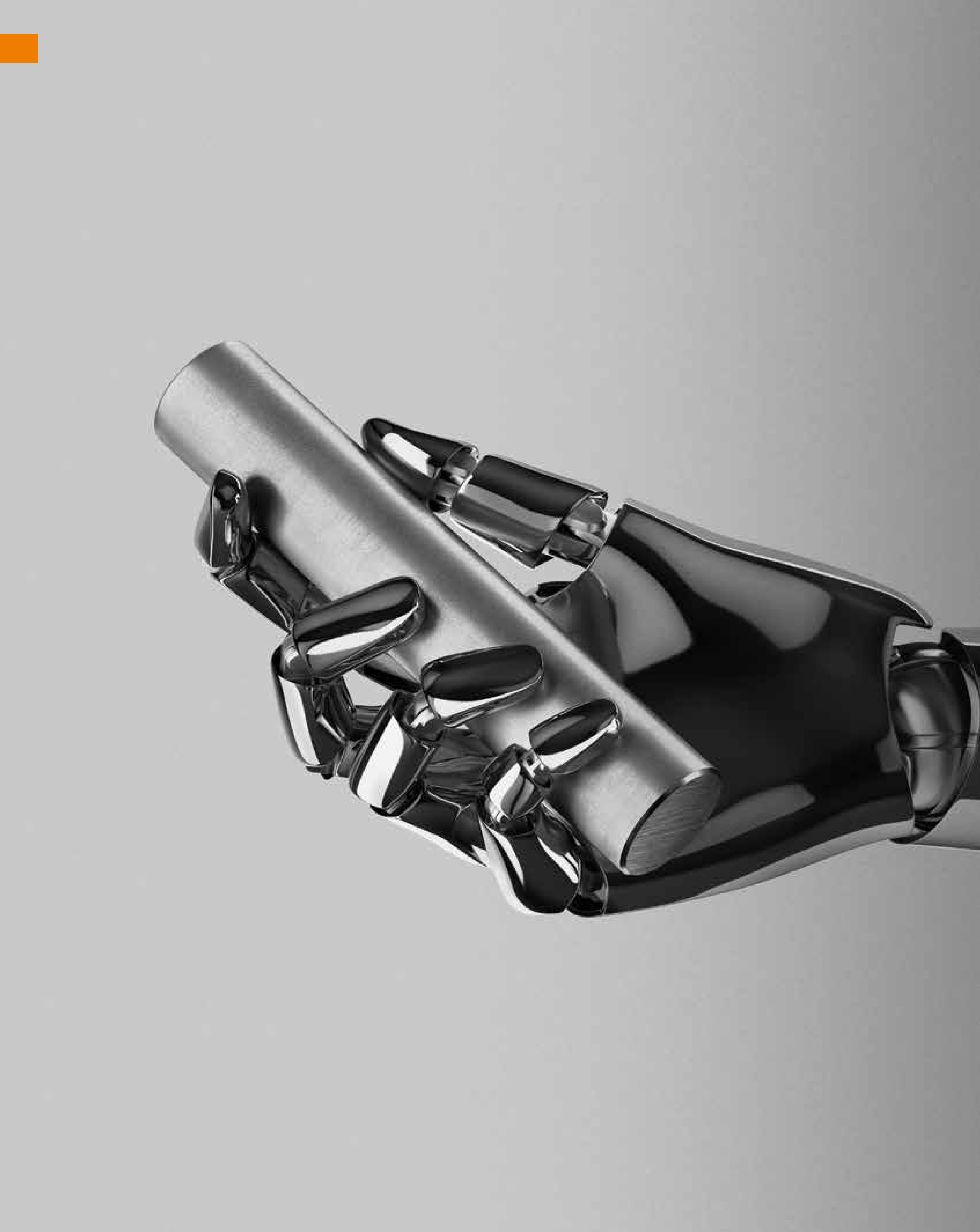
Consumption and production also increased during the year in the rest of Europe and the US, and steel prices in Europe have normalized after some years of squeezed prices. Consumption has dropped in the US in the past two years, but rose by 5 percent in 2017.

Demand for tailored and customized products remains high. Few companies are able to offer the same type of products or match Ovako's high quality, and it is in these segments that Ovako is performing best, and where it sees the greatest potential for the future.

7%

increase in steel consumption in Sweden 2017



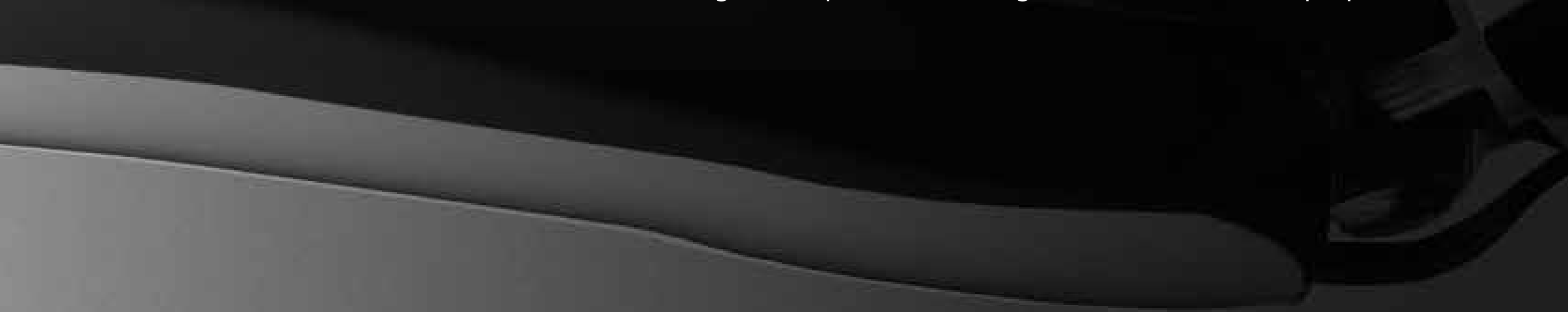


HYBRID STEEL® – STEEL FOR THE FUTURE

Hybrid Steel, a new and innovative steel family that challenges traditional steel categories, was launched in the fall of 2017. A new alloying strategy is used to create a steel with triple the tensile strength of conventional steel at elevated temperatures.

Final tempering is done at relatively low temperatures and there is very low distortion after heat treatment. This makes it possible for customers to substantially lower the cost of production steps or eliminate them entirely. For example, a component can be machined to its final dimension in a softer condition, followed by a simple heat treatment process to achieve full strength, which reduces complexity and costs.

The steel family is also weldable and has good corrosion resistance. With its high fatigue strength, Hybrid Steel is ideal for a wide range of high-load applications, such as engine components, bearings and tools for various purposes.



HOFORS, SWEDEN

The development of Hybrid Steel has been carried out at Ovako's R&D facilities in Hofors.

3X

the yield and tensile strength at temperatures up to 500°C, compared to conventional steel

Strategy for continued growth

An updated strategy was prepared for Ovako during 2017. The strategy is based on three areas of development focused on operational excellence, growing in key segments and building a platform for the future.

Strategic areas of development

1 DRIVE OPERATIONAL EXCELLENCE

- ***Further improve safety***
  Continuously improve workplace safety across all operations with the long-term ambition to reach zero accidents.

- ***Strengthen competitiveness through lean initiatives, cost-efficiency and clear operational priorities***
  Execute central and local initiatives to improve processes and cost control while implementing clear operational priorities with focus on safety, quality, delivery and productivity.

- ***Enhance commercial capabilities through next wave of digitalization, sales and pricing initiatives***
  Introduce new digital tools and processes, as well as training in areas including sales and group pricing initiatives.

2 GENERATE GROWTH IN KEY SEGMENTS

- ***Grow in attractive niches through clear strategies for key segments***
  Drive growth in key leadership areas through clear segment strategies, both geographically and in terms of products.

- ***Capture growth in US and APAC, leveraging our global leading products***
  Evaluate opportunities to follow our customers globally and in other ways generate growth in new geographies.

3 BUILD A PLATFORM FOR THE FUTURE

- ***Continue to invest in technology leadership with materials and products for new applications***
  Develop new products for leading applications.

- ***Build customer preference by offering world-leading low carbon footprint***
  Maintain and develop Ovako's leadership in sustainability and green steel.

- ***Selectively evaluate strategic M&A to reinforce leadership in core market segments and/or drive consolidation***
  Continuously review opportunities to acquire companies that are leaders in their markets or that offer products or services further down the value chain that can augment the existing line.

Strategic targets

SAFETY

The ambition is to reach zero accidents with an initial target of an LTIFR (accidents with sick leave per million working hours) below the average for Nordic peers (<5).

CUSTOMERS

To be number one in customer preference, driven by attractive products, superior customer relationships, leading delivery service and lowest cradle-to-gate carbon footprint.

FINANCIAL RESULTS

Ovako's financial targets reflect our ambition of profitable growth, operational efficiency and a capital structure adapted to the business cycle of the steel industry.

A sustainable Ovako

"Innovative steel for a better engineered future"

During the last three years, Ovako reduced its Lost Time Injury Frequency Rate (LTIFR) by

50%

Financial targets

Financial targets to be achieved by 2020:

GROWTH

- Sales volume above 850 thousand metric tons per year

PROFITABILITY

- EBITDA margin above 13%

CAPITAL STRUCTURE

- Net debt (excluding pension liabilities) to equity ratio below 40%*

* In the financial plan, assuming the financial targets are met, this corresponds to net debt (excluding pension liabilities) in relation to EBITDA below 1.

Sustainability targets

ENVIRONMENT

- Continue to lead the circular economy work by reusing or recycling at least 90% of residual products from production.
- 30% reduction of cradle-to-gate CO_2 footprint per ton finished hot-rolled bar products before year-end 2020, with 2015 as the base year.

PRODUCTS AND SERVICES

- Increase number of new case examples where improved carbon footprint in customer applications has been calculated.

SUPPLIERS

- All suppliers categorized as medium or high risk with regard to sustainability must be evaluated and approved according to Ovako's sustainability criteria before year-end 2020.
- Ovako's Code of Conduct included in all procurement agreements before year-end 2020.

ANTI-CORRUPTION

- Relevant employees must be trained and have in-depth knowledge concerning anti-corruption and bribery before year-end 2018, in accordance with the training provided with group management and executive management for sales and marketing.
- Zero confirmed incidents of corruption and bribes from external and internal sources.

EMPLOYEES, HEALTH AND SAFETY

- Reduce the Lost Time Injury Frequency Rate (LTIFR) by more than 50% before year-end 2019, with 2016 as the base year. This is a step towards the company's long-term objective of eliminating accidents entirely and being the safest steel company in the Nordics.
- Continuous improvement of the Employee Satisfaction Index up to year-end 2020.
- Improve gender equality in the organization with the objective of having at least 25% women in managerial positions and at least 20% women in the entire organization by year-end 2020.

A sustainable value chain

Ovako is a leading European manufacturer of engineering steel and manufactures high-tech steel solutions for customers in the bearing, transportation and manufacturing industries. Production is based on recycled scrap and comprises steel bars, tubes, rings and pre-components.

Ovako's steel is one of the cleanest in the market. Clean steel – steel with minimal content of impurities – has higher fatigue strength than conventional engineering steel. As a result, it can be used in lighter and dimensionally smaller designs with no reduction in strength. Ovako's steel is produced from scrap steel and a Nordic low-carbon electricity mix. The efficient and sustainable production process enables the company to offer steel products with significantly lower climate impact compared to the average steel available in the market.

Operations

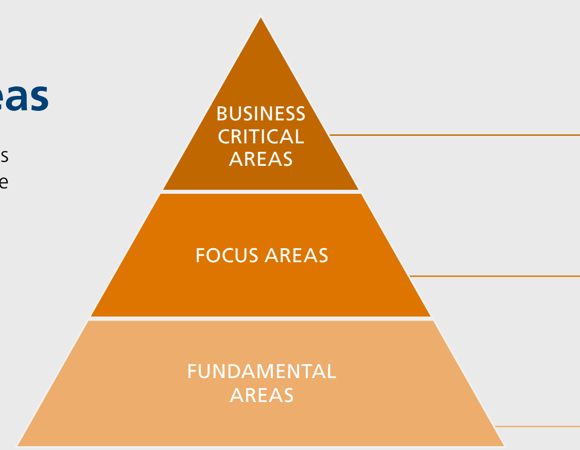
Ovako strives for a sustainable value chain and a business that generates value at all stages, from product development to end product. Operations can be divided into the following steps:

> Read more on pages 16–20

Prioritized sustainability areas

The most important sustainability areas for Ovako have been grouped in three categories.

> Read more on pages 26–40

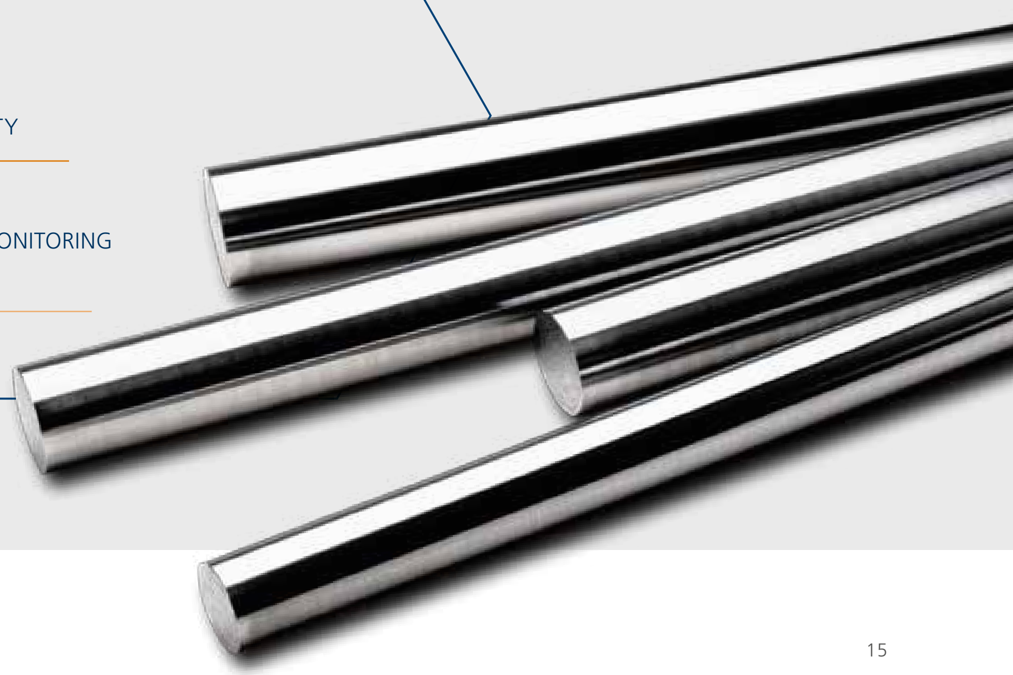


> Read more on pages 22–23

- ENVIRONMENT
- PRODUCTS AND SERVICES

- SUPPLIERS
- ANTI-CORRUPTION
- EMPLOYEES, HEALTH AND SAFETY

- HUMAN RIGHTS
- GOVERNANCE AND MONITORING
- SOCIAL ENGAGEMENT



PRODUCT DEVELOPMENT

Product development in close partnership with the customer

The development of new products and materials to meet customer needs is a constant objective at Ovako. This is part of the company's strategy and a vital prerequisite for continued growth and development.

Steel is a key component in society and Ovako works constantly to improve the properties of its steel in order to provide lighter, greener solutions to the company's customers.

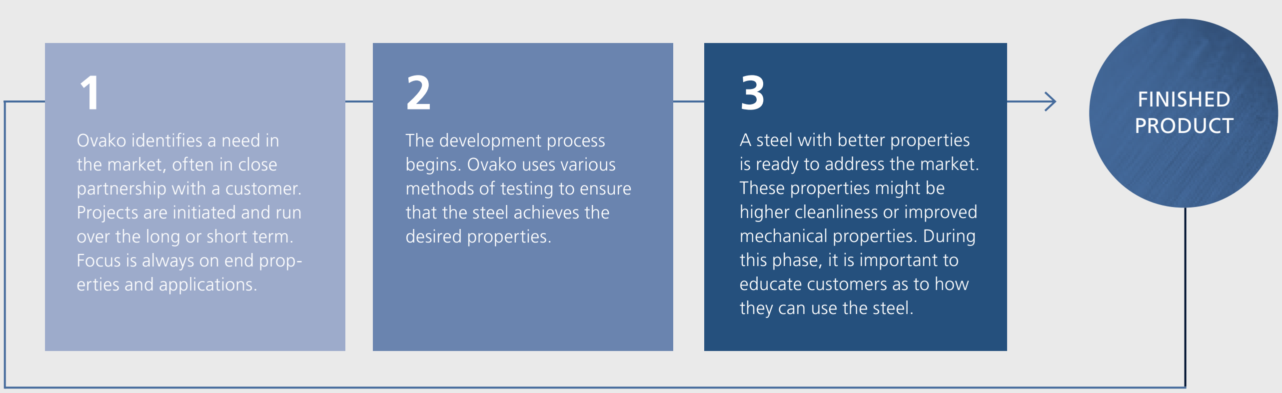
R&D at Ovako is performed in networks specialized in steel manufacturing, metal working and product characteristics. The cross-organizational networks bring together employees from various geographical and functional units focused on developing materials, production processes and customer applications.

Aimed at optimizing the advantages and uses of steel, Ovako takes an active role in its customers' R&D if possible. Ovako strives to, in partnerships with customers, identify new application areas for the products or develop new products adapted to the customer's identified needs. By participating in its customers' R&D, Ovako can contribute to developing new products and solutions that meet customer specifications and preferences for steel properties and performance.

The development projects carried out together with customers also provide an opportunity to identify the future market needs in order to develop products that meet those needs.

Sustainability and new technology are key components of the development process. By improved control of the company's own processes Ovako can reduce the use of both energy and raw materials. The effort to develop stronger, cleaner materials also results in products that consume less energy, which by extension has positive environmental impact.

OVAKO R&D: A THREE-STEP PROCESS



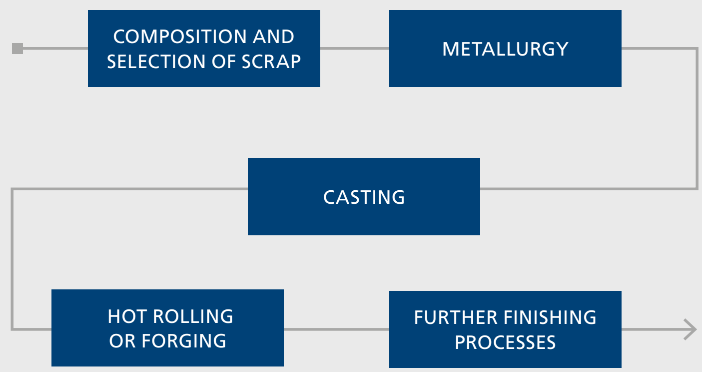
PURCHASING AND PRODUCTION

One of the largest recyclers of steel scrap in the Nordics

Ovako is a world leader in engineering steel, manufacturing high-quality steel with customized properties that generates value for customers in several industries.

Ovako's manufacturing is scrap-based and is one of the largest recycler of steel scrap in the Nordics. In general, steel is recycled in the parts of the world where it was consumed and there is a good, efficient market for recycling steel products. In some cases, Ovako can take material back directly from customers, but scrap is usually purchased through established recycling processes.

Production mainly comprises steel manufacturing and further finishing processes which contain primarily low-alloy steel bar, tube, ring and pre-components which are often used in demanding customer applications such as bearings, powertrains, hydraulic cylinders and rock drills.



Ovako's head office is placed in Stockholm with production facilities in nine locations. Operations are divided into three production flows: Hofors–Hällefors, Smedjebacken–Boxholm and Imatra. These production flows result in a broad customer offering, enabling Ovako to provide solutions to its customers based on several different needs. In addition to these, Ovako manufactures hard chromed products under the Cromax brand.

Ovako also has sales offices in strategic locations around the world that offer warehouse products tailored to each customer's specific needs in terms of location and delivery date. In some locations, customers can also be assisted with cutting and product adaptation.

PURCHASING AND PRODUCTION

Continuously improving production plants

HOFORS

Steel manufacturing in Hofors is based on ingot casting. Production comprises primarily bar, tube, tube components and rolled rings. Sales are mainly to the bearings, automotive and mining industries. All customer segments delivered good growth during the year and the plant has added shifts to build up capacity to meet the higher demand.

The focus was on further improving customer service, an effort that showed good results in the customer satisfaction survey. Conversion of some heat treatment furnaces from oil to LPG and others from LPG to electricity has continued during the year. These investments are delivering costs savings as well as environmental and quality gains.

A new production process was initiated early in the year. One of the benefits is that ingot size can be doubled.

Going forward, focus will be on continuing to enhance flexibility to ensure fast reaction to changes in the market while maintaining cost control and delivery reliability.

MANUFACTURING

- Electric arc furnace (EAF)
- Ingot casting
- Rolling
- Further finishing processes

HÄLLEFORS

The rolling mill in Hällefors mainly produces long steel products for customers with extremely high demands of high purity and fatigue strength. The manufactured steel is further processed using heat treatment, pleating, grinding, drawing and/or cutting – depending upon the customer's needs.

Operations consist of further processing of steel, mainly from Hofors but also from Imatra and Smedjebacken. The primary products are components for the bearings, automotive and mining industries.

The unit delivered strong performance during the year, with strong order intake. The improved demand triggered a need to increase production during the year.

An additional focus during the year was on assuring processes and reducing the risk of accidents, within the framework of health and safety at work.

Looking ahead, focus will be on continuing to build flexible production capacity with improved delivery performance. This focus will be supporterd using digital technology for areas such as planning, automation and effective process management.

MANUFACTURING

- Rolling
- Further finishing processes

IMATRA

Imatra maintains a strong position in Europe within high-quality engineering steel and produces long steel products for machining and forging. The products are used for several different customers applications, including powertrains in the heavy automotive industry.

A steep rise in demand presented certain challenges during the year. This was resolved with a decision to add shifts to increase capacity. Ovako also decided during the year to invest in a new pump system for vacuum degassing to improve the production process.

Development in the safety area was very good during the year. This has been achieved through higher commitment among managers and employees, along with investments in technology and processes.

MANUFACTURING

- Electric arc furnace (EAF)
- Continuous bloom casting
- Rolling
- Further finishing processes

SMEDJEBACKEN – BOXHOLM

Smedjebacken–Boxholm is Ovako’s most diversified flow and produces steel for a wide variety of applications. The plant is at the cutting edge of cost-effective production of engineering steel.

The steel mill for this production flow is also located in Smedjebacken. The production plant was recently upgraded with a new flue gas filter and a new continuous casting machine. The steel mill produces mainly wear resistant steel, spring steel and micro-alloy steel. There is also a medium rolling mill in Smedjebacken, mainly for production of flat bar, but also round bar for further finishing processing in the Cromax flow.

In Boxholm, there is a rolling mill for the production of profiles and a fine rolling mill for round bar with very special surface properties.

Development was good during the year with higher customer demand. Operations have also been expanded through investments downstream in the value chain in heat treatment and machining, for example, providing an opportunity to generate business in new segments.

MANUFACTURING

- Electric arc furnace (EAF)
- Continuous billet casting
- Rolling
- Further finishing processes

SALES AND DISTRIBUTION

Focused sales add value for the customer

Ovako produces steel that is used in a wide variety of applications. The company has developed clear strategies for prioritized key segments, which also cover sales and distribution.

Ovako's steel solutions are sold mainly directly to its loyal and diversified base of more than 2,000 customers, many of which are premium manufacturers in their fields. The company has been working with many of its customers for a very long time. For example, Ovako has been partnering with its ten largest customers for more than 20 years.

Due to these partnerships, Ovako in many cases follows its customers across the world. To make this possible, the company is represented in about 30 countries and has sales offices in Europe, North America and Asia.

The strategies are contributing to focused sales efforts that also cover coordination of elements including customer service and pricing. Surcharges based on changes in scrap and alloy costs are added to the negotiated base price. This is an established system in the market that enables Ovako to be cost-neutral in relation to raw materials purchases over time.

Digital solutions for enhanced service

Taking advantage of digitalization to improve production, internal processes and new services for customers is a key component of Ovako's updated strategy. This has included deployment of a new CRM system for the sales organization and other digital tools that facilitate the sales process, such as a new system for price calculations that has streamlined the quotation process.

Ovako also provides a variety of digital tools and value-generating services to its customers, such as the Steel Navigator and the M-Steel Calculator, which makes it possible to search for specific steel grades and machine settings.

By manufacturing high-quality steel products with tailor-made properties, Ovako creates value for its customers in an array of industries. Thanks to unique expertise, Ovako is an attractive business partner to numerous companies.

HIGH PERFORMANCE STEEL

As a leading provider of the highest quality engineering steel, customers around the world depend on Ovako for a high degree of operational reliability and efficiency.

Ovako's offering along with its high level of expertise makes it possible to deliver steel that gives the customers real competitive edge.

In 2017, Ovako developed a number of steel solutions together with its customers to better suit their applications.

OFFERING

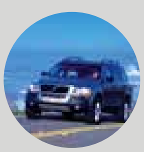
World-leading products and customer specific service

Ovako's steel solutions are used in a broad array of products and production processes in many different industries.

END-CUSTOMER INDUSTRIES:

GENERAL ENGINEERING is an important industry for Ovako. Ovako's customers in this segment manufacture products including bearings, industrial drivetrain components and hydraulic cylinders. Customers in this market have rigorous standards since their products will be used for a long time and premium quality is non-negotiable. Ovako also manufactures components made of boron steel, which is sufficiently wear-resistant to withstand the tough stresses to which steel in agricultural machinery is subjected.

TRUCKS AND YELLOW GOODS is Ovako's single largest end-customer industry. Ovako manufactures steel solutions customized for heavy vehicles and the company's strength in this segment is based on the capacity to offer high-strength steel grades that allow the same power transfer with smaller components. Lighter designs that enhance performance help reduce carbon dioxide emissions and improve cost effectiveness.



PASSENGER CARS is a growing industry for Ovako where the company, as for heavy vehicles, offers steel whose strength gives it the same properties as other steel, but also the capacity to be used to manufacture smaller components.

THE MINING, OIL AND GAS INDUSTRIES account for only a minor portion of Ovako's direct sales. In this segment, Ovako manufactures engineering steel for high-stress environments where the wear strength and toughness of the steel are crucial.

ENERGY PRODUCTION is an area in which Ovako has invested in recent years to meet long-term demand, especially in wind power. Ovako produces mainly components for wind turbines, where the steel must have a long life and withstand high impact loads.

DISTRIBUTORS are used by Ovako as sales channels in several areas, although Ovako's steel solutions are mostly sold directly to sub-suppliers and end-customers.

STRONG BRANDS FOR ADVANCED APPLICATIONS

BQ-Steel®

The BQ in BQ-Steel stands for Bearing Quality. The high cleanliness of BQ-Steel gives bearings used in trucks, for example, a virtually unlimited service life. BQ-Steel is also ideal for numerous other applications thanks to its high fatigue strength and strong track record in use.

Hybrid Steel®

Hybrid Steel offers properties from the categories of tool steel, maraging steel and stainless steel combined with production costs that are fully competitive with conventional steel. A new alloying strategy is used to create a steel with triple the tensile strength of conventional steel at very high temperatures. Hybrid Steel is ideal for a wide range of high-load applications, such as engine components, bearings and tools for various purposes.

IQ-Steel®

The IQ in IQ-Steel stands for Isotropic Quality. With its isotropic properties, IQ-Steel is ideal for reliable components that can take the strain of higher and more complex loads. The fatigue strength of IQ-Steel in the transverse direction is nearly twice that of ordinary steel and is used in products including diesel fuel injection systems for cars, trucks and ships.

M-Steel®

The M in M-Steel stands for Machinability. M-Steel was designed to make machining easier and offers customers the potential to achieve substantial cost reductions. When M-Steel is machined, cutting tool life can be extended several times compared to conventional steel and machining speed can be increased by 30 percent. M-Steel is used in sectors including the automotive and engineering industries.

SZ-Steel®

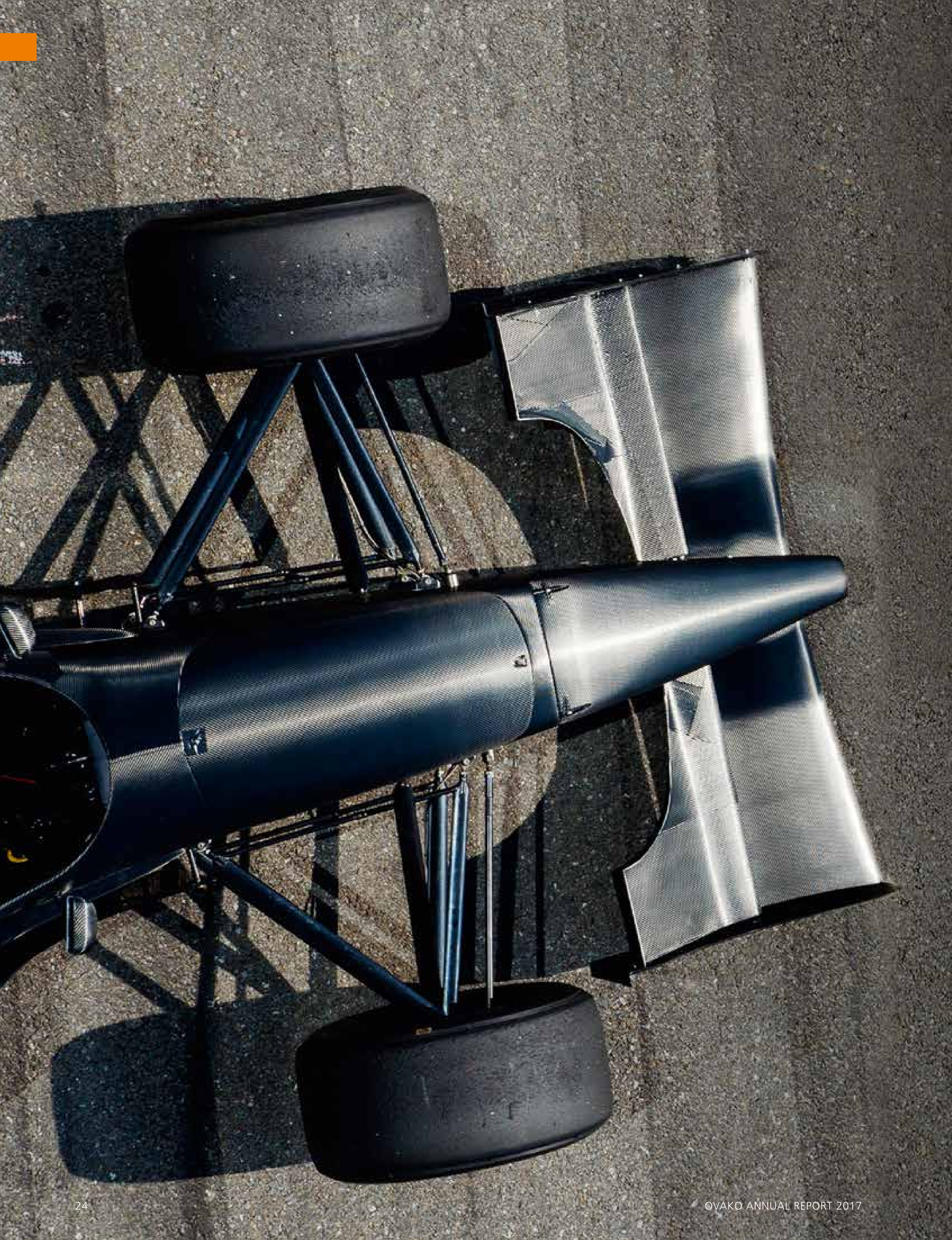
The SZ in SZ-Steel stands for Sub-Zero. The steel is specifically designed to withstand extremely low temperatures. With clean steel qualities and controlled grain size, the steel retains sufficient toughness all the way down to minus 101° C. Steel of this type is used, in the oil and gas industries for example, for components that must withstand high impact loads and fatigue, in everything from wind turbines to anchor chains.

WR-Steel®

The WR in WR-Steel stands for Wear Resistance. WR-Steel is a highly wear-resistant steel that minimizes or eliminates time-consuming processing and heat treatment stages. Several varieties of WR-Steel are made from boron steel, which is highly wear-resistant but can still be easily shaped and formed to meet the customer's needs. WR-Steel is used in applications such as agriculture and forestry, all-terrain vehicles and mining, where it is used to manufacture drills that withstand extreme wear.

Cromax®

Cromax is a line of hard-chrome and nickel-chrome plated bars and tubes with high strength and corrosion resistance used mainly for piston rods. The optimized chemical composition of Cromax steel makes it possible to reduce the diameter of piston rods by several millimeters without compromising reliability, helping customers achieve significant savings in production costs. Meanwhile, the surface treatment of the steel ensures that the cylinders can withstand corrosion and other wear.



WORLD-CLASS PERFORMANCE, LIGHTWEIGHT DESIGN

In the world of rallycross racing, every kilo counts. Leading teams depend on lighter, stronger transmission components to gain a crucial competitive edge. For Mats Karlsson, founder and lead engineer at Unic Transmissions, IQ-Steel from Ovako has helped to achieve just this.

As a supplier to several World Championship rallycross teams, few understand the advantages of Ovako clean steel like Mats Karlsson. For more than a decade, Unic has leveraged the superior material properties of clean steel to contribute to the world's top competitors, including two recent world champions.

"Simply put, I try to eliminate all possible weight, especially in the rotating parts where the weight becomes double the strain. IQ-Steel enables a lighter, stronger, more compact transmission design and the reduced weight improves performance. I prioritize larger parts where there are more weight savings to gain, such as large gears, and also parts that rotate at high speeds since even small weight savings make a big difference."

Mats Karlsson
Founder and Lead Engineer, Unic Transmissions

SÄFFLE, SWEDEN

By using IQ-Steel in combination with an optimal design, its possible to reduce weight on some components by

20%

Focus on sustainable business

Sustainability is integrated into every aspect of Ovako's operations. Production based on recycled scrap steel. An energy mix with a smaller carbon footprint. Energy-efficient production processes. By putting all of these together, Ovako produces some of the most sustainable steel products in the world.

Ovako took additional steps during the year to further develop its sustainability work and formalized priorities, governance and monitoring.

A materiality analysis was performed in early 2017 to identify the areas that are most important to the company and its stakeholders. The materiality analysis was carried out with key individuals from group management and relevant functions. A number of stakeholder dialogues were also held with a sample of Ovako's most important stakeholder groups – employees, customers and business partners, owners and special interest organizations – as well as a business environment and stakeholder analysis.

The significant areas span Ovako's entire business and offering. A number of targets linked to these areas have been formulated and key performance indicators have been defined.

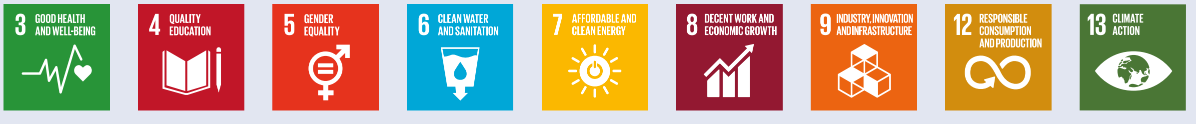
Managers have been appointed in the organization for each significant area, who are preparing action plans for attaining the targets in each area. A sustainability governance team has also been established.

Ovako has also identified the most significant areas in relation to Agenda 2030 and the UN Sustainable Development Goals to determine how the company can contribute to attaining the goals.

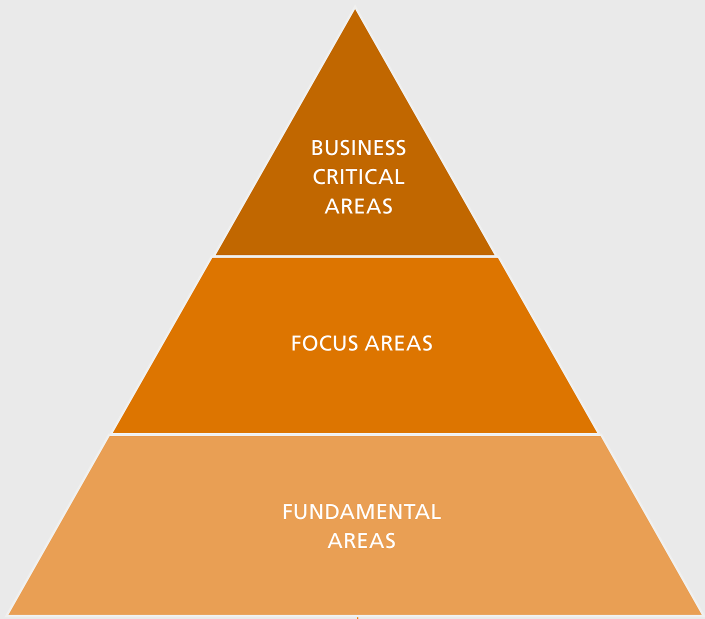
UN SUSTAINABLE DEVELOPMENT GOALS

Ovako analyzed the UN Sustainable Development Goals during the year to identify the areas in which the company can contribute to attaining the goals. The analysis showed that the following goals have the strongest links to Ovako's operations:

SUSTAINABLE DEVELOPMENT GOALS



Prioritized sustainability areas



The most significant areas are:

BUSINESS CRITICAL AREAS

- ENVIRONMENT:
  Reduced energy use, reduced emissions, efficient utilization of resources
- PRODUCTS AND SERVICES:
  Product safety, continuous development of sustainable products

> Read more on pages 28–32

FOCUS AREAS

- SUPPLIERS:
  Ensure a sustainable supply chain
- ANTI-CORRUPTION:
  Prevent corruption across the entire value chain
- EMPLOYEES, HEALTH AND SAFETY:
  Health and safety, values and culture, diversity and gender equality, skills development

> Read more on pages 33–35

FUNDAMENTAL AREAS

- HUMAN RIGHTS:
  Ensuring and respecting human rights across the entire value chain
- GOVERNANCE AND MONITORING
  Ensuring that relevant policies and other guiding documents exist and that compliance with these, as well as laws and regulations, is monitored
- SOCIAL ENGAGEMENT
  Being a responsible and committed member of the community

> Read more on pages 38–40

ENVIRONMENT

Steel products with world-leading carbon footprint

Ovako manufactures high-quality products with lower climate impact than its competitors' steel. Production is based on recycled scrap, meaning that Ovako is making a positive contribution to the circular economy.

Reducing environmental impact in a variety of ways is an ongoing effort. Helping our customers manufacture products that in turn have lower environmental impact is an important aspect of this.

Raw materials and energy are used as efficiently as possible in order to minimize the impact of the company and its products on the environment. Ovako measures and follows up several key environmental aspects that are material to our environmental permits. The most important are reported below.

Completed environmental declarations show that the carbon footprint of Ovako's steel products, from "cradle-to-gate," is only one-fifth the size of the average steel on the market.

Continuous improvements in the production process

The company is steadily reducing its environmental impact through continuous improvement of the production process. All major production units work according to or are energy-certified under ISO 50001, including regular energy surveys and measures to reduce energy use. Through these efforts, Ovako also complies with Swedish law requiring large companies to perform energy surveys. Examples in 2017 include:

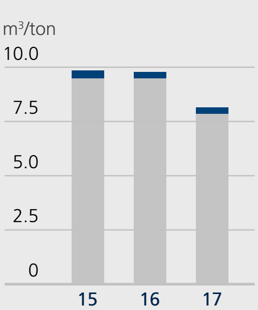
- Certain types of furnaces in Hofors have been converted from LPG to electricity and others from oil to LPG. These investments have resulted in energy, environmental and quality gains.
- Results of efforts to reduce energy use in Hällefors include a 20% reduction in district heating usage in three years. Optimization of one the heat treatment furnace has also reduced LPG use by 9.4 kg/ton, which reduced carbon dioxide emissions in normal production by more than 700 metric tons.
- Boxholm has switched from oil to LPG in one of the furnaces, resulting in lower emissions of sulfur and particles, while operations have become 16 percent more energy-efficient, which also reduces carbon dioxide emissions.
- A decision was made during the year to invest in modernization of vacuum technology for exhaust gas cleaning at Imatra, which will generate significant energy savings. Carbon dioxide emissions and water consumption will also decline.

Energy improvements have also been made through heat recovery. All major production facilities in Sweden sell excess heat to local district heating networks. The heat from water used for cooling in processes is recovered in several locations. As a result, net usage of district heating to heat these buildings has essentially been reduced to zero. Total energy use was reduced by 0.28 GJ/metric ton in 2017.

Reuse of water

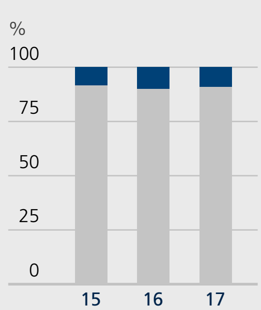
Large amounts of water are used for cooling in steel melting and rolling. Although Ovako's major production units are located in areas that are not classified as water stressed areas, the company is still working actively to achieve the most efficient possible use of water in production. Circulating systems in which water is reused

WATER USAGE



Raw water
Municipal water

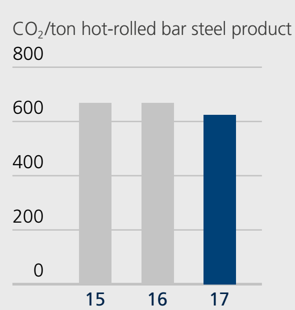
RESIDUAL PRODUCTS



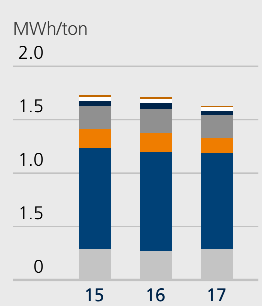
Total residuals recycled/reused
Total residuals not recycled/reused

94% of all residual products, including hazardous waste, is recycled or reused.

CO_2 EMISSIONS
from manufacturing steel products – (Cradle to Gate).



ENERGY USE



LPG, Natural gas, Diesel, Electricity, District heating, Oil, Steam are one aspect of that effort. Process water is purified in water treatment plants and tested before it is discharged. A waste water sedimentation treatment pond used for cooling and stormwater has been rebuilt in Hällefors to give it the capacity to manage extreme precipitation. Ovako also participates actively in local water conservation associations to ensure that water quality norms are not exceeded.

The major reduction in water consumption, per metric ton produced steel, in 2017 was achieved through more efficient processes.

Reduced emissions

Ovako always strives to reduce carbon dioxide emissions in its production, even though Ovako's climate impact is significantly lower than the steel produced by its competitors. The main climate-impacting emissions to air produced by Ovako are carbon dioxide from combustion, NOx from LPG furnaces, and particles from steel mills and mechanical processing. At Smedjebacken, for example, an effort has been ongoing for several years to optimize the flue gas filter from the steel mill, which has reduced emissions of particles and metals. There are filters installed at all emission sources and these are checked regularly.

Ovako's products are shipped between its facilities mainly by rail and deliveries to customers are shipped by rail, boat and truck. A continuous effort is ongoing to increase the use of rail transport and to reduce the number of shipments through co-loading.

Residual products are also produced in connection with steel manufacturing. Ovako is constantly working to find new application areas. In 2017, 94 percent of all residual products produced at Ovako were recycled or reused. For example, slag from electric arc furnaces is used in the production of concrete and asphalt. Brick from furnaces and casting systems can be recycled to a great extent and used as raw materials in new, similar applications. During the year, Smedjebacken and Boxholm worked actively to increase recycling and sorting of waste by increasing the number of categories, which was effective. Smedjebacken has also joined external recyclers in a reuse of oil project in which used oil filters can be better managed. The result is a high recovery rate, where the recovered oil is used to make motor oil, the metal is used in new metal products and the filter material produces heat through combustion.

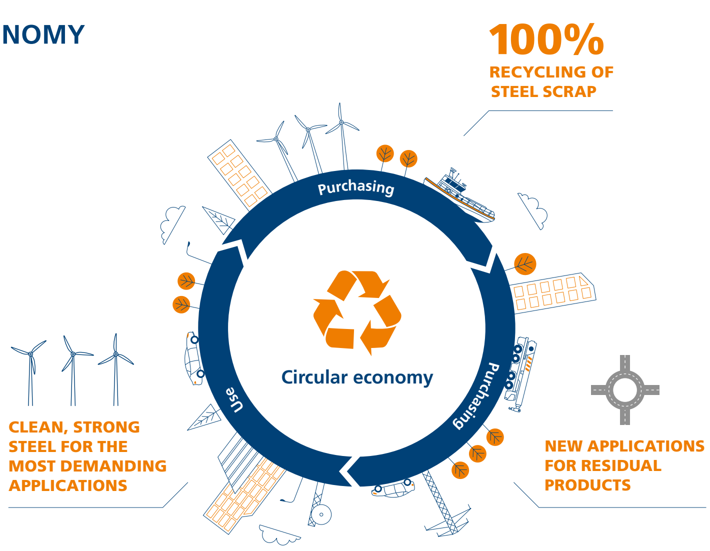
TARGETS

- Continue to lead the circular economy work by reusing or recycling at least 90% of residual products from production.
- Reduce the carbon footprint "cradle-to-gate" by 30% per metric ton of finished hot rolled steel products by the end of 2020, with 2015 as the base year.

CASE / THE STEEL CYCLE IN A CIRCULAR ECONOMY

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

To further optimize resource usage, the scrap that we use in our operations is sorted into various quality categories depending on alloy content, size and shape. This optimizes usage of the steel's alloy elements, thus requiring fewer new alloy elements to be added during production. Residual products created in manufacturing are recycled to a great extent. By working with scrap-based steel production, Ovako is minimizing its environmental impact and adapting its operations to the circular economy of the future.



STRONG ROADS WITH BY-PRODUCTS

Ovako's steel production generates significant amounts of residuals. As a driving force in the circular economy, Ovako conducts extensive development work to ensure these are used where they bring the most benefit to society.

Together with the asphalt industry, Ovako has found an almost optimal application for one of the company's by-products. Electric arc furnace slag from Ovako's steel production is used as aggregate in what is known as slag asphalt. This product has unique properties that help to lower maintenance costs and extend service life. The asphalt is used to increase the wear resistance and durability of paving at roundabout, traffic lights, in industrial areas, and in other areas with a high level of heavy traffic.

A pilot project was carried out in 2007 on a heavily laden crossing at Ovako's facility in Hofors. Prior to the application of slag asphalt the wear was so substantial that the surface had to be repaired every year, but since the new type of asphalt came into use there has been no need for repair since 2007. As a consequence, Ovako's slag is now used for large quantities of asphalt through ongoing partnerships.

HOFORS
SWEDEN

PRODUCTS AND SERVICES

Smart products that reduce environmental impact

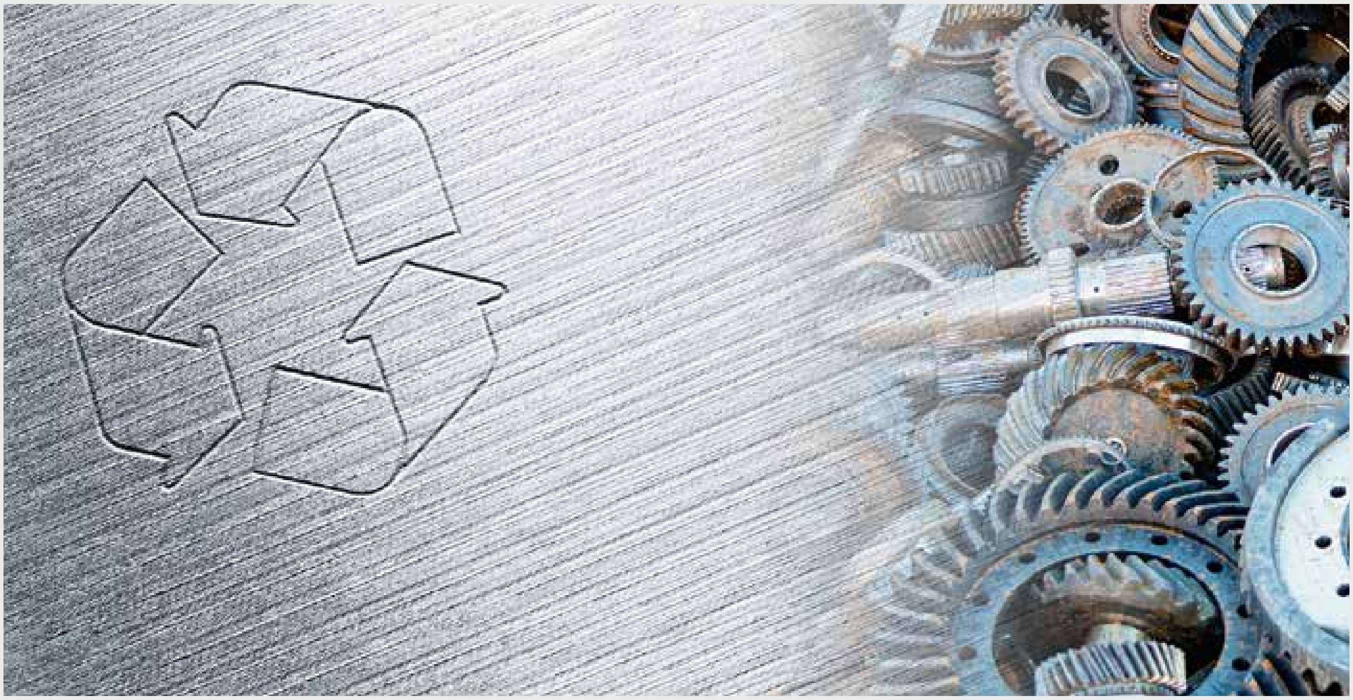
Ovako works actively with customers, suppliers and other stakeholders to reduce total environmental impact over the product life cycle. The company also cooperates with industry organizations, including Jernkontoret, aimed at achieving the joint industry vision of a sustainable steel industry by means including reducing the carbon footprint of global steel production.

Demand for climate-adapted products is continuously rising. During the year, Ovako prepared environmental declarations that report the carbon footprint of the company's products, from raw material to the point they leave the company's production facilities – from "cradle to gate." The declarations are based on life cycle analyses, which show that Ovako's products have an 80 percent lower carbon footprint than the global average for rolled steel products.

Ovako's Green Clean Steel concept is aimed at the continued development of clean steel with low environmental impact. The manufacturing process is based on steel scrap and Nordic low-carbon electricity mix. The advantages of the steel products are found both in the properties of the steel – which enable new design solutions and provide strong customer benefit in the form of lighter, stronger and more wear-resistant end products – and its environmental benefit, where the carbon footprint of steel products from Ovako is far lower than the global average.

TARGETS

- Increase number of new case examples where improved carbon footprint in customer applications has been calculated.



SUPPLIERS

A stable base of European suppliers

Ovako has a strong supplier base, with most suppliers located in Sweden, Finland and the rest of Europe. Certain materials included in production are also bought from other countries, such as China and Ukraine. In the communities where Ovako's largest plants are located, a large portion of service, maintenance and similar services are sourced from local suppliers.

Suppliers are qualified and assessed in a standardized purchasing process based on cost, quality and delivery. Whether or not suppliers are certified under ISO 9001, ISO 14001 and ISO 50001 or equivalent standards is an important aspect of the overall assessment.

Ovako has a Supplier Code of Conduct that is included in all new contracts. The Code of Conduct imposes standards on suppliers in areas including legal compliance, business ethics and anti-corruption, working conditions and human rights, health and safety, and the environment.

Ovako's evaluations are performed through supplier self-assessments on a form completed by the supplier. The self-assessment form is now going to be updated with additional aspects related to sustainability. Suppliers that supply products and services that have impact on quality are also audited on an annual basis.

The scrap that Ovako purchases is always accompanied by a certificate of origin. The certificates guarantees that the material contains what it is supposed to contain. Steel from Ovako contains no conflict minerals, and in accordance with the Code of Conduct, suppliers commit to ensuring that the materials they supply come from conflict-free areas.

TARGETS

- All suppliers categorized as medium or high risk with regard to sustainability must be evaluated and approved according to Ovako's sustainability criteria before year-end 2020.
- Ovako's Code of Conduct included in all procurement agreements before year-end 2020.

ANTI-CORRUPTION

High ethics are the foundation of honest business

Ovako does business in an ethical and honest way and has zero tolerance for all forms of corruption, bribery, anti-competitive actions and comparable conduct. Suppliers and partners are also required to prevent all forms of corruption and to comply with the policies Ovako has drafted in this area.

The objective is zero internal or external incidents related to corruption. People at risk of encountering corruption must also complete special training on the subject during 2018 and the entire business will be inventoried from a risk perspective related to corruption. Previously, executive management and certain managers in sales and marketing have been trained in how corruption can be discovered and prevented.

TARGETS

- Relevant employees must be trained and have in-depth knowledge concerning anti-corruption and bribery before year-end 2018, in accordance with the training provided with group management and executive management for sales and marketing.
- Zero confirmed incidents of corruption and bribes from external and internal sources.

EMPLOYEES, HEALTH AND SAFETY

Focus on employees

With safety as the number one priority

The safety of our employees is a prioritized matter for Ovako, and an area in which the company is always investing and looking to improve. Ovako's three largest production facilities are certified under OHSAS 18001. The long-term target is zero workplace accidents. The number of lost time injuries has been cut by more than half in the past three years.

Ovako has been running the group-wide Safety at Work program since 2015, which aims to integrate safety practices into daily operations. The next step is now in planning, where Safety at Work will be used as a platform for continued efforts in selected focus areas adapted to risks and external factors.

Creating a culture in which safety is prioritized in all situations is a key aspect of the work. Commitment and engagement among management is essential to achieving this, and managerial skills were improved during the year through safety training programs. Many employees have also participated in training initiatives oriented towards behavior, aimed at further strengthening the safety culture. Managerial conferences oriented towards safety culture have also been arranged.

Safety Week is held once a year, when even more attention is given to safety in the form of audits, special activities, information campaigns, training and the sharing of lessons learned. The business units can adjust the contents of Safety Week to optimally meet local needs.

Investments in safety are prioritized and carried out systematically throughout the company. In addition to group-wide safety improvement efforts, the business units also have tailored plans containing more specific initiatives and activities. For example, the two feeding tables with highest priority in Hällefors were improved in 2017, increasing safety and reducing the risk of hand injuries. The work to improve additional feeding tables will continue in 2018. A project to improve machine safety in Hallstahammar was also completed during the year, resulting in a significant reduction of risk.

Safety risk reporting is a key element of safety improvement at Ovako. When all employees report risks, they can be addressed. Safety improvement measures have also been stepped up as part of preventive safety efforts.

Values and culture

An open and inclusive culture, based on pride in the business and its employees, is the foundation of Ovako's operations. With its proud history and bright prospects for the future, Ovako is an important member of the community, as an employer and in other ways.

Fitness and wellness for better health

Ovako aims for all of its employees to be healthy. To achieve this, Ovako works proactively to identify signs of illness at an early stage and help them with individualized solutions.

Ovako has local health efforts in all of its locations, with a focus on leadership, health inspiration, wellness allowances, fitness opportunities and financial support for recreational clubs.

Training and skills development for the future

A great many occupations are involved in Ovako's operations, which produces demand for many different skills. This also provides a wide variety of career paths for employees and managers who want to progress, for example by switching career directions or relocating.

In addition to development of skills through daily work, training initiatives are continuously developed to meet operational skills needs. Ovako has developed mandatory e-training modules in areas including safety, fire protection and First Aid. During the year, 76% of all employees completed the modules.

There is also a special development program for managers including lectures training modules and cross-functional management conferences.

CORE VALUES

Ovako's culture is based on its three core values: innovative, responsible and skilled.

INNOVATIVE

Ovako's employees contribute to progress and new ways of thinking.

RESPONSIBLE

Ovako's employees take responsibility for their tasks and each other and act with respect for our society.

SKILLED

Ovako's employees use knowledge and collaboration to provide our customers with better solutions.

Corporate employee survey

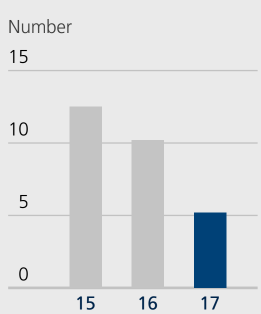
A joint employee survey covering all of Ovako was conducted for the first time in 2017. This year's results showed that employees are proud of the company and want to contribute to Ovako's success. The results also showed some areas of improvement which involves better communication, improved leadership and creating a better clarity in the company.

Diversity and gender equality

The steel industry has traditionally been male-dominated and Ovako is committed to increasing the number of women among its employees. Efforts include activities aimed at young women, where secondary school students can come to Ovako for work experience and shadow a woman employee. External recruitment firms are also instructed to always present female candidates in the recruitment process. Both men and women are encouraged to take parental leave, and Ovako pays supplementary benefits during the period. The number of female managers has increased in recent years, and women have been represented on the board and in executive management for some time now. The total percentage of female employees at Ovako is now 18 percent.

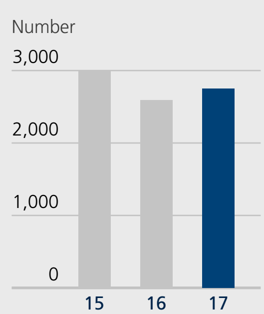
In addition to gender equality, Ovako is working actively to achieve higher diversity in relation to other factors, and does not accept discrimination of any kind. Everyone must have equal opportunities and the company has zero tolerance for all forms of discrimination and harassment.

LTIFR



Accidents with sick leave per million working hours.

RISK OBSERVATIONS



TARGETS

- Reduce the Lost Time Injury Frequency Rate (LTIFR) by more than 50% before year-end 2019, with 2016 as the base year. This is a step towards the company's long-term objective of eliminating accidents entirely and being the safest steel company in the Nordics.
- Continuous improvement of the Employee Satisfaction Index up to year-end 2020.
- Improve gender equality in the organization with the objective of having at least 25% women in managerial positions and at least 20% women in the entire organization by year-end 2020.

A WEALTH OF OPPORTUNITIES IN THE STEEL INDUSTRY

Mia Almcrantz, site manager at Boxholm, has worked in the steel industry for most of her career, with Ovako and other companies including Steeltec and SSAB Oxelösund.

"I started at Ovako in Hofors as a research engineer. After a few years, I became head of process development while continuing my research into techniques for measuring the purity of steel."

She thinks gender equality has improved since she started working in the industry, which enhances the work environment.

"A lot has happened in the industry in my time. In my very first job, I was also the first female engineer, but women are much less unusual in the industry these days. Some women might be put off because it is heavy industry, but working in the steel industry is actually hugely exciting and rewarding. There are so many career paths and opportunities and a lot of us stay for a long time, both at Ovako and in the industry."

BOXHOLM, SWEDEN

By year-end 2020, Ovako has the objective of having at least

20%

women in the entire organization

HUMAN RIGHTS

Demands for respect of human rights

Ovako is committed to respect for human rights in all areas and all situations and the company imposes stringent demands on cooperation partners to do the same. Ovako's positions on human rights and the standards imposed on suppliers are set forth in the updated Code of Conduct prepared in 2017. These standards include equal treatment, prevention of discrimination and harassment, offering market-based pay and good working conditions. Ovako condemns all forms of forced and child labor and requires its partners to ensure that it does not exist.

GOVERNANCE AND MONITORING

Ongoing efforts with policies and compliance

Ovako's Code of Conduct, which covers issues including anti-corruption and human rights, is the basis of all operations, Compliance is required of all employees. The Code of Conduct and related policies were recast during the year and will now be rolled out in operations. The goal is for all employees to be familiar with the Code of Conduct and to understand what is expected of them as individuals. An e-learning module was developed in 2017 and will be launched in 2018. All employees will take the training course in 2018.

Ovako works in accordance with the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration, the Ten Principles of the UN Global Compact and the UN Universal Declaration of Human Rights, as well as combating corruption and environmentally destructive activities.

Laws and requirements related to sustainability are a minimum level for Ovako and systematic efforts are ongoing to identify new and amended laws and take action where necessary. The company was not accused of any legal violations during the year.

There is a whistleblowing function on the Ovako intranet, where employees can anonymously report suspected violations. The function was used three times during the year, in relation to HR matters in all cases.

Continuous risk analysis

Ovako continuously evaluates the risks that may be associated with the identified significant issues and prepares action plans to address them.

EXTERNAL INITIATIVES

Ovako has signed the Worldsteel Sustainable Development Charter, thus abiding by the sustainable development policy established by the World Steel Association in 2009 and updated in 2015. The company also supports responsible mine operation and works in accordance with the guidelines issued by the Electronic Industry Citizenship Coalition and the Global e-Sustainability Initiative. Ovako is also a member of both the Swedish and Finnish steel industry associations and its European counterpart, Eurofer. Within the framework of these collaborations, Ovako participates in efforts to promote environmental and other sustainability-related topics.

Ovako's Code of Conduct is supported by policies in several areas including environment, health and safety, HR, prevention of bribery and corruption, quality and risk management.

The main risks connected to sustainability identified in 2017 were:

SIGNIFICANT ASPECT	RISK	MANAGEMENT
EMPLOYEES, HEALTH AND SAFETY	Employee health and safety *The risk of serious accidents and illnesses that affect employees, visitors or contractors.*	Ovako introduced the Safety at Work program in 2015, which has been implemented throughout the organization. The aim is to create a culture in which safety is prioritized in all situations. Ovako is committed to helping its employees stay healthy, both while they are with the company and afterwards, and works constantly to identify signs of illness in employees to enable early intervention.
	Opportunities to recruit the right skills *The risk of being unable to continue operating a value-creating business due to skills shortages in the locations where Ovako operates.*	The company takes a proactive approach by engaging with schools and other education providers to ensure that future skills will be available in the locations where the company operates.
	Diversity and gender equality *The risk of limiting and missing current and future business opportunities due to an organization that is too homogeneous.*	The steel industry has traditionally been male-dominated and Ovako is working continuously to increase the number of women in the workforce. Targeted activities are carried out in relation to students, for example, in which young women can take field trips to Ovako and shadow a woman employee.
ANTI-CORRUPTION	Corruption and bribery *The risk that employees will engage in criminal activity that has long-term impact on the company's financial position and brand.*	Ovako's Code of Conduct and Anti-corruption Policy address anticorruption and human rights. All employees at risk of encountering corruption and bribery must complete special training on the subject. Executive management and certain managers in sales and marketing have already been trained in how corruption can be discovered and prevented.
HUMAN RIGHTS	Respect for human rights *The risk of non-compliance with internationally established human rights in Ovako's value chain. This has been assessed as most relevant to the supply chain.*	Ovako is committed to respect for human rights in all areas and all situations and the company imposes stringent demands on collaborative partners to do the same. Ovako's positions on matters including human rights are set forth in the Supplier Code of Conduct. The scrap that Ovako purchases is always accompanied by a certificate of origin. The certificate guarantees that the material contains what it is supposed to contain. Steel from Ovako contains no conflict minerals, and in accordance with the Code of Conduct, suppliers commit to ensuring that the materials they supply come from conflict-free areas.
ENVIRONMENT	Negative environmental impact *The risk that Ovako's operations or those of suppliers will cause serious environmental damage, locally or regionally.*	All Ovako operations have the necessary permits and licenses and work proactively and long-term to renew the same as required. Robust monitoring systems are in place and Ovako makes continuous investments to reduce the company's environmental impact. Ovako has a Supplier Code of Conduct that is included in all new contracts. The Code of Conduct imposes standards on suppliers in areas including legal compliance, business ethics and anti-corruption, working conditions and human rights, health and safety, and the environment.

SOCIAL ENGAGEMENT

A positive force in the community

Ovako endeavors to increase benefit to society across the entire value chain and the company's social engagement can be seen in the local community.

Ovako is one of the biggest employers in all of its major production locations and is thus a key actor in the local community. Accordingly, it is important to the company to get involved in developing these communities. Ovako buys a large portion of its required services, including maintenance and the like, from local suppliers and contractors.

Ovako gets involved in several ways and works closely with various stakeholders where the company operates. This involves, for example, contributing to maintaining a vibrant community where people are happy and want to stay. This not only benefits current Ovako employees, it helps make sure there will be a local workforce in the future.

Ensuring the availability of future workers is one of Ovako's particular focus areas in terms of local engagement. The company devotes tremendous energy to cooperating with primary and secondary schools, higher education institutions and other education providers. Ovako is working with local education providers in several locations to secure future skill needs.

In order to contribute to vibrant communities, Ovako also supports local sports clubs and the like in various ways, and works closely with local authorities in several areas. The company also cooperates with other public authorities concerning infrastructure and similar matters.

THE AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

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

Engagement and responsibility

The Board of Directors is responsible for that the statutory sustainability report on pages 26–40 has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR´s auditing standard RevR 12 The auditor´s report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

A statutory sustainability report has been prepared.

Stockholm den 12 mars 2018
Ernst & Young AB

Heléne Siberg Wendin
Authorized Public Accountant

Ovako offers world-leading products for customer-tailored applications. During 2017, 783 kton steel products was sold with a significantly lower carbon footprint than the global average.

CONTENTS

Stronger financial position and positive outlook

Ovako continued to strengthen its financial position during the year. Our focus on more effective sales efforts and a lower cost base delivered results.

Revenue increased by 18 percent and EBITDA margin before restructuring costs rose to 11 percent compared to 7 percent previous year. As of December, the order book was significantly higher than in the preceding year.

Industrial activity among our customers rose during the year and Ovako also clearly gained market shares through a more effective sales process. Several commercial initiatives have bolstered the volume and profitability trends, including better price management and clear-cut segment strategies.

We increased manned capacity at several production facilities during the year to meet the higher demand. Nevertheless, we continued to deliver cost savings and our restructuring program remains ahead of schedule, as a result of the solid efforts across the entire organization. Altogether, the program has cut our structural cost level (before inflation) by EUR 43 million (since 2015), including EUR 20 million in 2017. The goal for the entire restructuring program has now been adjusted upwards by an additional EUR 5 million to EUR 55 million by the end of 2018. As we lower the cost base and boost production capacity, we are building a higher degree of flexibility into the organization that is strengthening Ovako's competitiveness and earnings capacity.

Working capital increased due to higher business volumes and rising prices for steel scrap and alloy elements. The working capital cycle has, however been stable, with a positive trend compared to earlier years. The rate of capital investment has remained stable in recent years and was slightly lower in 2017. In addition to investments in maintenance, we are continuing to invest in improving safety at all Ovako workplaces, in additional environmental measures and lowering the CO_2 footprint, and in strengthening our competitive advantage.

Ovako's stronger financial position made it possible to refinance our senior secured notes ahead of schedule. In so doing, we secured the group's financing for a further five years, while substantially lowering annual interest expenses.

"The order book grew significantly in 2017

The costs of certain supplies, electrodes in particular, have recently increased, which is impacting the entire steel industry. We have maintained ongoing dialogue with our customers on this issue, who have expressed understanding that this implies higher steel prices. As a result, we will be able to fully compensate for these increased costs.

The year ahead looks exciting based on our strengthened competitive position and an improved economic outlook. Our updated strategy is focused on continuing to drive operational excellence, commercially and in terms of costs, grow in key segments and build a platform for a future of sustained, profitable growth. We remain optimistic about the future.

Johan Ryrberg
CFO

Statutory administration report

The Board of Directors and CEO of Ovako Group AB (company registration no. 556813-5361) hereby submit their annual report for the operations of both the company and the group during 2017.

Operations

Ovako is a leading European manufacturer of engineering steel and manufactures high-tech steel solutions for customers in the bearing, transportation and manufacturing industries. Production is based on recycled scrap and comprises steel bars, tubes, rings and components.

Headquartered in Stockholm, Ovako has production facilities in nine locations. The company is represented in more than 30 countries and has sales offices in Europe, North America and Asia.

Operations are divided into three main production flows: Hofors–Hällefors, Smedjebacken–Boxholm and Imatra. These production flows result in a broad customer offering, enabling Ovako to provide solutions based on several different needs.

Ovako has a loyal and diversified base of more than 2,000 customers, many of which are premium manufacturers in their niches. The company has been working with many of its customers for a very long time. For example, Ovako has been partnering with its ten largest customers for more than 20 years.

Ovako's steel solutions are used in a broad array of products and production processes in many different end-customer industries such as general engineering industry, trucks and yellow goods, passenger cars, mining, oil and gas industries and energy production.

All Ovako units are certified under the international standard for environmental management systems, ISO 14001. 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 occupational health and safety management system.

Business concept: Ovako works closely with its customers in the transport and manufacturing industries, and selectively enters into deep partnerships with major customers on a global basis. An offering based on delivery performance, advanced application development and industry-leading quality makes Ovako the foremost supplier of engineering steel in Europe. In order to optimally meet customer needs, Ovako applies a decentralized and flexible approach, with short decision paths.

Vision: "Innovative steel for a better engineered future"
Ovako's vision sets the direction for the ongoing work of the organization: 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 tomorrow. Integrating the core values in our daily work is an important aspect of our capacity to attain the vision. Ovako's core values are:

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.

Update of strategy and financial targets

Ovako updated its strategy during the year to ensure a sustainable and successful business over the long term. Ovako's strategy is based on three areas of development aimed to drive operational excellence, grow in key segments and build a platform for the future. The financial targets, to be achieved by 2020, are

- Sales volume above 850 thousand metric tons per year
- EBITDA margin above 13 percent
- Net debt (excluding pension liabilities) to equity ratio below 40 percent (which in the financial plan, assuming the financial targets are met, corresponds to net debt (excluding pension liabilities) in relation to EBITDA below 1).

Ownership structure

The group in its present configuration was formed on 29 September 2010 through acquisition of all shares in the Ovako companies within the divisions Bar, Bright Bar and Tube and Ring. The parent company, Ovako Group AB, is wholly owned by Triako Holdco AB, which is wholly owned by Oven Luxco Sarl. The group is controlled by Triton Fund III and Triton Fund III F&F LP, which together control, directly and indirectly, 84.44 percent of the equity in the Ovako group. Ovako Group AB owns 100 percent of equity in Ovako AB (publ) which, directly and indirectly, owns 100 percent of equity in the group's subsidiaries.

Market

Ovako operates in the market for long, low-alloy steel products, i.e., 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 several global niches. Ovako's competitive advantage is based on its ability to manufacture specialized products that generally create more benefit for customers without increasing their costs.

Industrial production in Europe drives Ovako's development. The company is one of the first links in a relatively long value chain. End customers are found primarily in the automotive industry, construction equipment, the oil, gas and mining industries, energy production and other engineering industry.

The trend has been increasingly strong in industrial production since the end of 2016, bringing higher demand for steel products. After some years of low growth, global demand for steel rose in 2017. Demand for tailored and customized products remains high. Few companies are able to offer the same type of products or match Ovako's high quality, and it is in these niches that Ovako is performing best, and where it sees the greatest potential for the future.

Geographically, development was positive during the year in the important Scandinavian and Finnish markets. Growth was strong growth in Eastern Europe and Asia, including substantial increases in sales of bearings to the mining industry in Asia during the year. Toward the end of the year we noted positive market sentiment in most of our segments, with a general increase in demand and rising prices as a result.

Key data	**2017**	2016	2015	2014	2013
Sales volumes, thousand metric tons	783	708	681	697	675
Net sales, EURm	921.3	780.8	834.1	862.1	849.9
EBITDA before restructuring costs, EURm	99.6	56.8	47.5	68.5	50.2
EBITA before restructuring costs, EURm	68.5	24.9	16.2	38.7	22.5
EBIT before restructuring costs, EURm	59.7	15.9	7.3	15.3	3.1
EBITDA, EURm	96.3	49.9	43.5	68.5	46.5
EBITA, EURm	65.2	18.0	12.2	38.7	18.8
Operating profit (EBIT), EURm	55.7	9.0	0.6	14.7	–0.6
Adjusted EBITDA margin, %	*10.8*	*7.3*	*5.7*	*7.9*	*5.9*
Adjusted EBITA margin, %	*7.4*	*3.2*	*1.9*	*4.5*	*2.6*
Adjusted EBIT margin, %	*6.5*	*2.0*	*0.9*	*1.8*	*0.4*
EBITDA margin, %	*10.5*	*6.4*	*5.2*	*7.9*	*5.5*
EBIT margin, %	*7.1*	*2.3*	*1.5*	*4.5*	*2.2*
EBIT margin, %	*6.0*	*1.2*	*0.1*	*1.7*	*–0.1*
Profit (-loss) for the year, EURm	15.2	–16.7	–19.1	–20.6	–22.0
Cash flow from operating activities, EURm	38.5	34.7	25.2	65.8	19.8
Net debt/equity ratio, excl. pension liabilities, %	219	218	183	158	161
Return on capital employed (ROCE), %	11	2	0	3	0
Employees at the end of the period, FTE	3,040	2,773	2,905	2,925	2,995

The table of key performance indicators (KPIs) contains data taken directly from the financial statements and information that can be derived from these, as well as statistical information. A reconciliation between financial KPIs and the financial statements, including those KPIs that are not defined under IFRS, is presented on page 96, and definitions of all KPIs can be found on page 97. KPIs are presented as a supplement to the financial statements to facilitate the understanding of the group's performance and financial position over time Ovako uses EBITA as a performance measure to show the underlying profitability of operations before interest and tax, because amortizations of surplus values in real estate that are charged against EBIT do not correspond to new investments. These amortizations will decline successively after 2020 and will end in 2024. Ovako uses EBITDA to provide a picture of the capacity of the business to generate earnings and cash flow, over time, before investing and financing activities.

Comparatives for prior periods have been adjusted due to restatement of deferred tax. The adjustments are further described in note 31 and affects reported tax cost, net result, equity, deferred tax liability and key ratios that are calculated using these measures.

Sales and profit

Ovako demonstrated clear operational and financial improvements in 2017. Sales increased by 18 percent and EBITDA margin before restructuring costs rose to 11 percent compared to 7 percent previous year. As planned, investments were maintained at a stable level and cash flow was further improved.

Order intake (measured as volume) increased by 24 percent compared to the previous year. Sales volume amounted to 783 (708) thousand metric tons and revenue to EUR 921 (781) million. Sales volume was 11 percent higher than in the previous year, and revenue rose by 18 percent. Higher raw materials prices are the main reason behind the higher increase in revenues relative to sales volume, but a better product mix and prices also contributed to the greater increase.

Ovako's crude steel production volume (i.e. production in the steel mills but prior to further processing) was 11 percent higher than in the previous year and amounted to 1,014 (915) thousand metric tons.

The workforce has increased by about 270 since the beginning of the year, due to higher manned capacity. A total of 39 full-time employees left the company during the year within the framework of the restructuring program, primarily due to the closure of the unit in Forsbacka, which was completed in the spring.

EBITDA before restructuring costs amounted to EUR 100 (57) million, corresponding to an EBITDA margin of 11 (7) percent. Sales volume, price and mix effects had a positive impact on earnings of EUR 36 million compared to the previous year, after adjustment for the costs of capacity increases. The restructuring program contributed EUR 20 million in reduced fixed and variable costs, before cost inflation of EUR 9 million. Timing effects of scrap and alloy prices affected earnings by EUR –2 million. Exchange rate fluctuations had no material effect on earnings compared to the previous year.

EBITA before restructuring costs amounted to EUR 69 (25) million, including depreciation and amortization of EUR 31 (32) million. EBIT amounted to EUR 56 (9) million after restructuring costs of EUR 3 (7) million and amortization of surplus values and impairments related to the restructuring program of EUR 10 (9) million.

Net financial expenses for the period amounted to EUR –40 (–23) million, and were affected by non-recurring effects of EUR –13 million and currency effects of EUR –1 (3) million. The non-recurring effects relate to redemption costs of EUR 5 million for early redemption of senior secured notes, reversal to profit and loss of financing costs of EUR 3 million arising from the previously issued senior secured notes, and impairment of the holding in French Ascometal by EUR 5 million.

The holdings in Ascometal were impaired after the company applied for bankruptcy protection in November 2017. Management has determined that a sale of the holding in the company would not recover the EUR 5 million paid for the shares.

Profit before tax amounted to EUR 16 (–14) million, and net profit was EUR 15 (–17) million. Tax expense has been impacted by EUR 5 (–5) million due to change in deferred tax attributable to receivables denominated in EUR in Swedish group companies with EUR as the presentation currency and where the tax value is different from the carrying value of the receivable. See note 31 for how comparatives for prior periods have been adjusted due to deferred tax relating to such receivables.

Cash flow

Cash flow from operating activities amounted to EUR 39 (35) million. The cash flow includes payment of restructuring costs of EUR 4 (8) million. Due to the higher demand and production rate throughout the fourth quarter, working capital was not freed up as in previous years in the fourth quarter. In previous years, the production rate and deliveries were lower during the latter part of the period. However, the average trade working capital in relation to revenue decreased to 23.6 percent (25.1).

Borrowing costs of EUR 7 million for the new senior secured notes issue were paid as of the reporting date. Together with redemption costs of EUR 5 million for the earlier loan, these costs are reported as other financing activities in the statement of cash flows.

Financial position

A new five-year senior secured notes issue of EUR 310 million at a fixed interest rate of 5.0 percent has replaced the previously issued senior secured notes of EUR 300 million at 6.5 percent interest. As of the reporting date, Group borrowing thus amounted to EUR 310 (300) million. As at the balance sheet date, the notes were not yet listed, but the listing process was completed in March 2018.

Interest-bearing liabilities after deduction of financing costs, allocated across the term of the notes and recognized as a deduction from the liability on the balance sheet, amounted to EUR 303 (295) million. Financing costs attributable to the previous senior secured notes that were redeemed prematurely have been transferred to profit and loss and charged to net financial expense in the amount of EUR 3 million. Net debt (excluding pension liabilities) amounted to EUR 251 (246) million.

Equity amounted to EUR 114 (113) million, and the net debt/equity ratio (excluding pension liabilities) was 219 (218) percent. Equity was affected by EUR –8 million arising from translation differences, and EUR –7 million arising from changes in the assumptions used upon revaluation of pension liabilities, via other comprehensive income. The negative translation differences are attributable to changes in the EUR/SEK exchange rate. These have greater impact on equity than in previous years because the larger operational companies in Sweden have, effective 2017, reverted to using SEK as their presentation currency (previous EUR). (This change has no effect on operating results or cash flow.)

Ovako Group AB has provided a group contribution of EUR 12.1 million and a dividend of EUR 88.0 million (as decided by an extraordinary general meeting) to Triako Holdco AB. At the same time, the company received an unconditional shareholder contribution of EUR 100.1 million from Triako Holdco AB.

The group's liquidity buffer of EUR 90 (88) million comprises cash and cash equivalents of EUR 52 (49) million and unutilized contracted loan commitments of EUR 38 (39) million.

Investments

Net investments in tangible and intangible assets amounted to EUR 32 (35) million.

Employees

There were 3,040 (2,773) full-time equivalent employees at year-end. The workforce percentages in Sweden and Finland, where most of the group's production facilities are located, were 73 percent (73) and 21 percent (21), respectively. The workforce percentage in other countries was 6 percent (6). Information on the remuneration of senior executives is provided in Note 28.

Ovako prioritizes safety and health and works actively to reach completely accident-free workplaces.

Research and development

Research and development costs, which are recognized in profit and loss, were EUR 5.1 (4.2) million. This includes only work related to dedicated product and materials development and excludes process development carried out by individual units.

R&D at Ovako is pursued in networks based on dedicated clusters, specialized in steel manufacturing, machining and product properties. The clusters are cross-organizational and bring together employees from various geographical and functional units focused on developing materials, production processes and applications. R&D is also carried out in close partnership with customers in order to promote the development of new products and solutions that meet customer needs and preferences as regards steel properties, product performance, service and technical support.

Concentration on sustainability and new technology is a key component of development. Improved control of the company's own processes can reduce the use of both energy and raw materials. The effort to develop stronger, cleaner materials also results in products that consume less energy, which by extension has positive environmental impact.

Legal disputes

As described in Ovako's annual reports for 2015 and 2016, the tax authority in Finland has sought to limit the deductibility of interest expense on loan from Ovako Finland Oy Ab's Swedish parent company Ovako AB (publ). The authority has expanded its previous demand to limit the deductibility of interest expenses for the years 2010–2013 to also apply to the years 2014–2016. The notice of amended tax assessment includes a demand for payment of approximately EUR 6.1 million (including interest and penalties) and the total demand now amounts to EUR 15.6 million. In consideration of generally accepted practices for interest deductions in Finland during the aforementioned period and after consultation with external tax lawyers, Ovako has, as before, appealed the tax authority´s demands. Until the appeal has been finally determined, Ovako will not have to comply with the demand for payment. Ovako's opinion is that the company's position is correct and consequently no provision has been made in the accounts for the amount in dispute.

Risks and risk management

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

Ovako's financial development and performance are affected by numerous 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.

Market-related risks

Changes in demand

Ovako's underlying market is cyclical and the consequences of weak demand may include lower sales volumes and/or falling market prices. The process of identifying and assessing risks and deciding how and to what extent risks should be addressed is a priority within the group. Ovako has implemented cost reduction programs to reduce structural costs and thereby achieve satisfactory results at lower volumes. Ovako has also increased its efforts to gain market share, which ensures relatively higher volumes during times of recession.

Greater competition

Ovako operates in a competitive market and inability to maintain the company's position could result in loss of market shares and thus lower earnings.

Operational risks

Operational downtime

Steel manufacturing involves a wide array of processes. Disruptions in one or more of these processes can have serious knock-on effects in other process streams. Downtime caused by e.g., shipping problems or process disruptions can be very costly. These risks are mitigated by optimizing raw materials inventories, work in progress and finished inventories. Preventive and focused maintenance activities and opportunities to shift production between units further mitigate operational risks. Ovako also carries insurance that minimizes costs in the event of damage and disruption.

All plants have local emergency plans regarding, for example, managing sudden interruption of operations due to accident or fire.

Research and development

Ovako's success depends upon a leading-edge process of innovation where new applications and new products are developed, often in close partnership with customers.

Opportunities to recruit the right skills

The business and its continued development are dependent upon access to the right skills. Future recruitment needs are an area of special focus and a key aspect of Ovako's commitment to the local community. The company is taking a proactive approach, for example, by engaging with schools and other education providers to ensure that future skills will be available in the locations where the company operates.

Employee health and safety

Ovako's Safety at Work program has been implemented throughout the organization. The aim is to create a culture in which safety is prioritized in all situations. Ovako prioritizes safety and health and works actively to reach completely accident-free workplaces.

Corruption and bribery

Ovako's Code of Conduct addresses issues including anticorruption and human rights. Where necessary, the company has prepared local anticorruption policies. All employees at risk of encountering corruption and bribery are provided special training on the subject.

Negative environmental impact

All Ovako operations have the permits and licenses required under environmental law in the country of operation. Robust monitoring systems are in place and Ovako makes continuous investments to reduce the company's environmental impact. In Sweden, operational permits and environmental conditions applicable to the larger units are determined by the Land and Environment Court. Operational permits for the smaller units are considered and issued by county environmental permit offices. Conditions for Ovako Imatra are determined by the Finnish Regional State Administrative Agency.

These permits regulate matters including production levels, emissions to air and water, noise levels, management of intermediate storage and landfill deposits. All units in the group operate in compliance with their operational permits. All units have environmental damage insurance, as required by law. The environmental permits for operations in Smedjebacken and Hofors were renewed in 2015 and the environmental permit for the operations in Imatra, Finland, was renewed in 2014.

Emission credits

Management is responsible for managing any emissions credits deficits or surpluses by means of external trading with approved counterparties. There was no emissions trading during the year.

Financial risks

The group is exposed to financial risks including market risks (including currency risk), liquidity and refinancing risks and credit and counterparty risks. The group's finance policy, as adopted by the board of directors, provides guidance on managing financial risks. The purpose of the policy is to establish general financial targets, allocation of responsibilities and threshold limits in respect of financial risks. An addition aim is to describe appropriate actions 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 must not to engage in hedging transactions or financial transactions that are unrelated to operating activities or can 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.

Raw materials price risks

Surcharges are applied to steel 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. In a normal year, there are limited positive and negative effects on earnings because the price to the customer is not fully aligned with the price of the material, since the time between purchase and sale may vary, for example depending on the type of product and its lead time in production.

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

To mitigate volatility in electricity prices 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 issued by the board of directors. See Note 23 Financial risks for further information about electricity price risks and hedges.

Sustainability reporting

In accordance with chapter 6, § 11 of the Swedish Annual Accounts Act, Ovako has elected to prepare the statutory sustainability report separately from the annual report. The sustainability report was submitted to the auditor for review simultaneously with the annual report. The sustainability report is included on pages 26–40 in this printed document.

Events during the year

In May, Ovako launched the M-Steel Calculator, a digital tool based on the company's Steel Navigator platform, which guides customers in identifying the right machine settings based on steel properties and cutting tools. The M-Steel Calculator also allows customers to compare tool life and cutting speeds between M-Steel® from Ovako and conventional steel.

In September, Ovako introduced a new innovative steel family that challenges traditional steel categorizations – Hybrid Steel. It offers properties of tool steel, maraging steel and stainless steel, combined with the production economy of engineering steel. It is set to enable customers to achieve exceptional performance and help reduce production costs.

In December, Ovako published climate declarations, outlining the carbon footprint rendered by the company's products from cradle to gate. The declarations help clarify that the CO_2 footprint of Ovako's bar steel products is approximately 80 percent lower than the world average for rolled steel products.

Ingalill Östman joined the Board of Directors in June. Ingalill Östman is Director Corporate Communications at Castellum AB and has long industry experience, including member of SKF's Group Management for seven years and several leading positions within ABB.

Oskari Eskola and Nizar Ghoussaini have resigned from the Board of directors, in October and December, respectively.

Erik Bohman was appointed new Business Unit President of Ovako Hällefors. Erik Bohman has worked at Ovako since 2011, most recently in charge of Cromax. Mathias Tillman, previously Business Unit President of Ovako Hällefors, is hereafter focusing only on his responsibilities as Ovako's EVP Group Sales.

Events after the reporting date

In January Ovako launched its Heat Treatment Guide, the first digital tool on the market to enable customers to calculate the mechanical properties of a selected steel after heat treatment. This will save the customer time and money by offering a digital alternative to physical testing.

Tore Bertilsson was appointed vice chairman of the board of directors on 1 February 2018. Bertilsson has many years of industrial experience in leading positions and directorships. Among other accomplishments, he was a member of the executive management at SKF for 24 years and served as the company's CFO and Executive Vice President until 2013.

Short-term outlook

In light of continued high industrial activity among our customers, increased manned capacity in several of our production flows and a strong order book, we expect sales volume in the first quarter 2018 to be higher than in the same period last year.

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 2017 (2016). Revenues consist of interest on receivables from subsidiaries. Operating expenses consist primarily of directors' fees. The operating loss amounted to EUR –0.3 (–0.2) million and net profit was EUR 9.3 (1.1) million. The parent company has assets of EUR 227 (205) million and equity of EUR 213 (192) 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	203,981,941
Profit for the year, EUR	9,348,177
Total	**213,330,118**

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

Consolidated income statement

EURm	Note	2017	2016
Revenue	2,3	921.3	780.8
Cost of goods sold	3,4	–807.5	–716.1
GROSS PROFIT		**113.8**	**64.7**
Selling expenses	3,4	–30.9	–30.1
Administrative expenses	3,4	–32.1	–28.6
Other operating income	5	4.9	3.0
OPERATING PROFIT		**55.7**	**9.0**
Financial income	6	0.2	3.3
Financial costs	7	–39.9	–26.4
Share in profit of associates	11	0.0	0.0
PROFIT/LOSS BEFORE TAX		**16.0**	**–14.1**
Taxes[1)]	8	–0.8	–2.6
PROFIT/LOSS FOR THE YEAR[1)]		**15.2**	**–16.7**
Profit/loss for the year attributable to owners of the parent[1)]		15.2	–16.7
Earnings per share before and after dilution, EUR[1)]	18	304	–334

1) Comparatives have been adjusted due to restatement of previously reported deferred tax, refer to Note 31

Consolidated statement of comprehensive income

EURm	Note	2017	2016
Profit/loss for the year[1)]		**15.2**	**–16.7**
Items that will be reclassified as profit or loss			
Exchange differences	18	–8.1	–0.6
Cash flow hedges	18	–2.6	5.9
Tax attributable to cash flow hedges	14	0.6	–1.3
		–10.1	4.0
Items that will not be reclassified as profit or loss			
Actuarial gains and losses on pension obligations, net	19	–7.6	–9.3
Tax attributable to actuarial gains and losses on pension obligations	14	1.1	2.0
		–6.5	–7.3
Other comprehensive income for the year, net of tax		–16.6	**–3.3**
Total comprehensive income for the year[1)]		**–1.4**	**–20.0**
Comprehensive income for the year attributable to owners of the parent[1)]		–1.4	–20.0

1) Comparatives have been adjusted due to restatement of previously reported deferred tax, refer to Note 31

Consolidated balance sheet

EURm	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	297.5	311.5
Intangible assets	10	8.9	9.8
Investments in associates	11	0.1	0.1
Other non-current financial assets	12,13	1.8	6.8
Other non-current receivables	13	0.0	0.1
Derivative assets	13	0.4	0.2
Deferred tax assets	14	14.1	15.7
Total non-current assets		**322.8**	**344.2**
Current assets			
Inventories	15	233.3	201.2
Trade receivables	13,23	113.0	85.7
Other current receivables	13,16	20.5	20.0
Current tax assets		0.3	1.2
Derivative assets	13	0.5	1.5
Cash and cash equivalents	13,17	52.4	49.2
Total current assets		**420.0**	**358.8**
TOTAL ASSETS		**742.8**	**703.0**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	18	0.0	0.0
Reserves	18	–12.5	–2.4
Retained earnings[1)]		126.8	115.4
Total equity attributable to owners of the parent[1)]		**114.3**	**113.0**
Non-current liabilities			
Non-current interest-bearing liabilities	13,21	303.0	295.0
Derivative liabilities	13	2.5	4.3
Deferred tax liabilities[1)]	14	33.4	41.6
Provisions for pensions and similar obligations	19	80.3	74.8
Other provisions	20	1.6	2.9
Other non-current liabilities	13	0.4	0.3
Total non-current liabilities[1)]		**421.2**	**418.9**
Current liabilities			
Derivative liabilities	13	5.2	1.7
Trade payables	13	133.5	109.4
Current tax liabilities		0.7	0.0
Provisions	20	1.6	2.6
Other current liabilities	13,22	66.3	57.4
Total current liabilities		**207.3**	**171.1**
TOTAL EQUITY AND LIABILITIES		**742.8**	**703.0**

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

1) Comparatives have been adjusted due to restatement of previously reported deferred tax, refer to Note 31

Consolidated cash flow statement

EURm	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		55.7	9.0
Non-cash adjustments:			
Depreciation, amortisation and impairment		40.6	40.9
Other adjustments	24	2.1	4.1
Cash flows from operations before changes in working capital		**98.4**	**54.0**
Changes in working capital:			
Changes in trade and other current receivables		–33.5	–9.4
Changes in inventories		–38.1	–12.0
Changes in trade and other current payables		39.6	33.0
Changes in provisions		–6.2	–8.4
Cash flows from operations before interest and tax		**60.2**	**57.2**
Interest received		0.2	0.6
Interest paid		–21.8	–21.8
Income tax paid		–0.1	–1.3
Cash flows from operating activities		**38.5**	**34.7**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangible assets	10	–0.4	–1.6
Acquisition of property, plant and equipment	9	–33.9	–32.7
Sale of property, plant and equipment		2.3	—
Cash flows from investing activities		**–32.0**	**–34.3**
Cash flows before financing activities		**6.5**	**0.4**
CASH FLOWS FROM FINANCING ACTIVITIES	21		
Repayment of borrowings		–300.0	—
New borrowings		310.0	—
Other financing activities		–12.1	—
Cash flows from financing activities		**–2.1**	**—**
Increase/decrease in cash and cash equivalents		**4.4**	**0.4**
Cash and cash equivalents at 1 January		49.2	49.1
Translation differences in cash and cash equivalents		–1.2	–0.3
Cash and cash equivalents at 31 December		**52.4**	**49.2**
Liquidity buffer including non-utilised credits	**21**	**90.4**	**88.0**

Consolidated statement of changes in equity

2017		Attributable to owners of the parent			
EURm	Note	Share capital (Note 18)	Reserves (Note 18)	Retained earnings	Total equity
Balance at 1 January 2017 adjusted	**31**	**0.0**	**–2.4**	**115.4**	**113.0**
Comprehensive income					
Profit/loss for the year		—	—	15.2	15.2
Translation differences	18	—	–8.1	—	–8.1
Cash flow hedges, net of tax	18	—	–2.0	—	–2.0
Actuarial gains and losses on pension obligations, net of tax	19	—	—	–6.5	–6.5
Total other comprehensive income		**—**	**–10.1**	**–6.5**	**–16.6**
Total comprehensive income		**—**	**–10.1**	**8.7**	**–1.4**
Transactions with shareholders					
Group contribution, net of tax[1)]		—	—	–9.4	–9.4
Dividend		—	—	–88.0	–88.0
Unconditional shareholder contribution		—	—	100.1	100.1
Balance at 31 December 2017		**0.0**	**–12.5**	**126.8**	**114.3**

1) Tax on group contribution recognised in profit and loss amounts to EUR 2.7 million

2016		Attributable to owners of the parent			
EURm	Note	Share capital (Note 18)	Reserves (Note 18)	Retained earnings	Total equity
Balance at 1 January 2016		**0.0**	**–6.4**	**141.3**	**134.9**
Correction	31	—	—	–1.9	–1.9
Balance at 1 January 2016 adjusted		**0.0**	**–6.4**	**139.4**	**133.0**
Comprehensive income					
Profit/loss for the year		—	—	–16.7	–16.7
Translation differences	18	—	–0.6	—	–0.6
Cash flow hedges, net of tax	18	—	4.6	—	4.6
Actuarial gains and losses on pension obligations, net of tax	19	—	—	–7.3	–7.3
Total other comprehensive income		**—**	**4.0**	**–7.3**	**–3.3**
Total comprehensive income		**—**	**4.0**	**–24.0**	**–20.0**
Balance at 31 December 2016 adjusted		**0.0**	**–2.4**	**115.4**	**113.0**

Notes

NOTE 1 Summary of significant accounting policies

General information

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

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

The annual report and consolidated financial statements for the financial year ending 31 December 2017 were authorised by the Board of Directors for publication on 9 March 2018. The consolidated and parent company financial statements will be presented to the annual general meeting for adoption on 24 April 2018.

Changes to accounting policies 2017

The accounting policies applied are the same as those applied in the consolidated annual accounts for 2016. No new or revised IFRSs entering into force during 2017 have had any material effect on the group. Disclosure requirements in IAS 7 Statement of cash flow has changed and includes information on changes in liabilities attributable to financing activities. Information on this is provided in note 21.

Basis of preparation

The consolidated financial statements for the 2017 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 2017. Recommendation RFR 1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board has also been applied.

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

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

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

Uncertainty related to judgements in the statements

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

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

Impairment testing

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

Pension benefit assumptions

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

Valuation of inventories

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

Dispute

The tax authority in Finland has sought to limit the deductibility of interest expenses. The company has not deemed it necessary to make any provision for this potential cost, refer to the statutory administration report and note 30 for further comments.

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 rate gains and losses arising upon translation are recognised in profit and loss. Exchange rate gains and losses related to trade receivables or trade payables are treated as adjustments to the respective item and included in operating profit. Exchange rate differences related to financing are included net in finance income and expense. Exchange rate differences arising on translation of provisions for pensions in the Swedish subsidiaries that had EUR as their functional currency until 2016 but that finance a portion of their pension commitments in SEK through the PRI system were also treated as financial income or expense (from 2017 the corresponding translation difference is recognised in other comprehensive income). 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:	
	2017	2016	2017	2016
SEK	9.8438	9.5525	9.6351	9.4689
GBP	0.8872	0.8562	0.8767	0.8195
USD	1.1993	1.0541	1.1297	1.1069
PLN	4.1770	4.4103	4.2570	4.3632
CNY	7.8044	7.3202	7.6290	7.3522
RUB	69.3920	64.3000	65.9383	74.1446

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 2017 (2016: None) for which borrowing costs were capitalised. The cost of self-constructed assets includes expenditures for materials, direct payroll costs and a reasonable share of production-related overheads. To the extent assets consist of components with material differences in useful lives, they are depreciated separately using 'component depreciation'. Expenditures for major repairs and maintenance are included in the carrying amount of the asset and depreciated over the remaining useful life to the extent they increase the economic benefit derived from the asset. Customary expenditures for repairs and maintenance are recognised as an expense as incurred. Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset to an estimated residual value. Estimated useful lives are:

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

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

Government grants and comparable assistance

Government grants and comparable assistance are recognised in profit and loss in the period in which the underlying expenses are incurred if the conditions are met. The group received no significant government grants during

Summary of significant accounting policies cont.

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 does not measure or account for development activities and its results at the level that would be required to capitalise development costs and currently has no development projects capitalised in the balance sheet.

Impairment of property, plant and equipment and intangible assets
The group's non-current assets are 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. 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 90 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 calcu-

lated 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 and currency options is based on observable market data at the

Summary of significant accounting policies cont.

reporting date. The group applies hedge accounting for forward contracts related to electricity prices, exchange rates and the intrinsic value of currency options 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.

Correction of error

The company has corrected the previous carrying amount of deferred tax attributable to receivables denominated in EUR in Swedish group companies whose presentation currency is EUR. These corrections are described in greater detail in Note 31.

Future accounting standards

The new IFRSs that will or are expected to have effects on the consolidated financial statements are described below. The new IFRSs that were published by IASB as of 31 December 2017 but are not described below are not expected to have any effect on the consolidated financial statements. Ovako does not intend early application of new IFRSs and will not be applying IFRS 9 or IFRS 15 retroactively.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments entails changes to how financial assets are recognized and measured, introduces a new principle for recognizing expected credit losses and affects hedge accounting. The standard will affect Ovako's financial statements in the following areas:

Allowances for expected credit losses:
Trade receivables: Because Ovako uses credit insurance for trade accounts receivable and has historically has low credit losses, the new standard has limited impact. The loss allowance established in the opening balance for 2018 will not differ from the provision of EUR 0.4 million recognized in the balance sheet as of 31 December 2017.

Cash and cash equivalents: Ovako's cash and cash equivalents are held primarily by Nordic banks with good credit ratings (i.e., banks with an investment grade rating from established rating institutions). As of 31 December 2017, there was EUR 3.2 million in other banks. Due to the low risk and short time to maturity and because there are no indications of risk in the placement, Ovako has concluded that any loss allowance would be immaterial.

Receivables due to the parent company from subsidiaries: The parent company's assets comprise shareholdings in subsidiaries and receivables due from subsidiaries. The parent company has applied a measurement model based on the discounted present value of expected future cash flows for subsidiary operations and has found that the future cash flows are expected to exceed the sum of the value of the shareholdings and the receivables. Nor is there any indication of risk in the parent company's receivables due from subsidiaries. The group has therefore found no reason to establish a loss allowance for expected credit losses related to the parent company's receivables due from subsidiaries.

Measurement of other non-current financial assets:
These assets comprise shareholdings in unlisted companies, which are carried at cost less amortization, if any. Under IFRS 9, these assets must be measured at fair value, and since they consist of investments in equity instruments, Ovako has elected to recognize these assets at fair value, presented in other comprehensive income. As of the reporting date, the fair value of these holdings is equal to the carrying amount in all material respects and amounts to EUR 1.8 million.

Measurement of effectiveness in connection with hedge accounting of derivatives:
As of 31 December 2017, Ovako holds currency derivatives and electricity derivatives for which hedge accounting is applied in accordance with IAS 39 and for which hedge accounting will be applied in accordance with IFRS 9. There is still some uncertainty concerning how hedge effectiveness will be tested and measured for some of the group's electricity derivatives. This will not affect the value of electricity derivatives, but could result in designation of a minor portion of the hedge as ineffective, whereupon all (or a larger portion than currently) of the change in value would be recognized in other comprehensive income, instead of as costs for electricity charged to profit for the year. The corresponding effect in the income statement for 2017 (2016) was EUR 0.1 (0.5) million.

IFRS 15 Revenue from Contracts with Customers

The standard will supersede all current standards for revenue recognition. Ovako's analysis of operations based on identification of contracts with customers, performance obligations and their fulfillment, transaction prices and their allocation has shown that the new standard will have no effect on recognition of revenue and financial results or balance sheet, but on the other hand additional disclosure requirements.

IFRS 16 Leases

This standard will apply to annual reporting periods beginning on or after 1 January 2019. Ovako has not yet performed a detailed evaluation of how the group's financial performance and position will be affected by this standard, but as set forth in Note 25, the non-discounted value of obligations under leases amounts to EUR 20.3 million and annual lease expenses to EUR 9.4 million. These will be covered by the new standard.

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. Ovako's business units deliver to a large extent to customers in the same or similar industries, in the same geographical areas. The nature of products and production processes are similar in the three steel mills that together form the basis of Ovako's operations. Input materials, investments and labor needs are also similar, and the group share common functions such as purchasing, materials testing, research and development, marketing, sales and distribution.

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

EURm	2017	2016
Sale of goods		
Sweden	216.4	202.0
Nordics excl. Sweden	101.1	92.6
Western Europe excl. Nordics	404.8	324.0
Eastern Europe	114.3	94.1
North America	53.0	40.7
Asia	29.2	24.9
Rest of the world	2.5	2.5
Total	**921.3**	**780.8**

EURm	2017	2016
Sales by product		
Bar, as rolled	175.6	150.0
Bar, value added[1)]	541.6	438.9
Tube & Ring	173.3	155.4
Third Party products	30.8	36.5
Total	**921.3**	**780.8**

EURm	2017	2016
Non-current assets by country		
Sweden	253.9	267.2
Finland	46.6	48.4
Other countries	5.9	5.8
Total	**306.4**	**321.4**

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	2017	2016
Change in inventories and work in progress		*29.6*	*9.4*
Raw materials and supplies		–413.1	–322.4
Exchange differences on purchased goods		0.0	0.9
Energy		–73.0	–67.7
Freight and other distribution costs		–58.5	–50.3
Repairs and maintenance		–37.3	–38.8
External services in production		–37.4	–36.9
Raw materials, services and supplies		–619.3	*–515.2*
Salaries and benefits		–144.9	–136.0
Pension expense		–13.3	–12.4
Social insurance fees		–43.8	–41.8
Employee benefits expense	4	*–202.0*	*–190.2*
Buildings[1)]		–11.7	–11.6
Machinery and equipment		–27.6	–28.0
Other intangible assets		–1.3	–1.3
Depreciation, amortisation and impairments		*–40.6*	*–40.9*
Rents		–13.6	–13.8
Bad debt losses		–0.3	–0.5
Administration and other expenses	26	–24.3	–23.6
Other external expenses		*–38.2*	*–37.9*
Total cost of goods sold and selling and administrative expenses		**–870.5**	**–774.8**
Depreciation and amortisation expenses are included in the following line items in profit and loss			
Cost of goods sold		–39.7	–40.1
Selling expenses		–0.4	–0.4
Administrative expenses		–0.5	–0.4
Total		**–40.6**	**–40.9**

Research and development costs

Research and development costs amount to EUR –5.1 (–4.2) million and are mainly reported as cost of goods sold. The group has no development costs capitalised in the balance sheet.

Exchange gains and losses

Realised and unrealised exchange gains and losses attributable to revenue and operating expenses are included in operating profit and amount to EUR 0.4 (2.1) 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 11 years after the closing date.

1) Of which EUR –8.8 (–8.9) million for amortisation of surplus values allocated in conjunction with acquisitions.

NOTE 4 Average number of employees

Average number of employees by country 2017	Men	Women	Total
Sweden	1,712	430	2,142
Finland	518	78	596
Italy	36	8	44
France	29	9	38
Germany	21	7	28
Netherlands	28	3	31
United Kingdom	8	5	13
United States	8	4	12
Russia	2	1	3
Poland	2	1	3
China	8	2	10
Total	**2,372**	**548**	**2,920**
Number of employees at year-end, FTE			3,040

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

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

NOTE 5 Other operating income

EURm	2017	2016
Income from sale of property, plant and equipment	1.7	0.1
Rents and other income items	3.2	2.9
Total	**4.9**	**3.0**

NOTE 6 Financial income

EURm	2017	2016
Interest income arising from loans and receivables	0.2	0.4
Total interest income	**0.2**	**0.4**
Exchange rate gains, net	—	2.9
Total other finance income	**—**	**2.9**
Total	**0.2**	**3.3**

NOTE 7 Financial costs

EURm	2017	2016
Interest expenses for financial liabilities at amortised cost[1)]	–29.4	–21.5
Interest expense, pension liability	–1.6	–1.9
Total interest expenses	**–31.0**	**–23.4**
Costs for loan commitments and guarantees	–1.8	–1.8
Impairment of investments	–5.0	—
Other financial costs	–1.0	–1.2
Exchange rate losses, net	–1.1	—
Total other financial costs	**–8.9**	**–3.0**
Summa	**–39.9**	**–26.4**

1) This item includes the cost of financing amortised over the term of the loan. The group's previous senior secured notes were redeemed early. Interest expenses for 2017 thus include redemption costs of EUR 4.9 million and financing costs of EUR 3.5 million related to the previous loan.

NOTE 8 Taxes

EURm	2017	2016
Current tax	–5.3	–0.3
Deferred tax	4.5	–2.3
Total	**–0.8**	**–2.6**

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	16.0	–14.1
Income tax calculated on the Swedish corporate tax rate of 22%	–3.5	3.1
Effects of different tax rates in foreign jurisdictions[1)]	–0.4	0.0
Other taxable income	4.7	–4.9
Other non-deductible expenses and non-taxable income	–1.2	–0.1
Use of loss carry-forwards previously not valued	0.1	0.2
Loss carry-forwards not valued	–0.2	–1.8
Adjustments relating to previous years, current tax	–0.1	0.1
Adjustments relating to previous years, deferred tax	–0.2	0.8
Income taxes recognised in profit and loss	**–0.8**	**–2.6**

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.

NOTE 9 Property, plant and equipment

2017 EURm	Buildings and land	Machinery and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2017	160.6	348.0	17.4	526.0
Additions during the year	0.4	0.2	33.3	33.9
Disposals and sales	–1.2	–3.2	—	–4.4
Reclassification	1.4	14.7	–16.1	0.0
Translation differences for the year	–4.0	–7.0	–1.1	–12.1
Balance at 31 December 2017	**157.2**	**352.7**	**33.5**	**543.4**
Cumulative depreciation				
Balance at 1 January 2017	–66.9	–142.1	—	–209.0
Depreciation for the year	–11.7	–26.9	—	–38.6
Disposals and sales	0.4	3.0	—	3.4
Translation differences for the year	1.9	2.5	—	4.4
Balance at 31 December 2017	**–76.3**	**–163.5**	**—**	**–239.8**
Cumulative impairments				
Balance at 1 January 2017	0.0	–5.5	—	–5.5
Impairment for the year	—	–0.7	—	–0.7
Translation differences for the year	—	0.1	—	0.1
Balance at 31 December 2017	**0.0**	**–6.1**	**—**	**–6.1**
Carrying amount at 1 January 2017	**93.7**	**200.4**	**17.4**	**311.5**
Carrying amount at 31 December 2017	**80.9**	**183.1**	**33.5**	**297.5**

2016 EURm	Buildings and land	Machinery and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2016	155.0	333.1	19.1	507.2
Additions during the year	0.0	0.0	32.7	32.7
Disposals and sales	–1.8	–10.8	0.0	–12.6
Reclassification	7.6	26.8	–34.4	0.0
Translation differences for the year	–0.2	–1.1	0.0	–1.3
Balance at 31 December 2016	**160.6**	**348.0**	**17.4**	**526.0**
Cumulative depreciation				
Balance at 1 January 2016	–56.9	–126.0	—	–182.9
Depreciation for the year	–11.7	–27.9	—	–39.6
Disposals and sales	1.6	10.8	—	12.4
Translation differences for the year	0.1	1.0	—	1.1
Balance at 31 December 2016	**–66.9**	**–142.1**	**—**	**–209.0**
Cumulative impairments				
Balance at 1 January 2016	0.0	–5.5	—	–5.5
Impairment for the year	—	—	—	—
Balance at 31 December 2016	**0.0**	**–5.5**	**—**	**–5.5**
Carrying amount at 1 January 2016	**98.1**	**201.6**	**19.1**	**318.8**
Carrying amount at 31 December 2016	**93.7**	**200.4**	**17.4**	**311.5**

NOTE 10 Intangible assets

EURm	31 Dec 2017	31 Dec 2016
Cost		
Balance at 1 January	15.2	13.6
Additions during the year	0.4	1.6
Balance at 31 December	**15.6**	**15.2**
Cumulative amortisation		
Balance at 1 January	–5.4	–4.1
Amortisation for the year	–1.3	–1.3
Balance at 31 December	**–6.7**	**–5.4**
Carrying amount at 1 January	**9.8**	**9.5**
Carrying amount at 31 December	**8.9**	**9.8**

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 2017 Carrying amount, EURm	31 Dec 2016 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 2017 amounted to EUR 0.6 (0.6) million, net sales were EUR 1.0 (1.0) million and profit was EUR 0.0 (0.0) million. The company had no contingent liabilities at 31 December 2017 or 2016.

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 2017 Carrying amount, EURm	31 Dec 2016 Carrying amount, EURm
Jernkontoret	12.0	0.0	0.0
Tågåkeriet i Bergslagen AB	10.0	0.0	0.0
Ascometal SAS	6.9	0.0	5.0
Suomen ELFI Oy	3.7	0.0	0.0
Imatran Seudun Kehitysyhtiö Oy	2.5	0.0	0.0
Voimayhtiö SF Oy	1.6	1.7	1.7
Golfimatra Oy	1.0	0.0	0.0
Oy Nordgolf Ab	0.4	0.0	0.0
Imatran Seudun Sähkö Oy	0.2	0.0	0.0
Metallurgiska Forsknings-bolaget i Luleå AB	0.1	0.0	0.0
Bas-El		0.0	0.0
Total other non-current financial assets		**1.8**	**6.8**

EURm	31 Dec 2017	31 Dec 2016
Cost		
Balance at 1 January	6.8	6.8
Balance at 31 December	**6.8**	**6.8**
Cumulative impairment		
Balance at 1 January	—	—
Impairment for the year	–5.0	—
Balance at 31 December	**–5.0**	**—**
Carrying amount at 1 January	**6.8**	**6.8**
Carrying amount at 31 December	**1.9**	**6.8**

NOTE 13 Financial assets and liabilities

31 Dec 2017 EURm	Derivatives for hedge accounting	Loan receivables and trade receivables	Available-for-sale financial assets	Carrying amount	Fair value
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	0.4	—	—	0.4	0.4
Total	**0.4**	—	**1.8**	**2.2**	**2.2**
Current financial assets					
Trade receivables	—	113.0	—	113.0	113.0
Other current receivables	—	1.0	—	1.0	1.0
Derivative assets	0.5	—	—	0.5	0.5
Cash and cash equivalents	—	52.4	—	52.4	52.4
Total	**0.5**	**166.4**	—	**166.9**	**166.9**
Total financial assets	**0.9**	**166.4**	**1.8**	**169.1**	**169.1**

31 Dec 2016 EURm	Derivatives for hedge accounting	Loan receivables and trade receivables	Available-for-sale financial assets	Carrying amount	Fair value
Non-current financial assets					
Other financial assets	—	—	6.8	6.8	6.8
Other non-current receivables	—	—	0.1	0.1	0.1
Derivative assets	0.2	—	—	0.2	0.2
Total	**0.2**	—	**6.9**	**7.1**	**7.1**
Current financial assets					
Trade receivables	—	85.7	—	85.7	85.7
Other current receivables	—	0.8	—	0.8	0.8
Derivative assets	1.5	—	—	1.5	1.5
Cash and cash equivalents	—	49.2	—	49.2	49.2
Total	**1.5**	**135.7**	—	**137.2**	**137.2**
Total financial assets	**1.7**	**135.7**	**6.9**	**144.3**	**144.3**

Financial assets and liabilities cont.

31 Dec 2017 EURm	Derivatives for hedge accounting	Other financial liabilities	Carrying amount	Fair value
Non-current financial liabilities				
Non-current interest-bearing liabilities	—	303.0	303.0	316.2
Derivative liabilities	2.5	—	2.5	2.5
Other non-current liabilities	—	0.4	0.4	0.4
Total	**2.5**	**303.4**	**305.9**	**319.1**
Current financial liabilities				
Derivative liabilities	5.2	—	5.2	5.2
Trade payables	—	133.5	133.5	133.5
Total	**5.2**	**133.5**	**138.7**	**138.7**
Total financial liabilities	**7.7**	**436.9**	**444.6**	**457.8**

31 Dec 2016 EURm	Derivatives for hedge accounting	Other financial liabilities	Carrying amount	Fair value
Non-current financial liabilities				
Non-current interest-bearing liabilities	—	295.0	295.0	275.5
Derivative liabilities	4.3	—	4.3	4.3
Other non-current liabilities	—	0.3	0.3	0.3
Total	**4.3**	**295.3**	**299.6**	**280.1**
Current financial liabilities				
Derivative liabilities	1.7	—	1.7	1.7
Trade payables	—	109.4	109.4	109.4
Total	**1.7**	**109.4**	**111.1**	**111.1**
Total financial liabilities	**6.0**	**404.7**	**410.7**	**391.2**

Information on measurement methods etc:

Derivatives are measured at fair value. Loan receivables and trade 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 loan receivables and trade 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. Since the process of listing the new senior secured notes was not yet completed by 31 December, the fair value has been determined based on the price on bilateral trade.

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 electricity derivatives is estimated with reference to quoted market prices. 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.

Fair value hierarchy:

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

Ovako's derivatives are the only financial assets and liabilities that are measured at market value in the balance sheet. These belong to level 2. Ovako's senior secured notes, for which the fair value is provided for information only, belong to Level 2. Since the process of listing the new senior secured notes was not yet completed by 31 December, the fair value has been determined based on the price on bilateral trade.

Information on derivative assets and liabilities

EURm	31 Dec 2017	31 Dec 2016
Non-current derivative assets		
Fair value of foreign exchange derivatives	0.1	—
Fair value of electricity derivatives	0.3	0.2
Total	**0.4**	**0.2**
Current derivative assets		
Fair value of foreign exchange derivatives	0.1	0.6
Fair value of electricity derivatives	0.4	0.9
Total	**0.5**	**1.5**
Total derivative assets	**0.9**	**1.7**

EURm	31 Dec 2017	31 Dec 2016
Non-current derivative liabilities		
Fair value of foreign exchange derivatives	1.4	0.5
Fair value of electricity derivatives	1.1	3.8
Total	**2.5**	**4.3**
Current derivative liabilities		
Fair value of foreign exchange derivatives	4.3	1.6
Fair value of electricity derivatives	0.9	0.1
Total	**5.2**	**1.7**
Total derivative liabilities	**7.7**	**6.0**

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

31 Dec 2017
EURm

Remaining maturity	2018	2019	2020	Total
Derivatives designated as cash flow hedges				
Foreign exchange forwards	129.0	48.0	—	177.0
Total	**129.0**	**48.0**	**—**	**177.0**
Volume GWh				
Remaining maturity				
Cash flow hedges				
Electricity derivatives	494.6	381.0	219.6	1,095.2
Total	**494.6**	**381.0**	**219.6**	**1,095.2**

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

31 Dec 2016
EURm

Remaining maturity	2017	2018	2019–2020	Total
Derivatives designated as cash flow hedges				
Foreign exchange forwards	90.2	28.0	—	118.2
Foreign exchange options	46.0	—	—	46.0
Total	**136.2**	**28.0**	**—**	**164.2**
Volume GWh				
Remaining maturity				
Cash flow hedges				
Electricity derivatives	437.1	363.3	535.0	1,335.4
Total	**437.1**	**363.3**	**535.0**	**1,335.4**

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 0.1 (0.5) million.

Disclosure of financial assets and liabilities that are offset or subject to a legally enforceable master netting arrangement or similar agreement:
Financial assets and liabilities that may be offset consist of electricity derivatives and foreign exchange derivatives that are covered by legally enforceable master netting agreements.

	31 Dec 2017		31 Dec 2016	
EURm	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Gross amount, derivatives	0.9	7.7	1.7	6.0
Amount offset	—	—	—	—
Recognised on balance sheet	**0.9**	**7.7**	**1.7**	**6.0**
Amount covered by netting agreements	–0.9	–0.9	–1.7	–1.7
Net amount after netting agreements	**0.0**	**6.8**	**0.0**	**4.3**

NOTE 14 Deferred tax assets and tax liabilities

EURm	Balance at 1 January 2017	Recognised in profit and loss	Recognised in other comprehensive income	Exchange differences and reclassifications	Balance at 31 December 2017
Deferred tax assets					
Inventories	1.1	0.0	—	–0.2	0.9
Provisions	0.7	–0.2	0.0	—	0.5
Pension obligations and other employee benefits	8.0	0.2	1.3	–0.2	9.3
Derivative assets	0.9	0.0	0.6	—	1.5
Losses	4.5	–3.0	—	–0.1	1.4
Other items	0.5	0.0	—	0.0	0.5
Total	**15.7**	**–3.0**	**1.9**	**–0.5**	**14.1**
Deferred tax liabilities					
Property, plant and equipment	32.9	–3.2	—	–0.6	29.1
Inventories	1.8	0.5	—	–0.2	2.1
Other receivables	6.8	–4.8	—	—	2.0
Pension obligations	0.1	—	0.2	–0.1	0.2
Total	**41.6**	**–7.5**	**0.2**	**–0.9**	**33.4**
Net deferred tax liability	**–25.9**	**4.5**	**1.7**	**0.4**	**–19.3**

At 31 December 2017, the group had loss carry-forwards of EUR 23.8 million, of which EUR 16.6 million relating to Finland and EUR 0.1 million relating to Sweden. Of the loss carry-forwards, EUR 4.4 million are included in the base for deferred tax assets. Considering the ongoing Finnish tax dispute, the loss carry-forwards relating to this dispute have not been valued in the balance sheet.

EURm	Balance at 1 January 2016	Recognised in profit and loss	Recognised in other comprehensive income	Exchange differences and reclassifications	Balance at 31 December 2016
Deferred tax assets					
Inventories	1.1	–0.1	—	0.1	1.1
Provisions	0.7	0.0	—	0.0	0.7
Pension obligations and other employee benefits	5.9	0.1	2.0	0.0	8.0
Derivative assets	2.3	–0.1	–1.3	—	0.9
Losses	3.8	0.7	—	0.0	4.5
Other items	0.3	0.2	—	0.0	0.5
Total	**14.1**	**0.8**	**0.7**	**0.1**	**15.7**
Deferred tax liabilities					
Property, plant and equipment	34.3	–1.4	—	0.0	32.9
Inventories	2.1	–0.4	—	0.1	1.8
Other receivables	1.9	4.9	—	—	6.8
Pension obligations	0.1	0.0	0.0	0.0	0.1
Total	**38.4**	**3.1**	**0.0**	**0.1**	**41.6**
Net deferred tax liability	**–24.3**	**–2.3**	**0.7**	**0.0**	**–25.9**

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

NOTE 15 Inventories

EURm	31 Dec 2017	31 Dec 2016
Raw materials and supplies	42.8	37.5
Parts	4.0	4.0
Work in process	129.6	109.0
Finished goods	56.9	50.7
Total	**233.3**	**201.2**
Cost of impairments to inventories	–0.6	–0.6

NOTE 16 Other current receivables

EURm	31 Dec 2017	31 Dec 2016
VAT receivable	4.1	7.0
Other receivables	1.0	0.8
Accrued income and prepaid expenses	15.4	12.2
Total	**20.5**	**20.0**

NOTE 17 Cash and cash equivalents

EURm	31 Dec 2017	31 Dec 2016
Cash and bank	52.4	49.2
Total	**52.4**	**49.2**

NOTE 18 Equity

There are 50,000 (2016: 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 2017	31 Dec 2016
Balance at 1 January	0.9	1.5
Changes for the year	–8.1	–0.6
Balance at 31 December	**–7.2**	**0.9**

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 2017	31 Dec 2016
Balance at 1 January	–3.3	–7.9
Realised and reallocated to profit and loss	–0.1	–3.7
Tax on amount realised and reallocated to profit and loss	0.0	0.8
Change in fair value	–2.5	9.6
Tax on change in fair value	0.6	–2.1
Balance at 31 December	**–5.3**	**–3.3**

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.

Reserves	**2017**	2016
Carrying amount at 1 January	**–2.4**	**–6.4**
Carrying amount at 31 December	**–12.5**	**–2.4**

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 FPG/PRI 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 8.7 (7.9) million. Cash flows associated with defined benefit plans are expected to amount to EUR 3.3 million in 2018.

Defined benefit plans:

The largest plan, which accounts for 90 (88)% of the pension liabilities in the balance sheet, is the Swedish plan secured in the Swedish FPG/PRI system. The average maturity of this liability is approximately 16 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, net after consideration of plan assets

EURm	31 Dec 2017	31 Dec 2016
Pension benefits, FPG/PRI system	65.7	61.0
Special payroll tax, FPG/PRI system	6.3	4.8
Other pension provisions	7.1	7.2
Other post-employment benefits	1.2	1.8
Total	**80.3**	**74.8**
The defined benefit obligations in the balance sheet comprise the following items:		
Present value of unfunded obligations, excl. special payroll tax	71.9	67.9
Special payroll tax, FPG/PRI system	6.3	4.8
Present value of funded obligations	8.7	8.7
Fair value of plan assets	–6.6	–6.6
Net liability	**80.3**	**74.8**
Amount recognised in profit and loss (+= income)		
Cost of service in current period	–1.8	–1.3
Special payroll tax, FPG/PRI system	–0.2	–0.2
Interest on obligation, funded	–0.3	–0.3
Interest on obligation, unfunded	–1.6	–1.9
Estimated return on plan assets	0.2	0.3
Exchange differences	–	2.3
Amount recognised in profit and loss	**–3,7**	**–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 presentation currency (until 2016, from 2017, their presentation currency is SEK) are recognised as financial items. Other foreign exchange differences in the tables refer to translation differences included in the translation reserve in equity.

Recognised in the balance sheet

31 Dec 2017	FPG/PRI system	FPG/PRI system, special payroll tax	Other	Total
Pension obligation at 1 January	61.0	4.8	15.6	81.4
Cost of service in current period	1.5	0.2	0.2	1.9
Interest expense	1.5	0.0	0.3	1.8
Pensions paid	–2.8	—	–0.5	–3.3
Revaluation of pension obligation – other	6.4	1.5	0.3	8.2
Exchange differences	–1.9	–0.2	–0.5	–2.6
Pension obligation at 31 December	**65.7**	**6.3**	**15.4**	**87.4**
Fair value of plan assets at 1 January	—	—	6.6	6.6
Imputed interest on plan assets	—	—	0.2	0.2
Contributions from the employer	—	—	0.2	0.2
Pensions paid	—	—	–0.3	–0.3
Valuation gains on plan assets	—	—	0.6	0.6
Exchange differences	—	—	–0.2	–0.2
Fair value of plan assets at 31 December	**—**	**—**	**7.1**	**7.1**
Changes in net debt in the balance sheet				
Net pension obligation at 1 January	61.0	4.8	9.0	74.8
Cost of service in current period	1.5	0.2	0.2	1.9
Interest expense	1.5	0.0	0.1	1.6
Pensions paid	–2.8	—	–0.5	–3.3
Contributions from the employer, net after deductions	—	—	0.1	0.1
Revaluation gains/losses	6.4	1.5	–0.3	7.6
Exchange differences	–1.9	–0.2	–0.3	–2.4
Net pension obligation at 31 December	**65.7**	**6.3**	**8.3**	**80.3**

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

Pensions and other post-employment benefits cont.

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

EURm	2017	2016	Net liability EURm 2017	Net liability EURm 2016
Sweden			**65.7**	**61.0**
Discount rate	2.45%	2.45%		
Future salary increases	2.95%	2.50%		
Increase in income base amount	2.95%	2.50%		
Inflation	1.95%	1.50%		
Germany			**3.6**	**3.7**
Discount rate	1.80%	1.80%		
Future salary increases	2.50%	2.50%		
Inflation	1.75%	1.75%		
UK			**1.9**	**2.1**
Discount rate	2.60%	3.10%		
Future salary increases	2.10%	2.20%		
Inflation	2.10%	2.20%		
US			**0.8**	**1.3**
Discount rate	3.59%	4.00%		
Future cost increases	5.80%	6.20%		
Other countries			2.0	1.9
Special payroll tax liability			6.3	4.8
Net liability in balance sheet			**80.3**	**74.8**

Sensitivity analysis

The table shows the effect on the Swedish FPG/PRI 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.

MEUR	2017	2016
Discount rate +0.5%	–6.2	–5.4
Discount rate –0.5%	7.0	6.1
Salary increases +0.5%	4.1	3.3
Salary increases –0.5%	–4.0	–3.2
Inflation +0.5%	6.3	5.7
Inflation –0.5%	–5.7	–5.2
Longevity +1 year	3.8	3.4
Longevity –1 year	–3.8	–3.4

NOTE 20 Other provisions

EURm	Restructuring provisions	Environmental provisions	Other provisions	Total
Balance at 1 January 2017	**2.1**	**3.2**	**0.2**	**5.5**
Provisions during the year	1.6	0.3	—	1.9
Provisions used during the year	–3.0	–0.9	–0.2	–4.1
Effect of movements in foreign exchange	–0.1	—	—	–0.1
Balance at 31 December 2017	**0.6**	**2.6**	**0.0**	**3.2**
Whereof non-current	*0.0*	*1.6*	*0.0*	*1.6*
Whereof current	*0.6*	*1.0*	*0.0*	*1.6*

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

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 information at the reporting date using advice from an external part. 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

Financing agreements

Ovako refinanced operations during the year. The previous senior secured notes of EUR 300 million that were due in 2019 were repaid ahead of schedule and replaced by EUR 310 million in new five-year senior secured notes maturing in October 2022. At the same time, the term of the revolving credit facility of EUR 40 million was extended to 2022. Of the revolving credit facility, EUR 2.5 million has been earmarked for bank guarantees. There are no amortisation requirements during the loan term. Of the revolving facility, EUR 2.0 (1.2) million was utilised in the form of issued bank guarantees, which means that the unutilised credit facility amounts to EUR 38.0 (38.8) million.

As at the balance sheet date, the notes were not yet listed, but the listing process was completed during March 2018. The notes were issued on the Luxembourg Stock Exchange (Euro MTF) by the subsidiary Ovako AB (publ) and carries a fixed interest rate of 5.0 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 by at least EUR 15 million in bank guarantees or revolving credit. This EBITDA requirement was met at the reporting date, but this was not necessary since the the revolving facility was only utilised for bank guarantees in the amount of EUR 2.0 million.

Financing costs for the new notes are estimated at EUR 7.4 million, which will be amortised over the term of the loan. Of that amount, EUR 7.2 million was paid in 2017. Financing costs are recognised as a reduction of interest-bearing liabilities in the balance sheet.

As the previous senior secured notes were repaid early, redemption costs of EUR 4.9 million have been charged to profit and allocated financing costs of EUR 3.5 million were reversed to profit and loss. These items are recognised as financial costs in profit and loss.

The tables below show the following: maturity information of interest-bearing liabilities, currency distribution of the group's non-current interest-bearing liabilities as of reporting date, weighted average effective interest rate for non-current borrowings as of the reporting date and changes in liabilities attributable to financing activities.

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

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

EURm	**31 Dec 2017**	31 Dec 2016
Interest-bearing liabilities		
Senior secured notes	310.0	300.0
Other non-current interest-bearing borrowings	0.0	0.0
Financing costs	–7.0	–5.0
Total non-current interest-bearing liabilities	**303.0**	**295.0**

Maturity information for interest-bearing liabilities per 31 Dec 2017:

EURm	2018	2019–2021	2022	Total
Nominal amounts:				
Senior secured notes	—	—	310.0	310.0
Other	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**310.0**	**310.0**

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

EURm	2017	2018	2019	Total
Nominal amounts:				
Senior secured notes	—	—	300.0	300.0
Other	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**300.0**	**300.0**

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

EURm	**31 Dec 2017**	31 Dec 2016
Nominal amounts:		
EUR	310.0	300.0
	310.0	**300.0**

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

%	31 Dec 2017	31 Dec 2016
Senior secured notes	5.00	6.50

Changes in liabilities attributable to financing activities:

EURm	1 Jan 2017	Cash	Profit and loss	Other	31 Dec 2017
Senior secured notes 2014–2019	300.0	–304.9	4.9	—	0.0
Senior secured notes 2017–2022	0.0	310.0	—	—	310.0
Financing costs 2014–2019	–5.0	—	5.0	—	0.0
Financing costs 2017–2022	0.0	–7.2	0.4	–0.2	–7.0
Total	**295.0**	**–2.1**	**10.3**	**–0.2**	**303.0**

NOTE 22 Other current liabilities

EURm	31 Dec 2017	31 Dec 2016
Accrued employee benefits expense, social insurance fees and pension costs	41.2	37.8
VAT liabilities	2.2	3.7
Accrued costs, claims	1.5	0.5
Other liabilities and accrued expenses and prepaid income	21.4	15.4
Total	**66.3**	**57.4**

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 rate risk

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

One type of translation exposure arises from translation of subsidiaries' financial statements to the group's presentation currency. Appreciation or depreciation of the Swedish krona or USD against the euro by 10% would result in an increase or decrease in the value of net assets in subsidiaries that have SEK or USD as their functional currency by EUR 14.8 (1.9) and 0.6 (0.8) million, respectively. The effect of the translation differences attributable to changes in the EUR/SEK exchange rate have greater impact on equity than in previous years because the larger operational companies in Sweden, which used to have EUR as their presentation currency, effective 2017, reverted to using SEK as their presentation currency since this is their functional currency. (This change has no effect on operating results or cash flow.)

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 72.0 (65.8) 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 rate risk because the group's presentation currency is the EUR, while a portion of revenues and a large share of expenses are denominated in other currencies. The greatest foreign exchange rate 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 2017 (2016) sales and not taking into account foreign exchange hedges.

The underlying purchase prices for significant raw materials, such as steel 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 2017 (2016) were divided by currency approximately as follows: 69 (68)% EUR; 20 (22)% SEK; and other currencies 11 (10)% (mainly GBP and USD).

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

Of the expected net exposure in SEK for 2018 (2017), approximately 65 (69)% is hedged for foreign exchange at an average rate of approximately 9.50 (9.49) to a total nominal value of EUR 129 (136) million. Of the expected net exposure in SEK for 2019 (2018), approximately 24 (14)% is hedged for

Financial risk management cont.

foreign exchange at an average rate of approximately 9.64 (9.39), to a total nominal value of EUR 48 (28) million. The hedges are defined as cash flow hedges and hedge accounting is applied. Further information about derivatives is provided in Note 13.

Interest rate risk

Ovako's financing consists of issued senior secured notes at a fixed interest rate, refer to Note 21. 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 39.7 (38.3) million, which mainly consists of the variable price of electricity, network charges, taxes and fees. To mitigate electricity price volatility that causes fluctuations in cash flows and earnings, hedging measures are used by which portions of the variable price of electricity are transferred to a fixed price (electricity derivatives). Fixed-price purchase contracts have also been used, to a limited extent, in the past. At year-end 2017 (2016), anticipated future electricity consumption 1) was hedged as outlined in the table below:

Hedging of future electricity consumption[1] through electricity derivatives as of 31 Dec 2017

Year	Hedged volume GWh	Percentage of consumption	Average price EUR	Nominal value of derivative, net EURm	Hedged purchasing value EURm
2018	494.6	53.6	27.47	–0.4	13.6
2019	381.0	41.3	27.64	–0.7	10.5
2020	219.6	23.8	26.76	–0.1	5.9
Total				**–1.2**	

Hedging of future electricity consumption[1] through electricity derivatives as of 31 Dec 2016

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

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

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

Sensitivity analysis for the portfolio of electricity derivatives: A increase or decrease of 10% in the price of electricity compared to the price at 31 December 2017 (2016) would have an impact on Ovako's comprehensive income, before tax, of EUR 2.9 (3.5) million or –2.9(–3.5) 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 2017, 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 financing agreement from 2014 as well as the refinancing arrangement in 2017 hava considerably fewer covenants than the earlier financing. There is neither any amortisation requirements on the debt prior to expiry in 2022.

In addition to the issued notes of EUR 310 million, Ovako has a committed revolving credit facility of EUR 40 million, which was unused at December 31, apart from EUR 2.0 (1.2) million which is utilised in the form of issued bank guarantees. The group's available liquidity amounted to EUR 90.4 (88.0) million, consisting of EUR 38.0 (38.8) million in unused revolving facility and cash in hand of EUR 52.4 (49.2) million. The group's financial policy requires liquidity to be at least EUR 15 million.

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

Contractual cash flows as of 31 Dec 2017

EURm	Nominal value	Total	2018	2019	2020–2021	2022
Senior secured notes	–310.0	–383.6	–15.5	–15.5	–31.0	–321.6
Trade payables	–133.5	–133.5	–133.5	—	—	—
Foreign exchange derivatives						
– Outflow	–177.0	–177.0	–129.0	–48.0	—	—
– Inflow	177.0	171.4	124.4	47.0	—	—
Electricity derivatives	–1.2	–1.2	–0.4	–0.7	–0.1	—
Total		**–523.9**	**–154.0**	**–17.2**	**–31.1**	**–321.6**

Contractual cash flows as of 31 Dec 2016

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

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. The group's maximum credit risk thus comprises trade receivables, cash and cash equivalents, derivative assets and other non-current and current receivables, which amount to EUR 169 (144) million, as presented in Note 13. Only trade receivables are covered by credit insurance. In addition to that shown in the ageing report below, these receivables were not yet due and payable on the reporting date and no impairment need was deemed to exist.

Exposure to credit risk in trade receivables is managed according to the principles set out in the Credit Management Rules and Guidelines established by the CEO. 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 1.1 (0.7)%. At year-end, 91 (94)% of Ovako's outstanding trade receivables were covered by credit insurance. The five largest customers (groups including subsidiaries) account for 26 (27)% of consolidated sales. The five largest customers (groups including subsidiaries) account for 15 (12)% of consolidated trade receivables.

At 31 December, trade receivable ageing was as follows

EURm	31 Dec **2017**	31 Dec 2016
Ageing structure of trade receivables		
Trade receivables not due	100.0	74.9
Trade receivables 1–30 days overdue	7.3	7.2
Trade receivables 31–60 days overdue	1.0	1.2
Trade receivables more than 60 days overdue	4.7	2.4
Total	**113.0**	**85.7**

Provisions for anticipated bad debt losses amount to EUR 0.5 (0.3) million. There were no significant credit losses or provisions for anticipated credit losses during 2017 (2016).

NOTE 24 Adjustments to cash flows from operating activities

EURm	31 Dec 2017	31 Dec 2016
Non-cash transactions:		
Gain/loss from sale of non-current assets	–1.5	0.2
Impairment of trade receivables	0.9	0.4
Restructuring costs not settled	2.9	4.2
Effects of movements in foreign exchange etc	–0.2	–0.7
Total	**2.1**	**4.1**

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. The 2016 figures have been adjusted based on a review of existing agreements.

EURm	31 Dec 2017	31 Dec 2016
Due within 1 year	6.8	7.1
Due within 2 to 5 years	12.4	10.3
Due later than 5 years	1.1	0.6
Total	**20.3**	**18.0**
Lease expense for the period	9.4	8.7

NOTE 26 Audit fees

EURm	2017	2016
EY:		
Audit assignments	–0.4	–0.6
Other auditing	–0.1	0.0
Tax advice	–0.1	0.0
Other services	–0.2	0.0
Total	**–0.8**	**–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 perfor-mance 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

The group is 100% owned by Triako Holdco AB, which is 100% owned by Oven Luxco Sarl in Luxemburg. Oven Luxco Sarl is under the controlling influence of Triton Fund III and Triton Fund III F&F LP, which directly and indirectly controls 84.44% of the equity in the Ovako group. There were no significant transactions with com-panies over which Triton Fund III or Triton III F&F Fund LP has significant or controlling influence. Reimbursement for services and expenditures totalling EUR 429 (387) thousand has been paid to West Park Management Services, a company that provides services to Triton and its portfolio companies.

Group structure:

Company name	Company reg no.	Domicile	Group interest, %	Group voting rights, %
Shares and investments in subsidiaries owned by Ovako Group AB:				
Ovako AB (publ)	556813-5338	Sweden	100	100
Shares and investments in subsidiaries owned by Ovako AB (publ):				
Ovako Bar AB	556690-6102	Sweden	100	100
Ovako Bright Bar Holdings AB	556690-6094	Sweden	100	100
Ovako Sweden AB	556692-1317	Sweden	100	100
Triako Finco AB	556816-0526	Sweden	100	100
Ovako Steel Marketing AB	556341-4522	Sweden	100	100
Ovako Metals Oy Ab	0351634-4	Finland	100	100
Shares and investments in subsidiaries owned by Ovako Steel Marketing AB:				
OVAKO(Shanghai) Special Steel Trading Co., Ltd	31000040064028	China	100	100
Shares and investments in subsidiaries owned by Triako Finco AB:				
Ovako Finland Oy Ab	2347199-9	Finland	100	100
Shares and investments in subsidiaries owned by Ovako Finland Oy Ab:				
Ovako Imatra Oy Ab	2067276-0	Finland	100	100
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	392 564 019 RCS DIJON	France	100	100
Shares and investments in subsidiaries owned by Ovako Bright Bar Holdings AB:				
Ovako Cromax AB	556055-1847	Sweden	100	100
Ovako Forsbacka AB	556057-2082	Sweden	100	100
Shares and investments in subsidiaries owned by Ovako Cromax AB:				
Ovako Hallstahammar AB	556209-6858	Sweden	100	100
Ovako Molinella S.p.A.	01128230370	Italy	100	100
Ovako Mora AB	556174-7857	Sweden	100	100
Ovako Redon S.A.	316 055 094 RCS RENNES	France	100	100
Ovako Twente B.V.	6 062 776	Netherlands	100	100
Shares and investments in subsidiaries owned by Ovako Sweden AB:				
Fastighets AB Synaren	556057-7081	Sweden	100	100
Ovako GmbH	HRB12679	Germany	100	100
Ovako Ltd	03879876	UK	100	100
Ovako North America Inc	22-1474037	US	100	100
AB 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

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 2017 as for 2016. Variations in the composition of the board and in exchange rates between the years may affect the expense presented in EUR. In 2017, no board member has invoiced the company for the remuneration. In previous years, one board member invoiced its remuneration through a company and then added an amount representing the social charges. The social charges thus included were not higher than those charges that otherwise would have been paid by the company. The fee including social charges are included in the table, in such cases. Board members are shown on Page 92–93.

Board members	Position	Committee (31 Dec 2017)	**Fee 2017 (EURk)**	Fee 2016 (EURk)
Joakim Olsson	Chairman from 12 February, 2016	Chairman Audit Committee, Remuneration Committee	59	71
Oskari Eskola	Director to 29 September 2017		20	26
Nizar Ghoussaini	Director to 31 December 2017	Audit Committee	29	30
Martin Ivert	Director	Remuneration Committee	27	28
Johan Pernvi	Director from 12 February, 2016	Remuneration Committee	27	25
Sakari Tamminen	Director	Audit Committee Chairman	34	34
Ingalill Östman	Director from 6 june, 2017		14	—
Finn Johnsson	Chairman to 11 February, 2016		—	6
Björn Nilsson	Director to 11 February, 2016		—	3
Robert Nilsson	Director (Employee Representative)		—	—
Timo Viiperi	Director (Employee Representative)		—	—
Total			**210**	**223**

Remuneration policy

According to the remuneration policy, remuneration to the CEO and other management personnel shall comprise base salary, any variable pay components and other benefits such as car and pension benefits. Other management personnel are members of group management in addition to the CEO.

Total remuneration must be market-based and competitive in the labour market relevant to the executive and related to the executive's responsibility and authority.

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

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

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

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

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

2017 EURk	CEO	Group management (excluding CEO)	Total
Base pay	470	1,916	2,386
Variable pay	161	447	608
Other benefits	8	54	62
Total remuneration	**639**	**2,417**	**3,056**
Pension benefits	130	516	646
Total incl. pension benefits	**769**	**2,933**	**3,702**

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

Remuneration to the CEO

Marcus Hedblom received a salary and other employee benefits totalling EUR 638 thousand (last year EUR 488).

The CEO's variable pay may amount to a maximum of 75% of base salary. Upon termination of employment by the company, remuneration will be paid for a maximum of 18 months. The age of retirement for the CEO is 65. Pension benefits are a defined contribution plan and equal 30% of base salary. The pension benefits expense for Marcus Hedblom amounted to EUR 130 thousand (last year EUR 145 thousand).

Remuneration to group management (excluding the CEO)

Group management was composed of 9 (7) individuals in addition to the CEO and is presented on Page 94–95. Members of group management excluding the CEO were paid salary and other employee benefits by the company totalling EUR 2,417 (1,712) 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 508 (478) thousand. In 2017, one of the senior executives invoiced the company for the remuneration, since this person is not employed by Ovako. The cost is included in base pay.

	2017		2016	
Management gender distribution at 31 December	Female	Male	Female	Male
Board and CEO	1	8	—	9
Other senior executives	2	7	1	6

NOTE 29 Pledged collateral and contingent liabilities

EURm	31 Dec 2017	31 Dec 2016
Pledged collateral		
Pledged assets	2,017.7	1,919.3

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

Contingent liabilities	31 Dec 2017	31 Dec 2016
Guarantees	2.1	1.3
Pension liabilities	0.8	0.8

NOTE 30 Legal disputes

As described in Ovako's annual reports for 2015 and 2016, the tax authority in Finland has sought to limit the deductibility of interest expense on loan from Ovako Finland Oy Ab's Swedish parent company. The authority has expanded its previous demand to limit the deductibility of interest expenses for the years 2010–2013 to also apply to the years 2014–2016. The notice of amended tax assessment includes a demand for payment of approximately EUR 6.1 million (including interest and penalties) and the total demand now amounts to EUR 15.6 million. In consideration of generally accepted practices for interest deductions in Finland during the aforementioned period and after consultation with external tax lawyers, Ovako has, as before, appealed the tax authority´s demands. Until the appeal has been finally determined, Ovako will not have to comply with the demand for payment. Ovako's opinion is that the company's position is correct and consequently no provision had been made in the accounts for the amount in dispute.

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

NOTE 31 Restatement of previously reported values for deferred tax

The company has restated previously reported deferred tax attributable to receivables denominated in EUR in Swedish group companies whose presentation currency is EUR. Moreover, the company has initiated measures that will be completed during the first half of 2018 that will affect the value of deferred tax relating to these receivables. Considering this, the deferred tax liability as of 31 December 2017 for remaining receivables amounts to EUR 2.0 million, which is included in the company's balance sheet.

Background

The taxation for receivables in EUR in Swedish group companies whose presentation currency is EUR is covered by the rules on capital gains, where an acquisition cost for tax purposes is established in SEK at the date the receivable arises, whereas the carrying amount of the receivable is equal to the SEK-value on the relevant day. This gives rise to a temporary difference and accordingly, deferred tax must be recognized on the difference between the carrying amount and the tax base of these receivables, which Ovako has not previously done. The tax base of the same liability at the counterparty, or of the group's external debt in EUR, is not the same, however, because the tax base of such liabilities is equal to the carrying amount. Consequently, there is an asymmetry relating to deferred tax expense or income that has no connection to recognized profit and loss. The tax is payable only if the receivables are disposed of and capital gains resulting from these exchange variations remain at that time.

During the first half of 2018, Ovako will offset some of the receivables as well as merge entities, which means that a major part of the receivables will be extinguished. Both offsetting measures and mergers will be carried out without tax consequences. After the mergers, there is no longer a difference between the tax base and the carrying amount of the receivables and thus no related deferred tax. Considering this, the deferred tax liability as of 31 December 2017 for remaining receivables amounts to EUR 2.0 million, which is included in the company's balance sheet.

Corrections

The measures had not been initiated when the 2016 annual report was published and previously recognized deferred tax has therefore been corrected in the comparison figures presented in this annual report, see table below. The liabilities adjusted were: at 1 Jan 2016 EUR 1.9 million and at 31 Dec 2016 EUR 6.8 million. This also means that the net result for the year 2017 was been positively impacted by EUR 4.8 million since the corresponding liability at the end of the year was EUR 2.0 million. In addition, the information in the five-year review on page 45 and page 96 has been adjusted. Information affected is reported tax costs, net result, equity, deferred tax liability and key ratios that are calculated using these measures.

Parent company

Of the deferred tax liability at the end of the year for the group, EUR 0.0 million refers to the parent company. Of the liability at the beginning of 2016 and 2017, EUR 0.2 million and EUR 0.7 million respectively refers to the parent company. The comparative numbers in the parent company financial reports have not been restated.

EURm	2016		
In income statement	Reported	Adjustment	Adjusted
Tax	2.3	–4.9	–2.6
Result for the year	–11.8	–4.9	–16.7

EURm	Dec 31 2016		
In balance sheet	Reported	Adjustment	Adjusted
Deferred tax liability	34.8	6.8	41.6
Equity	119.8	–6.8	113.0

Parent company income statement

EURk	Note	2017	2016
Revenue		—	—
Administrative expenses	2	–320	–218
OPERATING PROFIT		–320	–218
Financial income	3	584	600
Financial costs	4	–17	–14
PROFIT/LOSS AFTER FINANCIAL ITEMS		247	368
Group contribution	5	11,859	876
PROFIT/LOSS BEFORE TAX		12,106	1,244
Taxes	6	–2,758	–193
PROFIT/LOSS FOR THE YEAR		9,348	1,051

Parent company statement of comprehensive income

EURk	Note	2017	2016
Profit/loss for the year		9,348	1,051
Other comprehensive income		—	—
Total comprehensive income for the year		9,348	1,051

Parent company balance sheet

EURk	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Non-current financial assets			
Investments in subsidiaries	7	139,823	139,823
Receivables from group companies	5	25,439	24,859
Deferred tax assets	8	—	2,732
Total		165,262	167,414
Total non-current assets		**165,262**	**167,414**
Current assets			
Receivables from group companies	5	61,821	37,823
Other current receivables		89	—
Cash and cash equivalents		22	—
Total current assets		**61,932**	**37,823**
TOTAL ASSETS		**227,194**	**205,237**
EQUITY AND LIABILITIES			
Equity	9		
Share capital		6	6
Restricted equity		**6**	**6**
Retained earnings		203,982	190,791
Profit/loss for the year		9,348	1,051
Non-restricted equity		**213,330**	**191,842**
Total equity		**213,336**	**191,848**
Non-current liabilities			
Deferred tax liabilites	8	26	—
Total non-current liabilities		**26**	**—**
Current liabilities			
Liabilities to group companies	5	13,656	13,389
Other current liabilities		176	—
Total current liabilities		**13,832**	**13,389**
TOTAL EQUITY AND LIABILITIES		**227,194**	**205,237**

Disclosure of the group's pledged collateral can be found in note 10.

Parent company statement of cash flows

EURk	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		–320	–218
Change in working capital		342	218
Cash flows from operating activities		**22**	**0**
Cash flows from investing activities		**—**	**—**
Cash flows from financing activities		**—**	**—**
Change in cash and cash equivalents		**22**	**0**
Cash and cash equivalents at 1 January		0	0
Translation differences in cash and cash equivalents		0	0
Cash and cash equivalents at 31 December		**22**	**0**

Parent company statement of changes in equity

2017 EURk	Restricted equity: Share capital	Non-restricted equity: Retained earnings	Total equity
Equity at 1 January 2017	**6**	**191,843**	**191,849**
Comprehensive income for the year	—	9,348	9,348
Dividend	—	–88,000	–88,000
Unconditional shareholder contribution	—	100,139	100,139
Equity at 31 December 2017	**6**	**213,330**	**213,336**

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

Notes

NOTE 1 Summary of 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 2017 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 Audit fees

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

NOTE 3 Financial income

EURk	2017	2016
Interest income arising from group companies	580	568
Exchange rate gains, net	4	32
Total	**584**	**600**

NOTE 4 Financial costs

EURk	2017	2016
Interest expenses to group companies	–9	–14
Other interest expenses	–8	—
Total	**–17**	**–14**

NOTE 5 Related-party transactions

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

A group contribution of EUR 12,139 thousand was provided to Triako Holdco AB and EUR 23,998 thousand was received from subsidiary Ovako AB (publ). Last year a group contribution of EUR 876 thousand was received from the subsidiary Ovako AB (publ).

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

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

NOTE 6 Taxes

Tax revenue and deferred tax asset refer to deferred tax attribute to loss-carryforward.

EURk	2017	2016
Current tax	—	—
Deferred tax	–2,732	–193
Total	**–2,732**	**–193**
Profit/loss before tax	12,106	1,244
Income tax calculated on Swedish corporate tax rate of 22%	–2,663	–274
Use of loss carry-forwards previously not valued	—	81
Loss carry-forwards not valued	–69	—
Other taxable income	–26	—
Income taxes recognised in profit and loss	**–2,758**	**–193**

NOTE 7 Investments in subsidiaries

Name of company	Interest and voting rights, %	Number of shares	**31 Dec 2017 Carrying amount**	31 Dec 2016 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 8 Deferred tax asset and liability

EURk	Balance at 1 January 2017	Recognised in profit and loss	**Balance at 31 December 2017**
Deferred tax assets			
Losses	2,732	–2,732	0
Total	**2,732**	**–2,732**	**0**
Deferred tax liabilities			
Other receivables	—	26	26
Total	**—**	**26**	**26**
Net deferred tax	**2,732**	**–2,758**	**–26**

EURk	Balance at 1 January 2016	Recognised in profit and lossn	**Balance at 31 December 2016**
Losses	2,925	–193	2,732
Total	**2,925**	**–193**	**2,732**

NOTE 9 Equity

There are 50 000 (2016: 50 000) shares outstanding in Ovako Group AB. Share capital amounts to 5 547 EUR. The quotient value per share is EUR 0.11 (0.11). All shares are fully paid.

NOTE 10 Pledged collateral

EURk	**2017**	2016
Investments in subsidiaries	139,823	139,823
Receivables from group companies	40,813	39,467
Total pledged collateral	**180,636**	**179,290**

Pledged shares and receivables refer to pledged collateral for the Group's bond loan.

NOTE 11 Disposition of profit

The Board of Directors proposes transfer of profits to retained earnings

	2017
Retained earnings, EUR	203,981,941
Profit/loss for the year, EUR	9,348,177
Total	**213,330,118**

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 finan-cial statements were prepared in accordance with International Finan-cial 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 fi-nancial position and earnings, and that the statutory administra-tion report provides a fair presentation of the group's and parent com-pany's operations, financial position and earnings and describes significant risks and uncertainties facing the parent com-pany and the companies included in the group.

Stockholm 9 March 2018

Joakim Olsson
Chairman of the Board

Tore Bertilsson
Vice Chairman of the Board

Marcus Hedblom
President and CEO

Martin Ivert
Director

Johan Pernvi
Director

Sakari Tamminen
Director

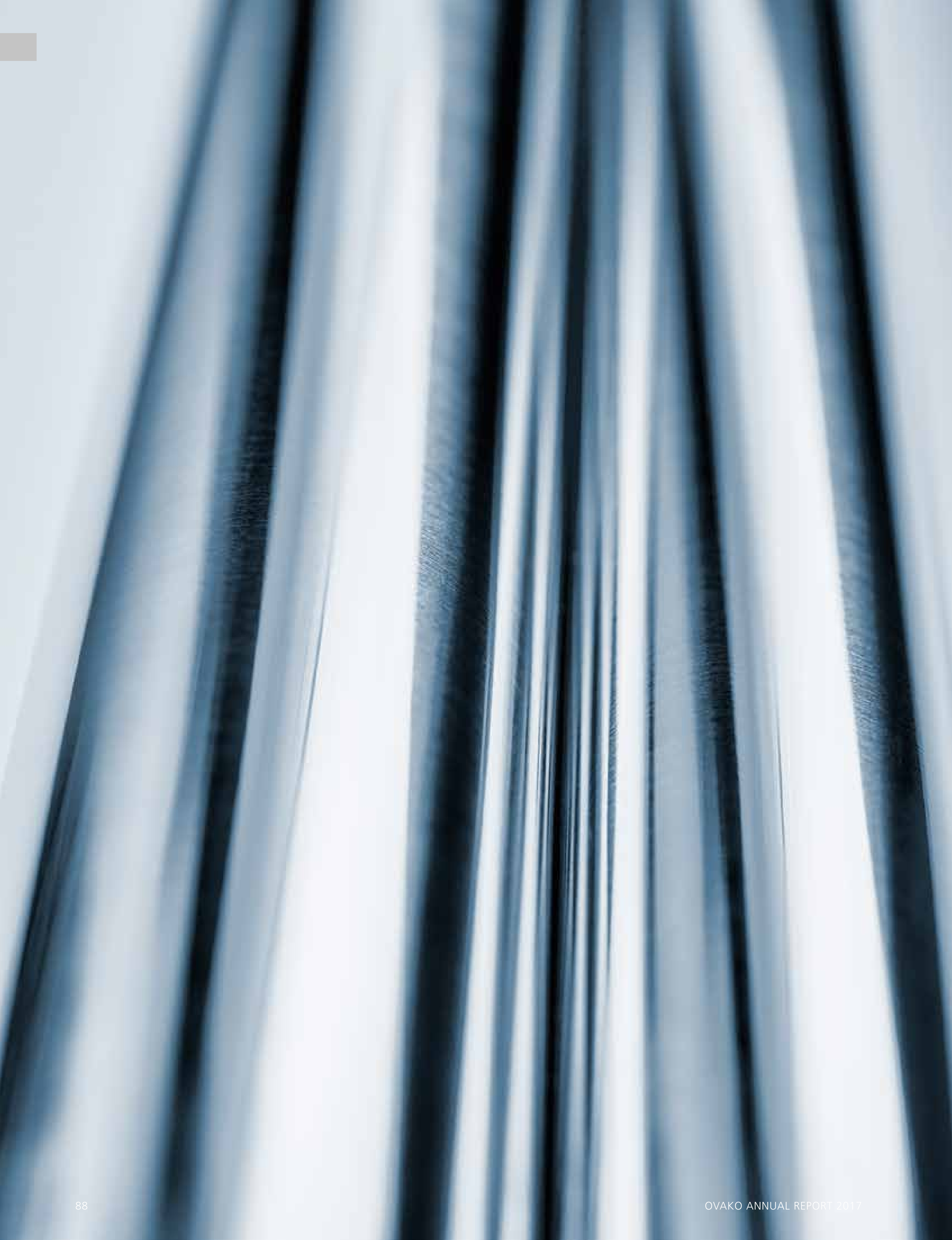
Ingalill Östman
Director

Robert Nilsson
Employee Representative

Timo Viiperi
Employee Representative

Our audit report was submitted on 12 March 2018
Ernst & Young AB

Heléne Siberg Wendin
Authorised Public Accountant



Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Ovako Group AB for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 42–87 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information is found on pages 1–41 in this document.

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

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

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors [and the Managing Director].
- Conclude on the appropriateness of the Board of Directors' [and the Managing Director's] use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ovako Group AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

Act, the Annual Accounts Act or the Articles of Association.

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

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

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

Stockholm den 12 mars 2018
Ernst & Young AB

Heléne Siberg Wendin
Authorized Public Accountant

Board of directors




	JOAKIM OLSSON	TORE BERTILSSON	INGALILL ÖSTMAN	MARTIN IVERT
	Chairman	Vice Chairman	Director	Director
Birth year	1965	1951	1956	1948
Nationality	Sweden	Sweden	Sweden	Sweden
Operational position	Senior Industry Expert at Triton Partners	—	Director Corporate Communications at Castellum AB	—
Education	MBA and M.Sc. in Mechanical Engineering	Bachelor of Business Administration, Finance and Economics	M.Sc. Mechanical Engineering	M.Sc. (Metallurgy)
Elected to the board	2015	2018	2017	2010
Other board assignments	Chairman in Seves Group SARL and Director FläktGroup GmbH.	Chairman in Perstorp, Semcon, PRI Pensionsgaranti, Ludvig Svensson and Salinity and Director in INGKA Holding BV(IKEA) and JCE Group.	Länsförsäkringar in Gothenburg Bohuslän and Allgon AB.	—

JOHAN PERNVI	SAKARI TAMMINEN	ROBERT NILSSON	TIMO VIIPERI
Director	Director	Employee Representative	Employee Representative
1978	1953	1981	1960
Sweden	Finland	Sweden	Sweden
Investment Advisory Professional at Triton Advisers (Sweden) AB	—		
Master of Business Administration	M.Sc. (Econ)		
2016	2014	2011	2016
Logstor Holding A/S	Chairman Versowood and M.J. Paasikivi Oy, Director Danske Bank Finland Plc and Severstal Group.		

Deputy Employee Representatives

Jan Helgesson
Birth year: 1958
Elected to board: 2015
Employed at Ovako: 1979

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

Management





	MARCUS HEDBLOM	JOHAN RYRBERG	PHETRA ERICSSON	GÖRAN NYSTRÖM	MATHIAS TILLMAN
Birth year	1970	1959	1969	1962	1976
Nationality	Sweden	Sweden	Sweden	Sweden	Sweden
Position	President & CEO	CFO, EVP Group Finance, IT & Purchasing	EVP Group HR, Communication & SHE	EVP Group Marketing & Technology	President BU Hällefors until September 30 & EVP Group Sales
Employed at Ovako	2011	2016	2011	2012	2013
Education	M.Sc. (Industrial Engineering and Management)	Master of Business Administration	BSc in Business and Economics	M.Sc. (Engineering Physics)	M.Sc. (Metallurgy) and MBA
Previous positions:	Deputy CFO at SAS Group, CEO of Spanair, CFO at SAS Sverige, Management Consultant at McKinsey & Co, Production Engineer at Scania.	CFO Instalco, Executive VP & CFO Camfil Group, Area Manager Camfil Asia, COO & VP Business Support Camfil Group, Director Finance & Administration Anixter Sweden.	Head of HR at Ovako Hällefors, Head of HR Europrofil AB, Controller Logstor AB.	SVP Supply at Sandvik Tooling, SVP Supply at Sandvik Mining and Construction, VP Sales and Marketing at Sandvik Materials Technology.	Unit Manager at Sandvik Hard Materials, Head of Research and Development at Sandvik Hard Materials.

RICKARD QVARFORT	CARL-MICHAEL RAIHLE	JANNE PIRTTIJOKI	ERIK BOHMAN	STINA THORMAN
1967	1963	1970	1973	1965
Sweden	Sweden	Finland	Sweden	Sweden
President BU SmeBox	President BU Hofors	President BU Imatra	Managing Director Cromax until September 30 & President BU Hällefors	Head of Investor Relations
1993	2011	2015	2011	2017
BM.Sc. (Metallurgy)	Ph.D., M.Sc. (Metallurgy)	M.Sc. (Eng.)	M.Sc. Business Administration and M.Sc. (Industrial Engineering and Management)	BSc in Business and Economics
President of Business Area Tube and Ring, senior positions at Ovako and SKF Steel.	Executive Vice President Rolled Products and Chief Technology Officer Luvata.	Senior positions at SSAB and Ruukki.	MD Cromax, Head of business development Ovako, BU President Aftermarket Dynapac, Consultant at Mckinsey.	VP Corporate Communications, Elekta AB, Head of Investor Relations, Scania CV AB.

KPIs
– calculations and reconcilations to financial statements

From Income Statement, EUR million (if not otherwise stated)		**2017**	2016	2015	2014	2013
Revenue	A	921.3	780.8	834.1	862.1	849.9
Net result		15.2	–16.7	–19.1	–20.6	–22.0
+ Taxes		0.8	2.6	–6.9	2.6	–4.8
+ Financial income and expenses, net		39.7	23.1	26.6	32.7	26.2
EBIT	B	**55.7**	**9.0**	**0.6**	**14.7**	**–0.6**
+ Amortization of surplus values		9.5	9.0	11.6	24.0	19.4
EBITA	C	**65.2**	**18.0**	**12.2**	**38.7**	**18.8**
+ Depreciation		31.1	31.9	31.3	29.8	27.7
EBITDA	D	**96.3**	**49.9**	**43.5**	**68.5**	**46.5**
EBIT margin %	*B/A*100*	*6.0*	*1.2*	*0.1*	*1.7*	*–0.1*
EBITA margin %	*C/A*100*	*7.1*	*2.3*	*1.5*	*4.5*	*2.2*
EBITDA margin %	*D/A*100*	*10.5*	*6.4*	*5.2*	*7.9*	*5.5*
Net result (EUR thousand)	E	15,214	–16,710	–19,119	–20,559	–21,992
Number of shares	F	50,000	50,000	50,000	50,000	50,000
Earnings per share	**E/F*1000**	**304**	**–334**	**–382**	**–411**	**–440**

Adjusted for restructuring, EUR million (if not otherwise stated)		**2017**	2016	2015	2014	2013
Impairments related to restructuring	G[1]	0.7	—	2.7	0.6	—
Restructuring cost	H[1]	3.3	6.9	4.0	—	3.7
EBIT before restructuring	**I=B+G+H**	**59.7**	**15.9**	**7.3**	**15.3**	**3.1**
EBITA before restructuring	**J=C+H**	**68.5**	**24.9**	**16.2**	**38.7**	**22.5**
EBITDA before restructuring	**K=D+H**	**99.6**	**56.8**	**47.5**	**68.5**	**50.2**
Adjusted EBIT margin %	*I/A*100*	*6.5*	*2.0*	*0.9*	*1.8*	*0.4*
Adjusted EBITA margin %	*J/A*100*	*7.4*	*3.2*	*1.9*	*4.5*	*2.6*
Adjusted EBITDA marginal %	*K/A*100*	*10.8*	*7.3*	*5.7*	*7.9*	*5.9*

From Balance Sheet, EUR million (if not otherwise stated)		**2017-12-31**	2016-12-31	2015-12-31	2014-12-31	2013-12-31
Equity	L	**114.3**	**113.0**	**133.0**	**143.0**	**150.5**
+ Non-current interest-bearing liabilities		303.0	295.0	293.0	291.0	221.5
+ Current interest-bearing liabilities		—	—	—	0.1	40.7
./. Cash and cash equivalents		52.4	49.2	49.1	65.0	20.6
Net debt, excl provisions for pension	M	**250.6**	**245.8**	**243.9**	**226.1**	**241.6**
+ Provision for pension		80.3	74.8	68.0	76.7	72.5
Net debt	N	**330.9**	**320.6**	**311.9**	**302.8**	**314.1**
Net debt/equity ratio, excl provision for pension %	*M/L*100*	*219*	*218*	*183*	*158*	*161*
Net debt/equity ratio %	*N/L*100*	*290*	*284*	*235*	*212*	*209*
Equity		114.3	113.0	133.0	143.0	150.5
+ Non-current interest-bearing liabilities		303.0	295.0	293.0	291.0	221.5
+ Current interest-bearing liabilities		—	—	—	0.1	40.7
+ Provision for pension		80.3	74.8	68.0	76.7	72.5
Capital employed		**497.6**	**482.8**	**494.0**	**510.8**	**485.2**
Average Capital Employed	O[2]	490.2	488.4	502.4	498.0	496.6
EBIT LTM	P[3]	55.7	9.0	0.6	14.7	–0.6
Return on Capital Employed %	*P/O*100*	*11*	*2*	*0*	*3*	*0*

1, 2, 3) Definitions on page 97

Definitions

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

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

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

Financial KPIs derived from the financial statements

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

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

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

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

Adjusted EBITDA – EBITDA excluding restructuring costs

Adjusted EBITA – EBITA excluding restructuring costs

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

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

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

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

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

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

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

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

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

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

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

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

Calculation are presented in the table on Page 96.

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

Our production is based on recycled scrap and includes steel in the form of bar, tube, ring and pre-components. Ovako is represented in more than 30 countries, and has sales offices in Europe, North America and Asia. Ovako's sales in 2017 amounted to EUR 921 million, and the company had 3,040 employees at year-end. For more information, please visit us at www.ovako.com

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