

# GRÄNGES ANNUAL REPORT 2016

**GRÄNGES IS A  
GLOBAL LEADER  
IN ALUMINIUM  
ENGINEERING,  
MANUFACTURING  
AND INNOVATION**

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# 2016 IN BRIEF

## INCREASED PROFITABILITY AND A KEY STRATEGIC ACQUISITION

- Sales volume increased to 239.1 ktonnes (163.9). Excluding the acquired business in the US, sales volume increased by 7.6 per cent<sup>1)</sup>.
- Net sales increased to SEK 7,207 million (5,494).
- Acquisition of Noranda's downstream rolled aluminium operations in the US, and new contracts resulted in a strong increase in sales in the Americas.
- Adjusted operating profit increased by 27.0 per cent to SEK 687 million (541), corresponding to an adjusted operating margin of 9.5 per cent (9.8). Excluding the acquired business, adjusted operating profit rose 10.9 per cent to SEK 600 million.
- Profit for the period increased to SEK 498 million (379). Diluted earnings per share increased to SEK 6.64 (5.07).
- Cash flow before financing activities amounted to SEK -2,046 million (600), and includes cash consideration for the acquisition in the US of SEK 2,581 million.
- Return on capital employed was 17.5 per cent (18.1).
- Net debt amounted to SEK 2,722 million (275) as of December 31, 2016, which corresponds to 2.1 times adjusted EBITDA (0.4).
- New strategy and financial and operating targets for 2020 was launched.

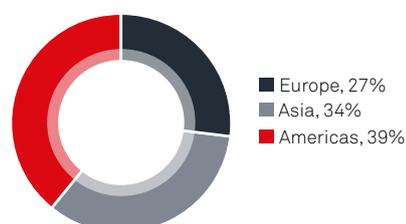
1) The Noranda downstream operations are consolidated into Gränges accounts from 22 August, 2016.

### Financial summary

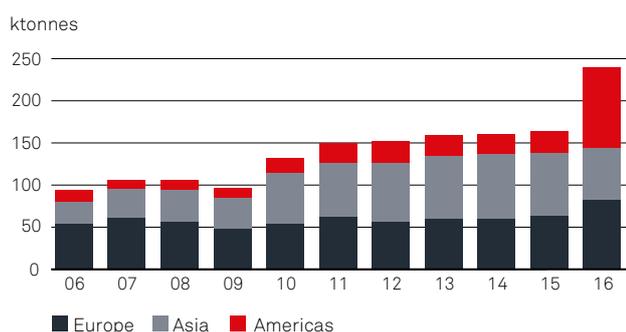
SEK million	2016	2015	Change
Sales volume, ktonnes	239.1	163.9	45.9%
Net sales	7,207	5,494	31.2%
Adjusted operating profit <sup>2)</sup>	687	541	27.0%
Adjusted operating margin, %	9.5	9.8	-0.3 ppt
Adjusted operating profit per tonne, kSEK	2.9	3.3	-0.4
Operating profit	559	538	3.9%
Operating margin, %	7.8	9.8	-2.0 ppt
Profit for the year	498	379	31.4%
Earnings per share basic, SEK	6.66	5.07	1.59
Earnings per share diluted, SEK	6.64	5.07	1.58
Cash flow before financing activities	-2,046	600	n/a
Equity/assets, %	37.0	56.8	-19.8 ppt
Net debt	2,722	275	2,447
Return on capital employed, %	17.5	18.1	-0.7 ppt

2) Adjusted for items affecting comparability (see Note 12 on page 87).

### Sales volume per region, 2016



### Sales volume, 2006–2016



### Adjusted operating profit, 2012–2016



# THE YEAR IN BRIEF

## QUARTER BY QUARTER

### Q1

- Sales volume increased by 5.7 per cent while adjusted operating profit was unchanged.
- Strong growth in Europe and the Americas, stable in Asia.
- Launch of a new strategy and new financial and operating targets for 2020, focusing on innovation and growth.

### Q2

- Sales volume increased by 7.0 per cent and adjusted operating profit by 13.6 per cent.
- Recovery in Asia and substantially increased sales in the Americas.
- Offer made for Noranda's rolled aluminium operations in the US.

### Q3

- Acquisition of Noranda's rolled aluminium operations in the US.
- Sales volume increased by 61.5 per cent and adjusted operating profit by 61.2 per cent. Excluding the acquired business in the US, sales volume increased by 5.6 per cent and adjusted operating profit by 17.0 per cent.
- Continued strong organic sales growth in Asia and Americas.

### Q4

- Sales volume increased by 117.6 per cent and adjusted operating profit by 47.6 per cent. Excluding the acquired business in the US, sales volume increased by 12.3 per cent and adjusted operating profit by 15.2 per cent.
- Continued strong demand in Asia and the Americas.
- Gränges adopts the UN Global Compact.

## NORANDA ACQUISITION

# GRÄNGES STRENGTHENS POSITION IN NORTH AMERICA

**IN AUGUST 2016**, Gränges acquired Noranda's rolled aluminium operations in the US. The acquisition, which means that Gränges' more than doubles its sales volume, is strategically important and in line with Gränges' target of being market leading in all geographical regions by 2020. Noranda's operations represent a good complement to Gränges' current business, and strengthens the position in the Americas and globally, which creates excellent opportunities for continued profitable growth.

## THERE ARE THREE STRATEGIC RATIONALES FOR THE ACQUISITION:

### 1. Access to production capacity in North America

The acquired business has one of the most modern and efficient rolled aluminium production facilities in North America, and has a skilled and experienced organisation. Gränges obtains a solid platform for growth and reduces risk for overseas deliveries to customers in North America.

### 2. Access to a strong position in stationary heat exchangers (HVAC)

The acquired business has a number one position and a strong customer base in the North American stationary heat exchanger market. Gränges gains access to major customer accounts in this area, and becomes even better positioned to drive the conversion to brazed product solutions.

### 3. Access to attractive adjacent market niches

The acquired business also has strong positions in attractive adjacent market niches in rolled aluminium. Gränges thus diversifies its business portfolio and strengthens its overall position on the market for rolled aluminium products.

## ABOUT NORANDA'S OPERATIONS

Noranda downstream, (now part of Gränges Americas), manufactures rolled aluminium products for customers in North America, which include air conditioning, transformer windings, food packaging, heat shields and other niche products. The company is a significant supplier in all these markets. The rolling mills are strategically located in the Southeastern US. The rolling mill in Huntingdon, Tennessee, is one of the most modern and cost efficient rolling mills in North America, and accounts for some 80 per cent of the company's sales volume. Total capacity amounts to around 180 ktonnes, and the number of employees stands at approximately 550.

"The acquisition of Noranda downstream is an important step to ensuring that Gränges achieves the targets outlined in its 2020 strategy."

Johan Menckel, CEO



# A LEADING POSITION ON THE GLOBAL MARKET

Gränges is a global leader in aluminium engineering, manufacturing and innovation. We focus on rolled products for heat exchangers and selected niche applications. Our vision is to transform the world through innovative, aluminium engineering.

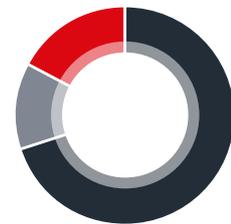
## >> SALES BY MARKET<sup>1)</sup>

Gränges end-customers are in the automotive industry, the stationary heat exchanger industry, and niche markets such as transformers and food packaging.

**Automotive heat exchangers:** Around half of all cars produced in the world today have heat exchangers that contain Gränges materials and expertise.

**Stationary heat exchangers:** There is a rise of aluminium as a stationary heat exchanger material. Gränges has a strong position in this shift.

**Other:** In North America, aluminium is the preferred choice of winding material for transformers, in which market Gränges holds a lead. Aluminium foil has many superior properties which makes it suitable for food containers. Gränges is a major supplier in this market in the US.



Reported sales volume 2016.

## >> SALES BY REGION<sup>1)</sup>

From 2017, Americas is expected to account for about 60% of Gränges' sales volume.

**Europe:** Gränges has a leading position in rolled products for brazed aluminium heat exchangers.

**Asia:** Gränges has a leading position in rolled products for brazed aluminium heat exchangers.

**Americas:** Gränges has a leading position in rolled aluminium products for stationary heat exchangers and transformers. Gränges has a number two position in rolled products for aluminium heat exchangers for the automotive industry, and for the food container industry.



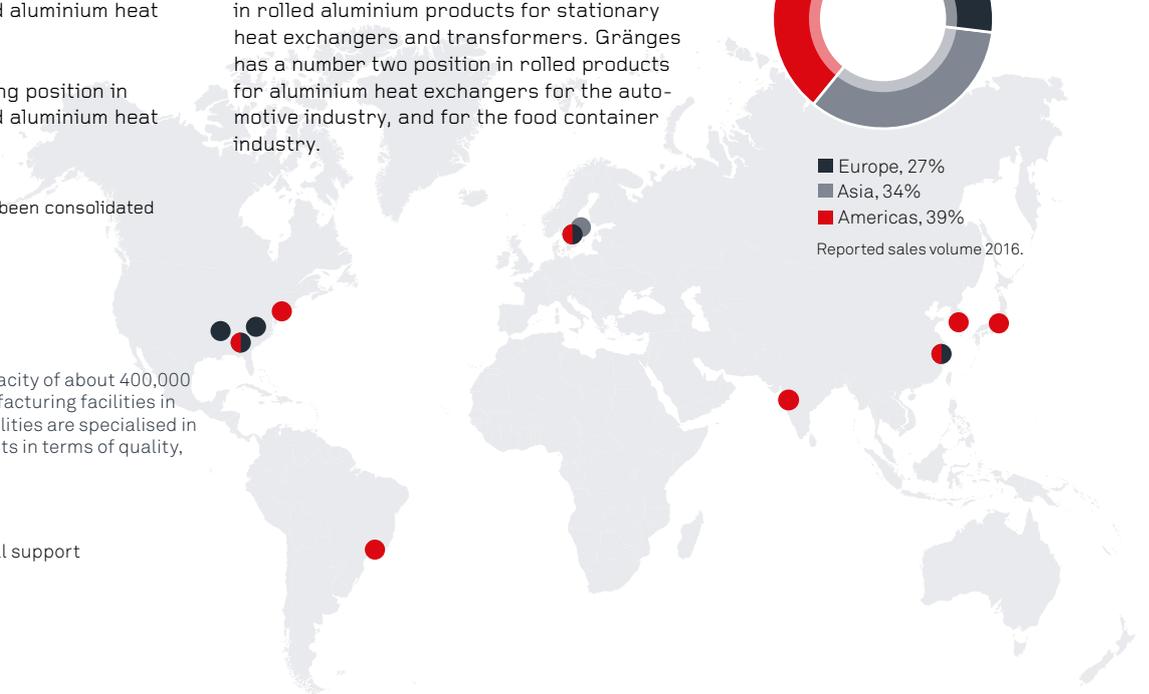
Reported sales volume 2016.

1) The acquired business has been consolidated from August 22, 2016.

### Key production facilities

Gränges has a production capacity of about 400,000 tonnes split across four manufacturing facilities in three continents. All these facilities are specialised in meeting customer requirements in terms of quality, flexibility, and delivery.

- Headquarter
- Sales offices and technical support
- Production sites



## THE INVESTMENT CASE FOR GRÄNGES

## 8 STRENGTHS FOR CONTINUED PROFITABLE GROWTH

**1 Market leading position**

Gränges has a leading position in the global market for rolled aluminium products for heat exchanger and other niche markets. The market share in the niche for material for brazed aluminium heat exchangers amounted to approximately 20 per cent in 2016.

**2 Close to customers**

Our customers are primarily larger companies. Geographical proximity to customers in their respective markets is necessary to meet customer demand. Gränges has its own production capacity and a strong customer base in all major markets. Gränges' ten largest customers account for 53 per cent of the company's sales volume in 2016.

**3 Industrial craftsmanship**

Many companies – large and small – are involved in rolling aluminium products, the majority of which offer large-scale manufacturing according to standardized specifications. However, few have the comprehensive competence required to produce the technologically advanced materials in which Gränges specialises.

**4 A leader in brazing materials**

Brazing is the pre-eminent technology within manufacturing of aluminium heat exchangers for the automotive industry. The use of this technology is also expected to increase for stationary heat exchangers in the coming years. This is a market in which Gränges has secured a leading position in North America through its acquisition of Noranda downstream.

**5 High technology content**

Customers have exacting requirements in terms of product performance and metallurgical properties. The development of heat exchanger materials for a specific heat exchanger typically takes around two years. For many years, Gränges' research and development has been conducted in close co-operation with customers, and the pace of innovation is rapid. During 2016 Gränges obtained 52 new patents.

**6 Strong presence in Asia**

In 2016 34 per cent of Gränges' sales volume originated in Asia, of which the Chinese market amounted to around half. Gränges established operations in China back in 1996, and has built up a leading position in the region since then. Asia is the market that is expected to grow fastest in the years ahead.

**7 Well-invested facilities**

Gränges production facilities in China, Sweden and the US have a total annual capacity of 400,000 tonnes, and are well invested. In the coming years, annual maintenance investment is expected to be lower than depreciation.

**8 A stable revenue model**

Under Gränges' revenue model, the cost of our primary raw material, aluminium, is passed on to customers. Gränges' performance is therefore not dependent on fluctuations in the price of aluminium. The Group's income is based on the value that is added to products.

## AUTOMOTIVE HEAT EXCHANGERS

Demand for automotive heat exchanger strips is closely tied to the global automotive industry as well as the number of heat exchangers installed per vehicle. A number of unique heat exchangers are developed for every new vehicle platform. This development is conducted in close co-operation with customers to ensure that the end-product has the required capacities. Advanced requirements for product performance, especially in terms of energy efficiency, mean that brazed aluminium heat exchangers are currently the prevalent technology in this industry.

## STATIONARY HEAT EXCHANGERS

A large number of manufacturers, end-users and applications fragment the market for stationary heat exchangers. The market includes commercial and residential property, data centres, and manufacturing. Together, these areas account for a considerable share of energy consumption in many countries. Demand for reduced energy use and limits to the amount of, and choice of, refrigerants is driving demand for smaller and lighter heat exchangers, and is speeding up the shift to brazed aluminium heat exchangers, which currently account for a small percentage of the total market.

# A LARGER, STRONGER GRÄNGES – WITH GREAT RESPONSIBILITY

With the acquisition of Noranda downstream we have doubled sales but we continue to focus on long-term growth, while retaining profitability.

## **GIVE US AN IDEA OF WHAT THE ACQUISITION OF NORANDA DOWNSTREAM MEANS?**

Noranda gives us not only a platform to broaden our exposure in the US automotive industry; it also provides us with a strong position in the stationary heat exchanger market and other niche markets. Gränges at the end of 2016 is a very different company to the one that started the year. Today, we are one of few global players in rolled aluminium products for heat exchangers and selected niche applications, with the potential to grow on all major markets and in several key product categories. We are now working on integrating operations in the US to effectively share knowledge and technologies in the same way that we have done with our operations in Sweden and China for 20 years.

**“TODAY, WE ARE ONE OF FEW GLOBAL PLAYERS IN ROLLED ALUMINIUM PRODUCTS FOR HEAT EXCHANGERS AND SELECTED NICHE APPLICATIONS, WITH THE POTENTIAL TO GROW ON ALL MAJOR MARKETS AND IN SEVERAL KEY NICHES”**

## **SO YOU'VE ACHIEVED THE GOALS OUTLINED IN THE NEW STRATEGY LAUNCHED IN SPRING 2016?**

We have taken big leaps towards these goals. And the strategy remains intact. We're set to drive growth through innovation, increase efficiency through continuous improvements, grow through acquisitions and add value through our sustainability initiatives. This will result in us out-performing the market, becoming a leader in all our regions while retaining profitability. With the Noranda acquisition, we have taken an important step to achieve these goals. At the same time, we are working in an industry characterized by extended business cycles. As market leader, we have a responsibility to drive the development in a direction that favors all our stakeholders, hence our strong focus on sustainability as an integrated aspect in everything we do. As a result of our focus on sustainability, we signed the UN Global Compact in 2016 and we are committed to continuously integrate the ten principles in our strategy and operations.

## **HOW ARE YOUR MARKETS DEVELOPING OVERALL?**

While the automotive industry's share of our sales volume has decreased from 90 per cent to around 50 per cent, it remains considerable. In 2016 we saw a marked upward trend in all our markets. Car sales in China recovered following the introduction of new tax subsidies, and our sales were lifted by this positive development. In Europe, we continued to grow our share of a market character-

ised by modest growth. In the Americas, excluding the acquisition, new customer contracts contributed to a substantial increase in sales. The contribution from the acquired business to our sales volume towards the end of the year was of course sizable. The sales volume was primarily driven by the strong organic growth that the business registered in markets such as stationary heat exchangers (HVAC) where unusually warm weather in the US fueled demand for air conditioning systems. The development in our various markets in 2017 is, naturally, hard to determine. Forecasts suggest that growth in vehicle sales will be modest in Asia and the US, while Europe is projected to continue its dampened but still positive growth. For stationary heat exchangers, the link to the late-cycle construction and property sector provides the right conditions for continued good growth – even if the global economy experiences a period of relative calm.

## **WHAT EFFECTS DO YOU SEE OF YOUR INCREASED FOCUS ON R&I?**

We have, for example, been even more effective in our close-customer product development, which is important for improving each stage of products' life-cycle together with customers. In terms of our long-term strategic research, there are a lot of exciting things happening, especially in areas such as energy consumption and improved cost efficiency. With our comprehensive pipeline of development programs, we are well positioned to meet the challenges that our customers face in the long term.

### **FOLLOWING AN EVENTFUL AND SUCCESSFUL 2016, WHAT WILL YOU FOCUS ON IN 2017?**

Even though we have doubled sales though the acquisition of Noranda downstream, we continue to focus on growth while retaining profitability. The key to this is of course to harness the advantages that the new organisation offers. During the year, we will complete an evaluation of the potential for manufacturing clad products at our plants in the US, an important long-term initiative to meet demand from our North American customers in the automotive industry. We will also benefit from our leading position in stationary heat exchangers to strengthen our offering and sales in this important area in all geographical markets. Our dedicated and long-term investment in innovation and sustainability drives our development. I often say that our most important ingredient for success is, in close co-operation with our customers, our ability to support changes that have positive effects on society. It's a responsibility that we have as the market leader, and one that I and my 1,500 colleagues around the world will take with us as we embark on the next phase of Gränges' more than 120-year history.



Johan Menckel, CEO



### **FOCUS 2017**

- Increase customer driven R&I by using our competences in aluminium materials and processing
- Further develop our sustainability strategy based on the foundation laid in 2016
- Drive operational excellence to achieve cost efficiency
- Evaluate investments to increase our capacity and capabilities in the US
- Assess long-term growth opportunities in Asia

# GREATER FOCUS ON GROWTH AND INNOVATION

Gränges' goals and strategy for 2020 was presented in March 2016. By focusing on developing and strengthening our leading, global position in aluminium heat exchanger materials, Gränges expects to achieve growth in all geographical regions, with sustained and sustainable profitability.

## >> STRATEGY 2020

Gränges' 2020 strategy has four pillars:

### 1 DRIVE GROWTH THROUGH INNOVATION

Gränges wants to lead the development of heat exchanger materials and advanced aluminium solutions and to be the customers' preferred choice.

### 3 INCREASE EFFICIENCY THROUGH CONTINUOUS IMPROVEMENTS

Gränges aims to increase productivity, process stability and energy efficiency and to reduce waste in our operations.

### 2 CREATE VALUE FROM SUSTAINABILITY

Gränges strives to be a sustainable link in the value chain by reducing its environmental footprint and by enforcing the strictest of work place safety standards.

### 4 GROW PRESENCE THROUGH STRUCTURAL EXPANSION

Gränges plans to invest in production capacity and capabilities and to expand into adjacent markets.

## ACHIEVEMENTS 2016

Profitability and cash flow reached record levels

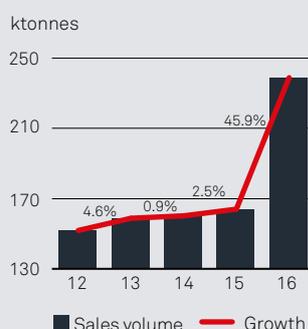
Through a continued high pace in product development and market expansion, Gränges was able to register higher than market growth in 2016. Profitability and cash flow also reached record levels. An increased focus on sustainability issues in production, including recycling, resulted in reduced energy use per tonne, and contributed to improved productivity. With the acquisition of Noranda downstream, Gränges has obtained a strong position with its own efficient manufacturing capacity on the North American market, including the strategically important stationary heat exchanger market.

## >> FINANCIAL TARGETS

Gränges' long-term financial targets state that Gränges should grow at least in line with the market, generate a return on capital employed of between 15–20 per cent, have a net debt in the range of one to two times EBITDA, and pay a dividend of between 30–50 per cent of the profit for the year.

### GROWTH

Increase sales volume at least in line with the company's end-markets.



**Comment:** The acquisition in the US was consolidated into Gränges' accounts from August 22, which resulted in a considerable increase in sales from the third quarter of 2016. Excluding the acquired business, sales volume increased by 7.6 per cent in 2016, which was higher than the growth in end-markets.

### CAPITAL STRUCTURE

Net debt should normally be between 1–2 times EBITDA over a 12-month period.



**Comment:** Net debt increased by SEK 2,447 million in 2016 to SEK 2,722 million, as at December 31, due to the acquisition in August, which was entirely financed with loans. Net debt amounted to 2.1 times EBITDA as at December 31, 2016. Gränges' assessment is that net debt will return to the target range during financial year 2018 at the latest.

### RETURN ON CAPITAL EMPLOYED

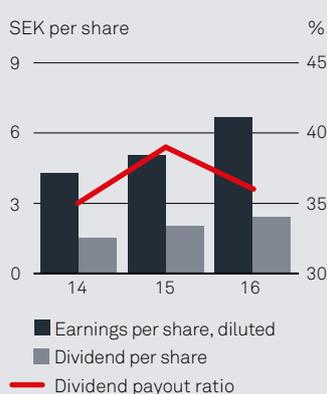
Target is to generate a return on capital employed of 15–20 per cent over time.



**Comment:** Return on capital employed decreased 0.7 percentage points to 17.5 per cent in 2016. The acquired business contributed to improved adjusted operating profit and higher capital employed.

### DIVIDEND POLICY

Target is to pay a dividend of between 30–50 per cent of the profit for the year over time. Decisions on dividends will reflect the company's financial position, cash flow, and outlook.



**Comment:** A dividend of SEK 2.40 per share is proposed. This is an increase of 20 per cent on the previous year, and corresponds to 36 per cent of the profit for the period in 2016.

# A PLATFORM FOR CONTINUED EXPANSION

Gränges' business model is based on the development, production and marketing of advanced materials that improve the efficiency of customer manufacturing processes, and end-product performance.

OUR MOST IMPORTANT  
INGREDIENT FOR  
SUCCESS IS, IN CLOSE  
CO-OPERATION WITH  
OUR CUSTOMERS, OUR  
ABILITY TO SUPPORT  
CHANGES THAT HAVE  
POSITIVE EFFECTS ON  
SOCIETY AS A WHOLE.

## **STRONG, LONG-TERM CUSTOMER RELATIONSHIPS**

Gränges works closely with customers from product design to rolled product deliveries for full scale production. Gränges' customer relationships are therefore typically long-term. Gränges' R&I continually supports the development of new products and processes, which enables technical advances in a number of areas. Of Gränges' customers, 85 per cent have been customers to the company for more than 10 years.

## **EXPERTISE IN KEY AREAS**

Gränges has a strong development and production competence primarily in the following four areas: the development of alloys, hot rolling of clad materials, thermo-mechanical processing and slitting. These competences combine to produce products with a high degree of added value. Manufacturing is undertaken after an order is received and according to customer requirements. Gränges has a dynamic portfolio of up to 3,000 products, which are adapted to specific customer needs.

## **ESTABLISHED REVENUE MODEL**

Gränges generates revenue through the sale of materials manufactured for specific products and customers. Heat exchanger materials for customers in the automotive industry and the stationary heat exchanger industry amounted to 83 per cent of sales volume in 2016. Prices are quoted per tonne, and are based on the added value Gränges offers in terms of material properties and product complexity, as well as the price of our key raw material, aluminium. Raw material costs are passed on to customers, thereby insulating Gränges from fluctuations in raw material prices.

## **SPECIALLY ADAPTED MANUFACTURING PLANTS**

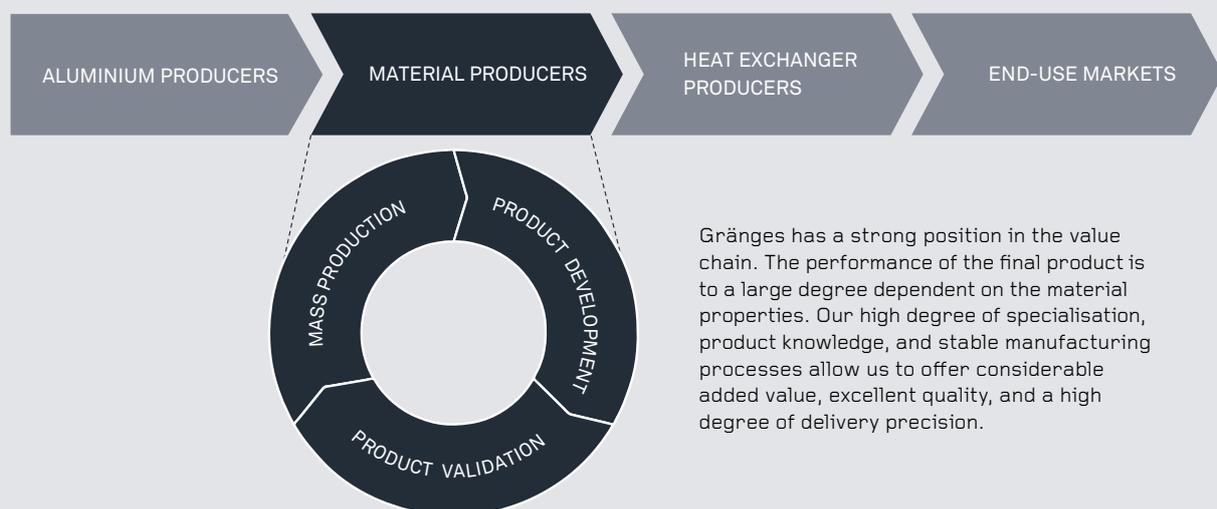
Gränges' manufacturing plants are optimised for the production of heat exchanger materials, and materials for food packaging, transformers and other niche markets. Between 2008 and 2012 Gränges conducted a major investment program to increase capacity and productivity at its manufacturing plants in China and Sweden. This initiative has resulted in improved process stability and better profitability. At the plants in the US, we are reviewing the option of producing clad products in the medium term with a view to meeting demand for materials for brazed heat exchangers on the North American market.

## **AN ORGANISATION RICH IN EXPERIENCE**

Gränges' many years of specialisation in the development and manufacture of rolled products for brazed heat exchangers have built extensive knowledge about material characteristics and manufacturing processes at all levels of the organization. To this will be added the knowledge and experiences that the acquired business' operations will bring within rolled materials for stationary heat exchanges and other niche markets. New knowledge and experiences are spread between different parts of the organization systematically, with the aim of retaining the skills-related advantages that have seen Gränges become world leading in rolled aluminium products.



## A STRONG POSITION IN THE VALUE CHAIN



Gränges has a strong position in the value chain. The performance of the final product is to a large degree dependent on the material properties. Our high degree of specialisation, product knowledge, and stable manufacturing processes allow us to offer considerable added value, excellent quality, and a high degree of delivery precision.

# LONG-TERM GROWTH DRIVERS

Gränges' operations are global, with products that are used in markets that are in constant change – a result of a number of drivers tightly linked to global societal development. These drivers include improved living standards, reduced environmental impact, and increased cost efficiency.

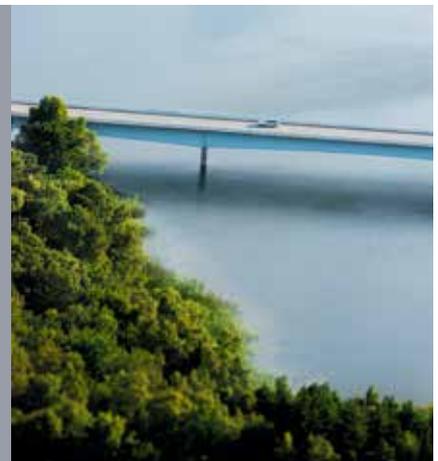


## IMPROVED LIVING STANDARDS

Improved living standards contribute to a general increase in demand for vehicles and housing, and in turn to increased demand for comfort-related solutions. This trend is especially pronounced in newly industrialised countries where living standards and population growth are rapidly rising. In the automotive industry, air conditioning, for example, has become standard; and in the HVAC industry, the demand for comfort add-ons such as heat pumps and air conditioning is also increasing. Consequently, the use of heat exchangers and aluminium heat exchanger materials is expected to increase in both industries.

## REDUCED ENVIRONMENTAL IMPACT

The aim of reducing emissions of damaging greenhouse gases affects production in the automotive and stationary heat exchanger industries primarily in two ways: demand for lighter weight products and increased efficiency. Certain components in the automotive industry – for example heat exchangers, engines, gearboxes and wheels – are to a large extent already made from aluminium. The continued development of these components, with weight being further reduced through improved design, results in even greater demands on materials and subcomponents. Similarly, the HVAC industry is faced with the challenge of phasing out harmful coolants, and of using alternatives with low or no environmental impact. Mechanically assembled copper heat exchangers are still widely used. The prevailing trend, however, is towards significantly lighter and more efficient aluminium products.



## INCREASED COST EFFICIENCY

There is a constant need to reduce energy consumption and costs, and improve reliability for manufacturers and users of, for example, vehicles, and air conditioning and heating systems. A variety of HVAC applications currently account for a large amount of the energy consumed in a building or home. Demand is growing for logistically- and production-efficient products, and more energy efficient engines and heat exchangers. This leads to reduced resource and energy use across the entire production chain, and for the end user, which generates considerable savings during a product's service life.

## >> DEVELOPMENTS IN THE AUTOMOTIVE INDUSTRY

### DRIVERS

Reduced negative environmental impact and increased cost efficiency. And simultaneously meet increased demands in passenger comfort, which requires more heat exchangers.

### CONSEQUENCES FOR THE INDUSTRY

Product development for lighter vehicles. Smaller, lighter vehicles and more sophisticated systems that place greater demand on efficient cooling. Hybrid vehicles require additional cooling of electrical motor batteries, which results in increased use of heat

exchangers materials. In electric vehicles the battery cooling requires the same amount of heat exchanger materials as traditional power trains.

### ADVANTAGES OF ALUMINIUM

Aluminium is lighter than copper and steel, and offers excellent functional performance. Aluminium is also endlessly recyclable, corrosion resistant and has a cost advantage over copper.

### OUTLOOK

The aluminium content of vehicles is expected to increase by about 60 per

cent between 2012 and 2025, according to the Aluminium Association. The number of hybrid vehicles is expected to increase in the coming years, which will drive demand for heat exchangers.

### CUSTOMER MATURITY AND REQUIREMENTS

High level of maturity and knowledge of aluminium among customers. Exacting demands in terms of functionality, quality and delivery performance.

## >> DEVELOPMENTS IN THE STATIONARY HEAT EXCHANGER INDUSTRY (HVAC)

### DRIVERS

Achieve improved energy and cost efficiencies, ensure reliability, and reduce the use of environmentally damaging coolants. Heat exchangers represent the single largest source of cooling.

### CONSEQUENCES FOR THE INDUSTRY

The development of new products that are more energy and cost efficient than existing products. New, more compact heat exchangers with fewer or no damaging coolants that affect the environment. The development of more environmentally conscious technologies, due to increased regulation.

### ADVANTAGES OF ALUMINIUM

Aluminium heat exchangers are more energy and cost effective in terms of materials, manufacturing, transport and storage. Brazed aluminium heat exchangers contain smaller amounts of coolants, offer more reliable performance and achieve lower operational sound levels compared to conventional alternatives.

### OUTLOOK

In line with stricter legal requirements and regulations regarding the use of coolants, the conversion to aluminium heat exchangers is expected to increase

in the coming years. Demand is positively impacted, reflecting growing performance, energy and cost efficiency demands from customers and end users industry-wide. Demand for rolled products for brazed heat exchangers is projected to increase by on average 15 per cent per year 2016 and 2020.

### CUSTOMER MATURITY AND REQUIREMENTS

Low maturity and knowledge about the advantages of aluminium, primarily brazed solutions, but this is changing. Demands in terms of functionality, quality and efficiency are increasing.

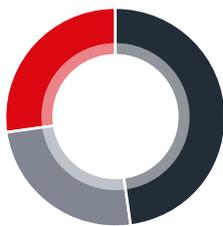
## SIGNIFICANCE FOR GRÄNGES

As the leading global supplier of advanced aluminium materials for automotive heat exchangers and the stationary heat exchanger industry, the various drivers outlined above will positively impact Gränges. The automotive industry, accounts for 48 per cent of Gränges' sales, while stationary heat exchangers accounts for approximately 25 per cent. As market leader in materials for brazed heat exchangers for the automotive industry, where brazed heat exchangers amount to almost 100 per cent of the market, Gränges is also well positioned for a similar, future conversion within the stationary heat exchanger industry.

# GRÄNGES STRENGTHENS ITS GLOBAL POSITION

The acquisition of Noranda downstream gives Gränges the advantage of being one of the few genuinely large global players in rolled aluminium products with production, sales and customer-driven product development in three major continents.

## END-CUSTOMER MARKETS



- Automotive/HEX, 48%
- HVAC/Stationary, 25%
- Other, 27%

Gränges' sales volume per end-customer market, proforma for full-year 2016.

Gränges is active on the global market for advanced aluminium materials, with a clear leading position in rolled products for brazed heat exchangers. The acquisition of Noranda downstream in 2016 resulted in considerable changes to Gränges' customer structure, markets, and geographical exposure. The proportion of sales to the automotive industry has decreased in favour of stationary heat exchangers (HVAC), transformers and food containers, and the Americas have become Gränges' largest geographical market, with close to 59 per cent of sales volume (proforma, full-year 2016).

### A COMPLEX MARKET

The market for advanced aluminium materials is relatively hard to enter profitably. This is not primarily due to the capital-intensive nature of the industry, but rather because of the high level of competence and experience required to develop the new, advanced materials that customers demand. Competence and experience are also critical to operating flexible production processes efficiently, and to be able to guarantee a high degree of delivery reliability in terms of volume, time and quality. Overall, these exacting demands require well-tuned manufacturing capabilities and processes refined over extended periods of time. Over and above this, other requirements include an effective customer service and a global logistics capacity, as customers are generally global players looking for daily just-in-time delivery to avoid inventory. So that customers are not left without key production inputs, suppliers such as Gränges has to be able to deliver up to 3,000 different products. This requires a high degree of flexibility and excellent

planning to minimise capital build-up in inventory, while at the same time maintaining a high degree of delivery performance.

### DEMAND FOR CONTINUOUS IMPROVEMENT

Manufacturers of, for example, heat exchangers are faced with continuous demands for improvements from their customers, vehicle and air conditioning manufacturers. Thus, they need to continually improve heat exchanger performance, reduce total costs and increase the value of their cooling and climate control solutions. A core challenge is to constantly meet the new requirements of next generation platforms, new applications and demands of product end-users. In practice, this means that a supplier such as Gränges needs to be at the forefront of developing adaptable and customised aluminium materials.

### GRÄNGES' CUSTOMERS

Gränges has long-term relationships with its customers. This is a result of Gränges' strong focus - to continuously develop new products, materials and processes in close co-operation with customers. These long-term customer relationships are also the results of Gränges' strong brand on the international market for heat exchanger materials, as is Gränges' capacity as a global supplier with excellent delivery reliability. Of Gränges' customers, 85 per cent have worked with the company for more than ten years. The ten largest customers represented 53 per cent of the total sales volume in 2016, and the largest customer accounted for 10 per cent of total sales for the year.

### COMPETITION AND MARKET SHARE

Gränges' competitors vary in size and strategic focus. Factors that influence the degree of competition differs between region and end-user, but in general Gränges competes on product quality, the ability to meet customer requirements, product range, lead times, technical support, price and customer service. Competitors are primarily major global aluminium companies such as Aleris, Arconic, Huafon, Norsk Hydro, Novelis and UACJ. In Asia there are several local players that are direct competitors to Gränges on the Asian market. In Europe and North America there are growing signs of competition from Asian manufacturers. Today, Gränges has a leading global position in rolled aluminium materials. Within the industry for rolled products for brazed heat exchangers Gränges has a clear market leading position, estimated at around 20 per cent globally.

### END-CUSTOMER MARKETS

As a consequence of the acquisition of Noranda downstream, the automotive industry's share of Gränges sales volume has decreased from almost 90 per cent to around half. Sales to the stationary heat exchanger industry, primarily in air conditioning, today accounts for around half of sales in North America, and for almost a quarter of total sales. Furthermore, entirely new end-customer markets such as transformers and food packaging have become significant parts of Gränges' operations. These developments offer considerable growth opportunities, as well as a reduced risk and reduced exposure to the automotive industry.



### THE AUTOMOTIVE INDUSTRY

The market for rolled products for aluminium heat exchangers closely correlates with global vehicle production, but is also affected by the number of heat exchangers per vehicle, which tends to increase in line with demands for such things as improved comfort. Growth in the automotive industry increased approximately 4 per cent (4.4) globally in 2016. Forecasts suggest average annual growth of around 2 per cent between 2017 and 2020, according to market analyst IHS. Since the 1990s, brazed aluminium heat exchangers have successively increased market share in the automotive industry at the expense of copper-based and mechanically assembled heat exchangers. Brazed heat exchangers amount to close to 100 per cent of the market.

### THE STATIONARY HEAT EXCHANGER INDUSTRY (HVAC)

HVAC includes heating and cooling systems for residential housing, and commercial and industrial property. The market for heat exchanger materials for HVAC is estimated to be as significant as the automotive industry. The underlying growth factor for heat exchangers in HVAC, regardless of type, is global construction investment, which is expected to continue to grow to 2020. In time, brazed aluminium heat exchangers, which today account for only a few per cent of the total market, are expected to replace conventional mechanically assembled solutions. Expectations are that manufacturers of stationary heat exchangers will convert to brazed aluminium heat exchangers, in a similar way to the automotive industry. Demand for rolled products for brazed heat exchangers in this industry is therefore expected to increase by some 15 per cent per year to 2020.

### OTHER MARKETS

Aluminium foil provides a complete barrier to light, oxygen, moisture and bacteria. These properties make it ideal for food cartons and pouches. Container foil is divided into three major categories: household/institutional foil, semi-rigid containers and flexible packaging. For decades, the use of foil has grown steadily in each of these categories. Semi-rigid containers are among the most versatile of all types of packaging and are widely used for pre-packaged foods, easily withstanding great differences in temperature from freezing to heating. Gränges is a major supplier in this market with a leading position within the semi-rigid container category in North America. As consumers are becoming increasingly dependent on ready-to-eat foods and beverages, the demand for aluminium foils for consumer packaging purposes will rise.

Another end-market in North America is materials for transformers. A transformer is an electrical device used to increase or decrease the alternating voltages in electric power applications. It consists of two or more coils called windings, which are wrapped around a core. In North America, aluminium is becoming more common as winding material in distribution transformers, while copper is more common for large power transformers. Aluminium has significant cost and weight advantages over copper. Gränges is the leading producer of high conductivity aluminium strips for electrical transformers used by utility providers and industrial companies in North America.

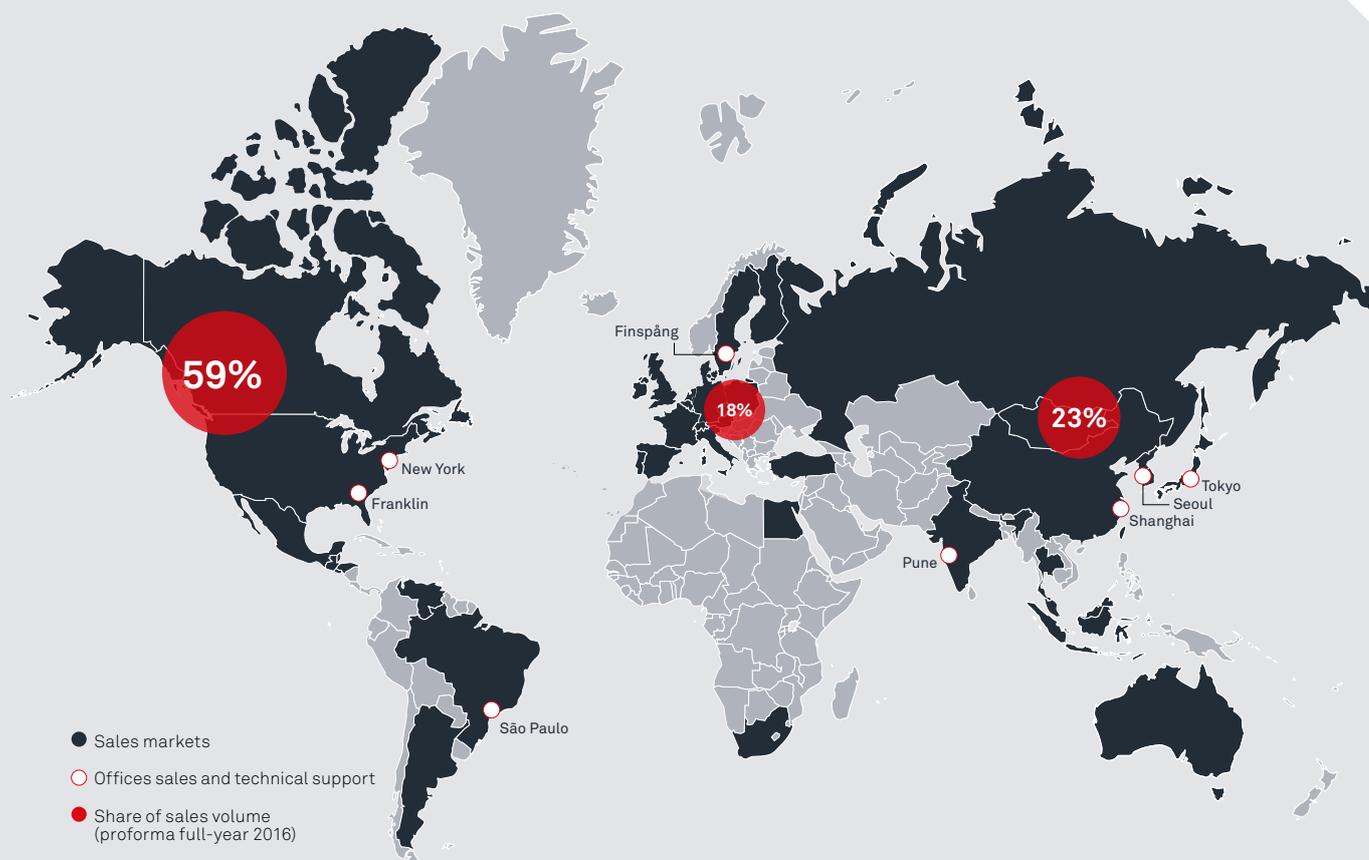
## GEOGRAPHIC EXPOSURE

Many of Gränges' customers are global, which requires Gränges to have a corresponding presence and scope. Gränges offers manufacturing, sales and technical support on three continents. Production plants in Finspång and Shanghai are, furthermore, important skill centres for research and product development in close co-operation with customers.

### ASIA

Since the establishment of the plant in Shanghai in 1996, the company has secured a leading position on the Asian market. In 2016, Asia accounted for 34 per cent (46) of group sales in terms of volume, with China as its main market. Other key markets include Thailand, South Korea and India. The automotive industry accounts for the bulk of Gränges' sales in Asia, although sales in the stationary heat exchanger industry are increasingly important as the market matures. Most of the production volume at Gränges' plant in Shanghai is sold in Asia, of which around half goes to China. Global customers accounted for 43 per cent (41) of sold volume in 2016.

After a slow start to the year, demand for heat exchangers in the automotive industry recovered, which resulted in higher growth in 2016 compared to the previous year. Long-term prospects are good, with an increased emphasis on comfort and improved energy efficiency driving growth in the automotive and stationary heat exchanger industries. A growing aftersales market is one of the contributors to increased demand for heat exchanger material. In terms of global light vehicle production, Asia as a whole accounts for 52 per cent (51) while China accounts for 29 per cent (27). In 2016 production increased by 6.6 per cent in Asia and by 12.8 per cent in China. From 2017 to 2020, production of light vehicles is expected to increase by an average of some 3 per cent a year in both China as well as in Asia as a whole, according to IHS.



## EUROPE

Gränges has a strong position on the European market and through advanced technological content in its products consolidated its leading position and taken market share during the year. In total, the European market amounted to around 27 per cent (38) of group sold volumes in 2016, with the UK, Italy, the Czech Republic and Poland as the single largest markets.

Europe is a consolidated market with global customers that account for approximately 77 per cent (75) of sales volume in 2016. The majority of all volume supplied to the European market is produced at the plant in Finspång.

During the year, car manufacturers continued to discuss a faster transition to electric hybrid engines – engines that require a greater number of heat exchangers, which is positive for Gränges. In terms of global light vehicle production, Europe accounts for 23 per cent (24), and in 2016 production increased by 2.6 per cent. From 2017 to 2020, production of light vehicles in the region is expected to increase by an average of around 1 per cent per year, according to IHS.

## AMERICAS

Gränges has been present on the American market since 1994, and with the acquisition of Noranda downstream in 2016, has obtained a leading position also in this market, with exposure to a number of other market niches.

Americas accounted for around 39 per cent (16) of the Group's sales volume in 2016, following the consolidation of Noranda into Gränges' accounts from 22 August, 2016. Gränges' main markets are the US and Mexico. In South America, Brazil is an important market. Excluding the effects of the acquisition of Noranda, Gränges' sales increased by 23.6 per cent, as a result of previously agreed substantial customer agreements in the automotive industry.

Gränges' global customers accounted for approximately 30 per cent (73) of sales volume in North and South America.

Plants in the Southeastern United States supply the majority of customers in the region with products. Plants in Finspång and Shanghai provide automotive customers with material for brazed aluminium heat exchangers, which are currently not produced in the US.

The market for automotive heat exchangers is relatively concentrated with a small number of manufacturers, and the largest end-customers located primarily in the Southeastern US. As a share of global production of light vehicles, Americas account for 22 per cent (23), and in 2016 production increased 0.1 per cent. According to IHS, between 2017 and 2020, the manufacture of light vehicles in the region is expected to grow by an average of around 2 per cent per year.

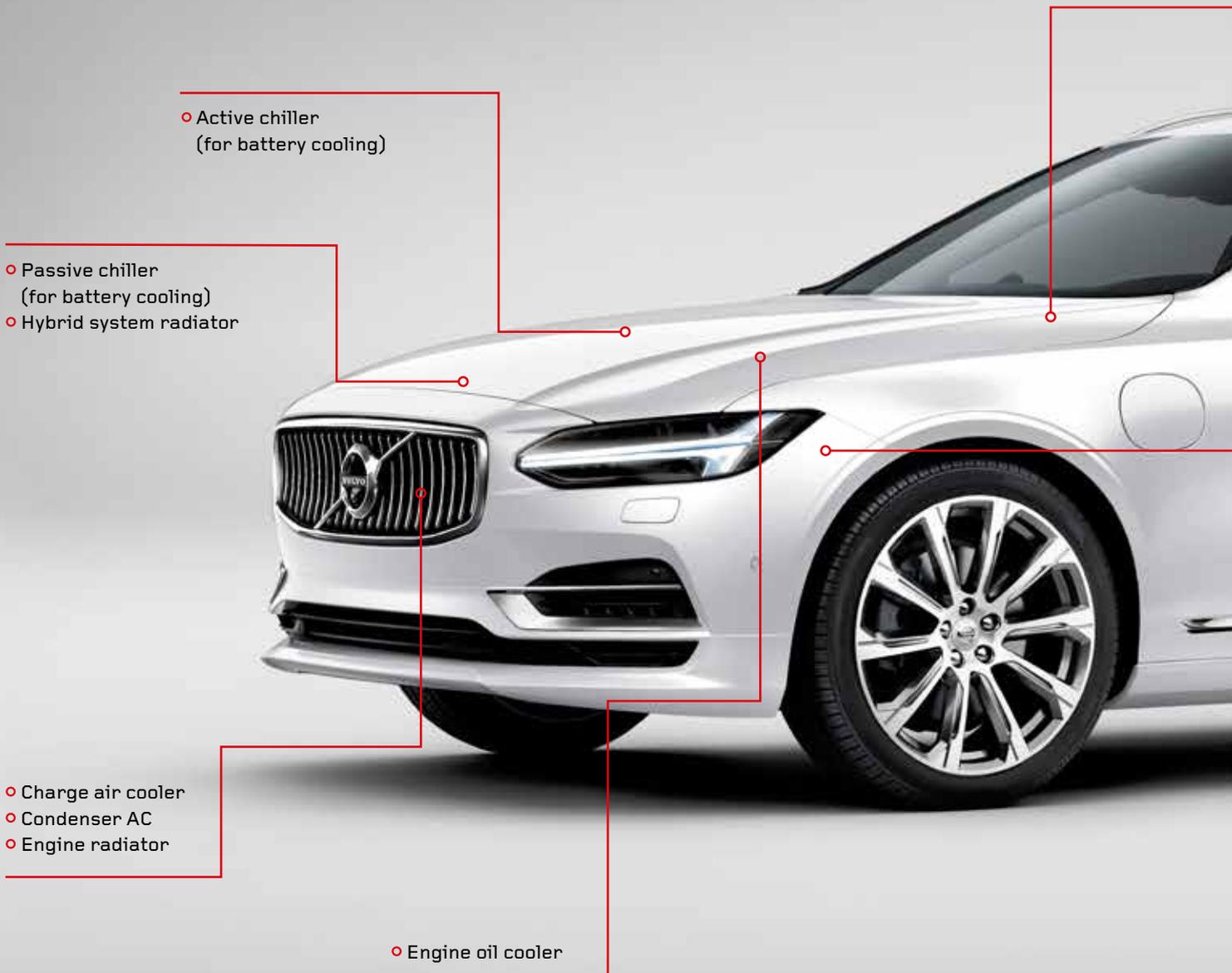
The market for material for stationary heat exchangers, primarily air conditioning, is expected to grow in the coming years on the back of rising US household incomes and increased demand for indoor climate control. At the same time, product development is driven by the need for more energy efficient units and reduced use of coolants.

The market for transformer windings is strongly linked to the non-cyclical market for transformers, which is expected to show a growth to 2020.

The market for food packaging is expected to show a stable annual growth rate between 2017 and 2020.

# THE INSIDE STORY

Modern vehicles typically contain up to ten different heat exchangers, sometimes more. In recent years, the number of heat exchangers per vehicle has increased, as engines have become more advanced, and environmental requirements and passenger comfort demands have grown. There are heat exchangers for cooling engines, transmission oil and engine oil, air conditioning systems, heaters, and in some cases, also for cooling batteries. Today, Gränges is a world leader in heat exchanger materials, and around 50 per cent of sales are to customers in the automotive industry.



- Evaporator AC
- Compartment heater



- Transmission oil cooler

# CUSTOMER-DRIVEN, WORLD LEADING R&I

Gränges' advanced aluminium products are the result of a long-term commitment to research and innovation, and of close development work with customers that supports continued renewal of knowledge within the company.

# 168

Gränges held  
168 patents at  
the end of 2016.

Gränges conducts world-class strategic research and customer-driven product development that are based on extensive knowledge of material properties and characteristics, and into our own production processes and our customers' production processes. This strategic research work is managed globally, while the customer-driven development is carried out locally, in close co-ordination with customers and production plants.

#### EXTENSIVE EXPERTISE

Gränges' R&I is conducted by some 60 specialists, many of whom have doctorates. Gränges collaborates with universities and colleges on a regular basis. New products are in most cases firstly developed in small-scale in the laboratory. Prior to full-scale production of new products Gränges uses computer simulations to design the process route. This approach enables the planning of efficient production processes with a great deal of accuracy.

#### A LEADER IN MATERIALS DEVELOPMENT

In recent decades, Gränges has built up market leading expertise in materials and product development. This is carried out in Finspång, and focuses primarily on different material combinations and surface coatings rather than developing specific materials. By giving products unique characteristics and tailoring solutions to meet specific customer requirements, Gränges creates functional added value. The development of rolled materials for brazed aluminium heat exchangers has been essential for Gränges position on the market. The first of these products were launched back in

1972. Today the market in the automotive industry consists almost entirely of brazed heat exchangers.

#### CONTINUED RAPID PACE OF INNOVATION

As at December 31, 2016 Gränges' research and development has resulted in 52 patent families and 168 patents; a further 100 patent applications are pending. An important research project, which Gränges also offers to commercial customers, is TRILLIUM®.

- **TRILLIUM®** is a patented product, developed in co-operation with Sandvik, which enables brazing without adding a flux agent. Customers can thereby avoid the high costs associated with conventional brazing processes, where the addition of flux agents is necessary. Gränges is currently taking the next step in the commercialisation of TRILLIUM® to meet rapidly growing demand.
- **Strong sagging resistance (SSR)** fins covers products developed to meet current and future down gauging requirements, and to improve customer productivity.
- **Strong, temperature resistant tubes** With this product customers are able to use thinner tubes and/or tougher brazing cycles without compromising quality or performance.
- **Exhaust gas re-circulation (EGR)** – requirements for lower engine emissions are continuously increasing. Engine exhaust can be extremely corrosive due to its high acid content (sulphur). Gränges is focusing on material validation in this area.

### CRITICAL TECHNICAL SUPPORT

Gränges has Application Engineers in all regions (Asia, Europe, and Americas) who help customers optimize the interaction between Gränges' products and customers' own processes and applications. This is how the company's application centre, in co-ordination with production plants, provides support. It is here that customers' forming and brazing processes can be replicated and tested. Gränges' product developers and technicians are present in Asia, Europe, and the Americas

### CO-OPERATION FOR NEW MARKETS

With the addition of Noranda, Gränges has entered new markets and customer groups. Gränges R&I in Finspång co-operates with Noranda's expertise and network in the US, with the aim of strengthening investment in the development of new, innovative products and solutions for these markets and customers.

## FOCUS ON INNOVATIONS IN NANJING, CHINA

Every year, Gränges hosts a technical seminar for its customers and other partners in Asia. In 2016, it was held in Nanjing in China, where more than 400 customers and other leading industry representatives attended the seminar, making it the largest seminar of its kind in the world.

The seminar covered topics such as challenges with emissions, innovative technologies for brazing, development trends for aluminium heat exchangers, design and future solutions. Gränges Shanghai also celebrated its 20th anniversary in 2016. Since 1996, Gränges has been investing in Shanghai and growing its customer base throughout China and Asia. At present, Gränges Shanghai's production capacity is more than 120,000 tons – the world's largest production facility for specialised heat exchange materials.

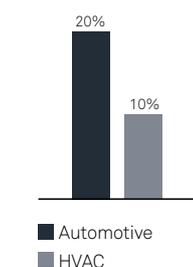
"When looking at the next coming years, challenges with emissions, new powertrain solutions, and more digital content are factors that will support demand for advanced heat exchange materials. We are committed to continue to invest and grow our business in the Asian region in the coming years", says Johan Menckel.



# INNOVATIVE PRODUCTS

Gränges' clear focus on serving the global heat exchanger industry with leading products and solutions has made the company into a trusted and long-term partner. The addition of Noranda downstream creates opportunities to develop new solutions in close co-operation with the customers.

## GRÄNGES' SHARE OF MARKET



Gränges' estimates of global market share.

Over the years, Gränges has developed a large number of products with improved end-characteristics, increased stability and enhanced sustainability. Many of these products are based on new concepts such as SSR fin and TRILLIUM®. Gränges' focus on technology, manufacturing processes, and material properties contribute to creating smaller, lighter and better designed heat exchangers that are more energy efficient and reduce environmental impact. Through the acquisition of Noranda downstream, Gränges now also offers rolled aluminium products to manufacturers of automotive heat shields, transformer windings and semi-rigid containers.

### ADDED VALUE FOR THE CUSTOMER

Gränges offers a comprehensive range of clad and unclad rolled aluminium products used for brazed heat exchangers for applications with a high degree of functionality and performance. Depending on the specific needs of a given application, Gränges offers multi-layer products with up to five layers. This variety provides virtually unlimited possibilities for customised solutions based on carefully selected alloy combinations, delivery conditions, plating thickness and geometries.

### FOCUS ON HVAC

Gränges focuses on driving technological change through stationary heat exchangers (HVAC), from mechanically bonded copper tubes to brazed aluminium heat exchangers, just as was the case in the automotive industry where Gränges' solutions have played a key role in the conversion from conventional to contemporary systems. Focus is concentrated on products that contribute to improved energy efficiency and reduced environmental impact. With a new machine for folded tubes at the Shanghai production plant, Gränges is taking a major step forward, and delivering prototypes that customers are able to test at their own applications. The product enables the development of even stronger, lighter, and more corrosion resistant condensers with greater efficiency and reduced overall environmental impact. With its acquisition, Gränges has also obtained a broader offering of products and solutions that also meet other needs within the stationary HVAC industry.

### HEAT EXCHANGERS FOR INDUSTRIAL APPLICATIONS

The next step is to develop solutions for industrial applications, such as wind power turbines and agricultural machinery, which have a market footprint that is four times the size of HVAC.



CLAD TUBE



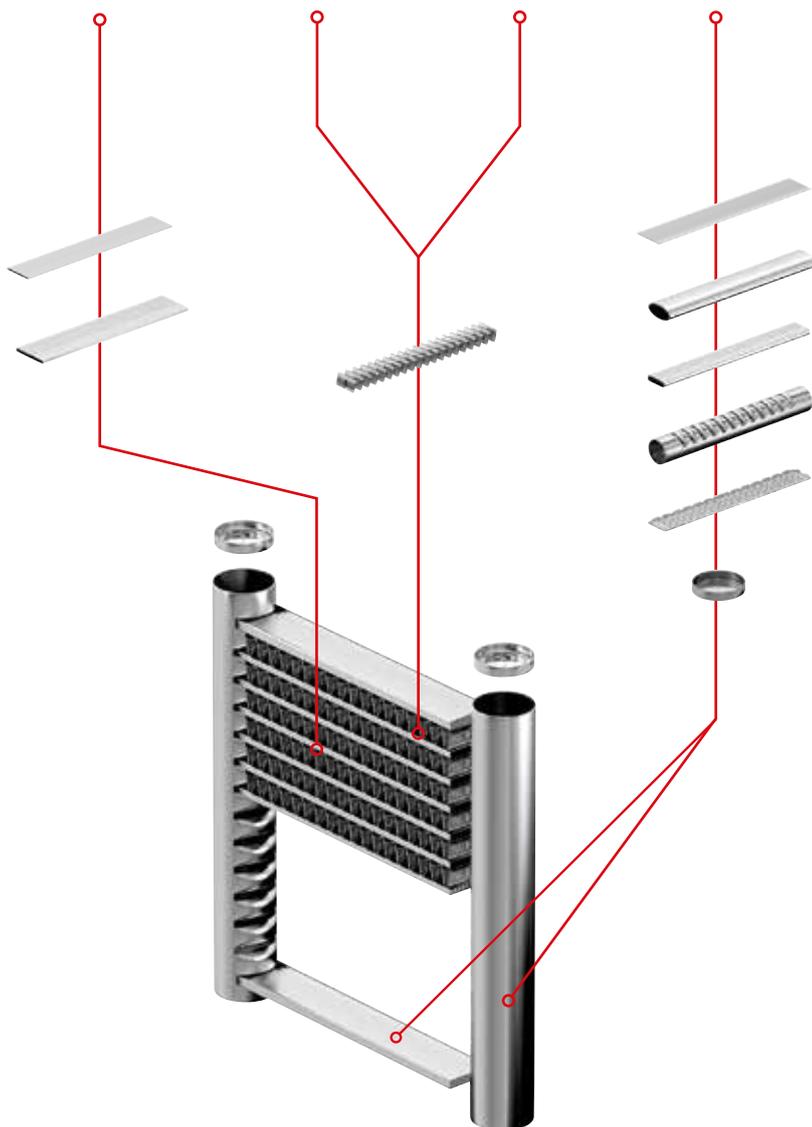
CLAD FIN



UNCLAD FIN



CLAD PLATE



## FOUR PRODUCT GROUPS

There are up to 3,000 product specifications, including 200 combinations of alloys, that Gränges offers to its heat exchanger customers. The products can be divided into four main groups:

### CLAD TUBE

Consists of a core alloy with braze clad on one or two sides, and in many cases a core alloy with a braze clad on the outside and a corrosion-resistant clad on the inner side of the tube. The customer makes a tube by folding or welding the material.

### CLAD FIN

Consists of a core alloy with braze clad on each side, and is primarily used in condenser applications.

### UNCLAD FIN

The most basic heat exchanger material. Unclad fin consists of only one alloy without clad layers.

### CLAD PLATE

Consists of a core alloy clad with braze clad on one or two sides. The rolled product is stamped or shaped by the customer depending on the application and used in most kinds of heat exchanger applications, either for coolant plates or manifolds.

# EFFICIENT, ADVANCED MANUFACTURING IN ALL REGIONS

Through its acquisition in the US, Gränges is able to meet exacting customer demands on all three major continents. With its own manufacturing capacity in North America, Gränges has created a platform that, in the long term, enables expansion in the region.

Thanks to 40 years' experience and specialised knowledge of production of material for brazed heat exchangers, Gränges has become a world leader in rolled aluminium for the heat exchanger industry. The company has systematically built a good reputation associated with high quality, flexibility, customer service and delivery reliability. Work is continuously carried out to improve efficiency and productivity at all Gränges' production plants – initiatives that in recent years have contributed to reduced environmental impact and improved profitability for Gränges and its customers.

### EXTENSIVE PRODUCTION CAPACITY

Gränges has production sites on three continents with a combined capacity of 400,000 tonnes. The production facility in Finspång, Sweden, was established in 1922 and aluminium products for brazed heat exchangers have been produced

since 1972; the site has a production capacity of 100,000 tonnes. The company's production plant in Asia is in Shanghai, China, and was established in 1996. Gränges has focused on expanding capacity at the Shanghai site to keep pace with the rapidly growing market in the region, and capacity at the site now stands at 120,000 tonnes. In the US Gränges has three production sites – in Southeastern United States – with a combined production capacity of 180,000 tonnes. All Gränges' facilities are ISO-certified for quality standards, while in Sweden and China the facilities also are ISO-certified for the environmental standard.

### KNOWLEDGE SHARING DRIVES GROWTH

A long-standing and close co-operation between our production plants in Finspång and Shanghai has driven growth and improvement work – at both sites.

Initiatives include internal audits on health, safety and environment at respective operations, to learn from each other. Following Finspång's contribution to knowledge sharing and technology transfer during the establishment of the Shanghai plant, Finspång now benefits from knowledge of quality and process stability in the Chinese operation, factors that have been especially important during its rapid growth. The newly acquired production plants in the US help strengthen our knowledge exchange even further. The process for sharing technology and skills was established immediately following the conclusion of the acquisition in the US in August.

### STRATEGICALLY IMPORTANT SITES IN THE US

With the acquisition in the US, Gränges has gained access to three production facilities, strategically located in the

### Gränges' production facilities

Location	Est.	Annual capacity (ktonnes)	End markets	Production set-up
Finspång, Sweden	1922	100	Automotive	DC casting, hot rolling, cold rolling, finishing
Shanghai, China	1996	120	Automotive, HVAC	DC casting, hot rolling, cold rolling, finishing
Huntingdon, United States	1967 and 2000	146	HVAC, food containers, transformers, other	Continuous casting, cold rolling, finishing
Salisbury, United States	1965	34	HVAC, other	Continuous casting, cold rolling, finishing
Newport, United States	1951	n/a	HVAC, food containers	Surface treatment, finishing

Southeastern US, close to existing and potential customers. The facility in Huntingdon, Tennessee, is one of the most modern and cost efficient mills in North America, and accounted for approximately 80 per cent of acquired business' sales volume in 2016. In Salisbury, North Carolina, there is a smaller facility, and in Newport, Arkansas there is a finishing plant. The three facilities represent a comprehensive production chain with a combined capacity of 180,000 tonnes.

Capacity utilisation was high at all three plants throughout 2016. To ease bottlenecks in production, maintenance investments will be made in 2017. Furthermore, a review is currently being conducted to assess the viability of manufacturing clad products at the plants, and thereby expand within heat exchanger material for brazed heat exchangers in the region. That will require a larger investment in casting and rolling capabilities.

#### **DEMAND-DRIVEN PRODUCTION**

Gränges conducts demand-driven production based on lean manufacturing principles. In brief, this entails creating simple production flows, a direct link between production steps and well defined and efficient processes. Production lead times should be as short as possible, and balanced against the need for processes to be cost efficient, which also makes it possible for Gränges to offer flexible customer service.

#### **COMPLEX PRODUCTION PROCESSES**

At our plants in Finspång and Shanghai production is focused on rolled products for brazed aluminium heat exchangers. This is a complex, multi-step process.

The first stage of the process involves re-melting and casting, where aluminium ingots, alloying metals and recycled aluminium scrap are the input materials.

The next step is the hot rolling process, during which the material undergoes its first shape change. The material is pre-heated in a furnace until it reaches a temperature at which it becomes soft and malleable. Hot rolling creates a metallic bond between clad plates and core slabs. The hot rolled coils are then cooled prior to cold rolling.

During cold rolling the material is rolled further to achieve the desired thickness. The coils can be heat-treated in annealing furnaces between and after cold rolling to obtain the desired strength and formability. Surface characteristics, flatness, correct gauge and strength are the most important quality characteristics obtained from cold rolling and annealing.

The cold rolled coils are then treated further in the finishing area. Depending on the end-product, coils are then slit into desired widths.

#### **TECHNICAL LEADERSHIP IN HEAT EXCHANGER MATERIAL**

Thanks to its focused strategy, Gränges has developed four specific compe-

tences over the years that have contributed to making the company's technical leadership in heat exchanger materials:

**Alloy development:** the development of material where aluminium is combined with several alloying elements to achieve specific properties. Gränges has special expertise in the development of alloys and combinations that have properties adapted to each step of customers' manufacturing processes – from forming to assembly and brazing.

**Cladding:** a key capability that provides high added value and differentiates Gränges from manufacturers of rolled products for general use. The company produces single- and double-sided clad products, and symmetrical and asymmetrical products, with many different alloy combinations.

**Rolling and thermo-mechanical processing:** used to alter alloys' micro-structure to achieve desired properties of an end-product. Gränges has extensive experience of thermo-mechanical processes, and its effect on the behaviour of materials in the brazing process.

**Slitting:** Gränges has market leading competence and experience in slitting technologies that play an integral role in the manufacture of heat exchanger materials. The slitting process requires craftsmanship and automation expertise to achieve the narrow tolerances required in terms of width, edge quality and winding.



# RISK MANAGEMENT

As a global group with operations in different parts of the world, Gränges is exposed to various risks and uncertainty. Gränges' risk management aims to identify, assess, and reduce risks related to the Group's business and operations. Gränges is primarily exposed to risks in the following areas stated below.

## BUSINESS RISKS

Business risks are managed by the operative units in accordance with the guidelines and procedures established for every business area and unit.

RISK	DESCRIPTION OF RISK	RISK MANAGEMENT AND COMMENTS FOR THE YEAR
<b>AUTOMOTIVE MARKET DEVELOPMENT</b>	About half of Gränges' sales volume goes to suppliers in the automotive industry. Vehicle production is in turn dependent on a number of external factors such as the economy, interest rates, consumer behaviour and taxes. During an economic downturn, the automotive industry normally sees significant decreases in production, which results in lower demand for aluminium products that are used in vehicles.	As Gränges has a global offering, the risk of downturns in individual markets affecting the company, is reduced. Gränges also sells materials for stationary heat exchangers used in for example buildings. The aim is to increase sales to new end-customer markets other than the automotive industry. Due to the acquisition in the US that was finalized in 2016, Gränges' exposure to the automotive industry declined.
<b>HEALTH AND SAFETY</b>	Casting houses and rolling mills are work environments that contain significant health and safety risks where strict safety routines may never be bypassed or assigned a lower priority. If the implementation of safety procedures is unsuccessful or is not effective, employees and other persons may be injured. Unsafe workplaces can also increase employee turnover and raise operating costs. Injuries can also mean production stoppages, which could result in financial costs for Gränges.	Gränges has zero tolerance of injuries and accidents. Gränges has strict safety routines and continually invests in different types of safety measures to prevent accidents at the production facilities. Three of the injuries that occurred in 2016 were deemed serious. Hand and finger injuries were the most common kind of injury. During the year Gränges carried out projects for increased fire safety at the facilities in Finspång and Shanghai.
<b>ENVIRONMENTAL IMPACT</b>	Gränges conducts operations in properties where industrial operations have been carried on for a long time. Local environmental laws and regulations govern the operations and Gränges can be held responsible for polluted land that Gränges uses or has used. Under current regulation, the party that conducted the polluting operations is also responsible for cleaning up the land. The manufacture of aluminium materials is energy-intensive and the capacity to reuse process scrap and to ensure quality is thus crucial to the Group's total environmental impact.	When requested, Gränges takes part in investigations conducted by local authorities to ascertain who is responsible for cleaning up land. At present investigations are ongoing in a number of municipalities in Sweden where business operations stem from business operations conducted by Gränges. During the year, a number of projects were carried out aiming to reduce energy consumption.
<b>SUPPLY OF ALUMINIUM AND OTHER METALS</b>	Gränges is dependent on the supply of input goods, especially aluminium. Insufficient supply of slabs means that Gränges cannot produce certain alloys. In the future, high-quality slabs at the right price may be difficult to source as it is not a standardised commodity but requires specially qualified suppliers.	As a rule, Gränges enters into agreements with slab suppliers for the year to come on the basis of estimated volumes. Agreements are entered into with two to five suppliers in each market in order to ensure deliveries. Gränges has its own casting houses in the production facilities, which makes the company less sensitive to supply issues regarding slabs.

## FINANCIAL RISKS

Gränges has international business operations and is exposed to financial risks such as currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Gränges uses derivatives and other financial instruments to reduce the risks in accordance with the Group's financial policy. Gränges Group Treasury most important responsibility is securing the Group's financial flexibility in the short and long term, as well as monitoring and managing financial risks in collaboration with the individual operative units. More information on the Group's financial risks is to be found in Note 25.

RISK	DESCRIPTION OF RISK	RISK MANAGEMENT AND COMMENTS FOR THE YEAR
<b>CURRENCY RISKS</b>	Almost all of Gränges Group's sales are generated outside of Sweden. Sales contracts are mainly signed in US dollars, euro and Chinese yuan, depending on where the customers are located. Changes in exchange rates have an impact on Gränges' income statements, balance sheets and cash flow. Over time, changes in exchange rates also affect the company's long-term competitiveness and thus its earning capacity.	Gränges' treasury policy strictly regulates the company's management of foreign exchange risk. Gränges uses financial instruments, mostly futures, to reduce the company's exposure to changes in exchange rates with regard to the company's commercial cash flows. Changes in exchange rates for firm commitments are managed in accordance with a model whereby the entire exposure with a duration of up to 18 months is hedged. Exposures relating to customer orders without firm commitments are in part hedged up to 24 months.
<b>COMMODITY PRICE RISK</b>	Gränges procures large volumes of aluminium for the company's production facilities in Sweden, China and the US. The price of aluminium is based on the trade price on LME in London or SHFE in Shanghai. Gränges' revenue model means that the cost of aluminium is passed on to the customer to the extent possible, through adjustment in agreements both with customers and suppliers. Sometimes lag can arise from the aluminium procurement date to the sale of the finished product, which means that Gränges to some extent is exposed to fluctuations in the price of aluminium.	The aim of Gränges metal policy is to balance the short and long position, that is that the company should not be affected by changes in the price of aluminium. Gränges does not take any positions whereby the company speculates in the future value of aluminium. Financial instruments allow Gränges to minimise the risk of changes in the price of aluminium during the time that Gränges has the metal in store for processing.
<b>INTEREST RATE RISK</b>	Gränges' interest rate risk mainly relates to the Group's interest-bearing liabilities. Changes in interest rate levels may affect the Group's results and cash flow and/or the fair value of financial assets and liabilities. The actual interest rate risk is also dependent on the size of the interest bearing debt.	Gränges' borrowings are mainly in Swedish kronor and US dollars at floating interest rates. The duration of the interest bearing debt portfolio can be changed by longer interest periods or by interest rate swaps. The target for the duration of the interest bearing debt portfolio is regulated in the Treasury policy. During 2016 no interest rate swaps were used to prolong the duration.
<b>LIQUIDITY RISK</b>	Liquidity risk is the risk that Gränges will not be able to meet its payment obligations. Cash flow from operations, which is affected by changes in working capital, among other factors, is managed at the Group level. By monitoring liquidity flows in the short and long term, Gränges maintains good financial readiness.	Gränges shall have a liquidity reserve that covers payments on loans for the coming twelve months, investment requirements and a strategic reserve. Excess liquidity is managed by the Group's treasury function and can be invested at approved banks to mature within six months. The aim is to minimise excess liquidity in the Group and at the same time minimise the liquidity risk.
<b>CREDIT RISK</b>	The credit risk is the risk that a counterparty does not meet its obligations to Gränges. The management of credit risk related to accounts receivables and other operating receivables is handled as part of the business risk according to strict routines. Gränges seeks to minimise the liquid assets invested outside the Group and deposits of excess liquidity with other counter-parties.	Gränges' exposure to trade receivables is managed and followed up continually in local credit committees. The need for provisions to be made is tested on a quarterly basis or when necessary according to predefined criterias. The credit risk on financial counterparties is handled by choosing counterparties with a good credit rating and by agreements, such as ISDA-agreements.

## OTHER RISKS

Gränges is exposed to a number of other risks in areas such as personnel and legislation. To manage these risks, Gränges is actively working with education, policies and guidelines for employees of the Group.

RISK	DESCRIPTION OF RISK	RISK MANAGEMENT AND COMMENTS FOR THE YEAR
<b>QUALIFIED PERSONNEL</b>	Gränges operates in a specialised niche where experience and knowledge of the company's markets, customers and production are key factors for the company's success. Among other things, Gränges has a number of specialists in research and development who may be hard to replace. The loss of key employees can have a negative impact on Gränges' possibilities of conducting and developing its operations and its ability to develop new products.	Gränges offers remuneration levels in line with market rates and conditions of employment necessary to recruit, develop and retain key employees.
<b>COMPLIANCE WITH REGULATIONS</b>	Gränges operates in many different markets, with local laws and rules. If employees or persons who work on Gränges' behalf violate these laws and rules it could have negative consequences for Gränges. The company may be affected by events that damage confidence in the company, its operations or employees, e.g. if environmental, quality or ethical requirements are not met in the manner prescribed by Gränges.	Gränges ensures that the company's employees are regularly informed of relevant changes in legislation or other rules that the company must follow. This is done through external partners, and also through membership in various industrial organisations. Gränges conducts in-house training of marketing and sales managers to ensure good knowledge and understanding of legal risks and requirements.
<b>CLEAR VALUES</b>	As a public company, far-reaching requirements are imposed in respect of conduct, ethics and transparency. Gränges has adopted a Code of Conduct, policies, guidelines and core values in order to ensure that the company and all employees always pursue sustainable entrepreneurship. Violations of the company's internal policies and Code of Conduct may have negative consequences for the company's reputation and brand and thereby adversely affect the company's earnings.	Gränges ensures that the company's employees receive regular training in questions concerning morals and ethics and that the company's core values are complied with. The company's internal communication, in the form of the intranet, the personnel magazine and actual meetings, has the task of supporting and developing this work. The company's policies and guidelines have also been developed during 2016.

# CONTINUED STRONG SHARE PERFORMANCE

The Gränges share's strong performance continued in 2016, with an increase of 22.9 per cent, which represents a market capitalisation of approximately SEK 6.5 billion. Since listing on the Nasdaq in Stockholm in October 2014, the share price has increased by around 100 per cent to the end of 2016.

The Gränges share is listed in the Mid Cap segment, and in the Automobile & Parts category. During 2016, the share registered an increase in value of 22.9 per cent. This compares to the Nasdaq Stockholm OMX All Share index that, during the same period, increased 5.8 per cent, and the Automobile & Parts category as a whole that increased 0.3 per cent. The highest price for the share during 2016 was registered on 10 August, when it stood at SEK 91.25. The lowest price for the share during the year was SEK 57.00, on 3 May. The share is traded under the ticker GRNG.

## TURNOVER AND TRADING LOCATIONS

The Gränges share is traded on several exchanges and trading platforms. In 2016, official trading accounted for 48.0 per cent of turnover in the share, of which the Nasdaq Stockholm accounted for 72.4 per cent. Unofficial trade, so-called "off-book", represented 31.6 per cent of trade in the share. 8.8 per cent of share were traded on so-called "dark pools", with the largest amount of trades on BATS Chi-X CXE. The average daily turnover in the Gränges share amounted to 354,484 shares and turnover in the share amounted to a total of approximately 89.3 million in 2016.

## SHARE CAPITAL

Share capital in Gränges amounts to SEK 101 million, distributed among 75,155,386 shares, each with a quota value of SEK 1.339775. Gränges has one class of share. During 2016 516,000 options were exercised, and subsequently increasing the number of outstanding shares with 516,000 and the share capital with 691,324 SEK.

## OWNERSHIP CHANGES

Former primary owner Orkla Industriinvesteringar, which reduced its ownership in several steps since Gränges was

listed, sold its remaining holding in Gränges in March 2016. As at December 31, 2016 the number of Gränges shareholders increased to 7,757. The largest shareholders were Fjärde AP-fonden, whose holding increased to 8.7 per cent of the total number of shares, followed by AFA Försäkring with 5.6 per cent, and JP Morgan Asset Management with 5.5 per cent. Overall, the ten largest shareholders' holdings amount to 36 per cent of the total number of shares in Gränges.

There are no pre-emption clauses, refusal clauses or other restrictions to the transfer of shares in the company by law, the company's articles of association or any other document in which the company is a party.

## DIVIDEND

The Gränges Board of Directors proposes a dividend of SEK 180 million (149), equivalent to SEK 2.40 (2.00) per share for the financial year 2016. The proposed dividend is equivalent to 36 per cent (39) of 2016's net profit. Gränges dividend policy is to pay a dividend of between 30 and 50 per cent of net profit for the period. Decisions on dividends will reflect the company's financial position, cash flow, and outlook.

## INCENTIVE PROGRAMME

In conjunction with Gränges' 2014 IPO, an employee stock option programme was established for senior decision makers and other key employees. The programme comprises a total of one million employee stock options with a two-year term, and an exercise period of a further year thereafter. The exercise period started in October 2016 and runs until November 2017. The exercise price is SEK 51 per option minus paid dividends during the period. If exercised in full, the employee stock option programme would

result in a dilution of approximately 1.3 per cent of the total number of shares.

During 2016, a total of 516,000 stock options were exercised. The number of shares thereby increased to 75,155,386. A total of 484,000 stock options were outstanding at 31 December, 2016.

For more information regarding remuneration and our staff options programme, see note 8 on page 84.

## AWARD-WINNING INVESTOR RELATIONS AND FIRST CAPITAL MARKETS DAY

In April 2016, Gränges was awarded the honour of Best Interim Report 2015 by Kanton's and Aktiespararna's "Company of the Year" competition on the Nasdaq Stockholm. The report was described as, amongst other things, "...characterised by high ambition levels in terms of financial and operations-related data and information presentation making it accessible to all categories of investors."

Gränges was also named best Mid Cap Company in Regi's annual ranking of listed companies' investor relations activities, and won the International Star award in the European Small and Mid-Cap Awards 2016, which are set up to highlight the best European small and mid-sized companies that have gained access to capital markets via an Initial Public Offering (IPO).

With the aim of further strengthening knowledge about Gränges' operations, the company held its first capital markets day in March. Gränges' CEO outlined the company's goals and strategy to 2020, and also presented in-depth descriptions of the Asian market for heat exchangers in the automotive industry and the stationary heat exchanger market.

## ANALYSTS

For information about which analysts follow Gränges, please visit: [www.granges.com](http://www.granges.com)

## Share capital development

Date	Event	Change in number of shares	Total number of shares	Change in share capital SEK	Total share capital SEK
01 Jan 2014		–	37,319,693	–	932,992,325.00
14 Aug 2014	Decrease in share capital	–	37,319,693	–832,992,325.00	100,000,000.00
15 Sep 2014	Share split	37,319,693	74,639,386	–	100,000,000.00
18 Nov 2016	Rights issue	516,000	75,155,386	691,324.02	100,691,324.02

## Share information

Market	Nasdaq Stockholm
Segment	Mid Cap Stockholm
Ticker symbol	GRNG
ISIN code	SE0006288015
Listed since	10 October 2014
Currency	SEK
Number of shares	75,155,386

## Share data

	2016	2015
Earnings, SEK <sup>1)</sup>	6.64	5.07
Equity, SEK <sup>1)</sup>	39.27	33.45
Cash flow from operating activities, SEK <sup>1)</sup>	9.15	9.70
Share price at end of period, SEK	86.00	70.00
Dividend, SEK	2.40 <sup>2)</sup>	2.00
Dividend rate, %	36	39
Yield, %	2.8	2.9

1) Calculated on the weighted outstanding ordinary shares, diluted.  
2) The Board of Director's proposal to AGM 2017.

## Ownership

Largest shareholders	Shares	Share of capital and votes, %
Fjärde AP-fonden	6,548,931	8.7
AFA Försäkring	4,235,760	5.6
JP Morgan Asset Management	4,113,338	5.5
SEB Fonder	3,379,460	4.5
Copper Rock Capital Partners	2,907,727	3.9
Catella Fonder	1,448,646	1.9
Acadian	994,507	1.3
DFA Fonder	970,582	1.3
Associated British Foods Pension Scheme	949,809	1.3
Länsförsäkringar Fonder	765,752	1.0
<b>Total 10 largest shareholders</b>	<b>26,314,512</b>	<b>35.0</b>
Other shareholders	48,840,874	65.0
<b>Total</b>	<b>75,155,386</b>	<b>100</b>

Source: Holdings as of 31 December 2016.

Geographical distribution	Shareholders	Share of capital, %
Sweden	7,532	61.0
Norway	38	16.6
UK	44	11.4
United States	40	5.8
Luxemburg	21	1.5
Total other	82	3.7
<b>Total</b>	<b>7,757</b>	<b>100</b>

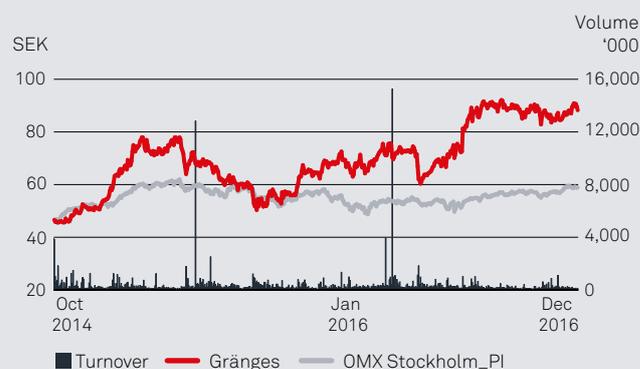
Source: Euroclear as of 31 December 2016.

## Share distribution

Number of shares	Shareholders	Share of capital, %
1–500	5,131	66.2
501–1,000	1,073	13.8
1,001–5,000	1,003	12.9
5,001–10,000	165	2.1
10,001–15,000	57	0.7
15,001–20,000	39	0.5
20,001–	289	3.7
<b>Total</b>	<b>7,757</b>	<b>100</b>

Source: Euroclear as of 31 December 2016.

## The Gränges' Share Development 2014–2016



For additional investor relations-related questions, please contact Pernilla Grennfelt, SVP Communications & IR, at [pernilla.grennfelt@granges.com](mailto:pernilla.grennfelt@granges.com), or on: +46 702 90 99 55.

# SUSTAINABILITY

## STRATEGY AND GOVERNANCE

Sustainability is an essential and integrated element of Gränges' core competences and operations. Through continuous streamlining of production processes, environmentally conscious product development, and safety focus, Gränges contributes to a sustainable society.

### ABOUT THE SUSTAINABILITY REPORT

This is Gränges' first sustainability report published according to the Global Reporting Initiative's framework for sustainability reporting. The report is prepared in accordance with GRI G4 Core and is not externally audited. It includes Gränges Communication on Progress in line with the UN Global Compact. The GRI Index is on page 54, and the Global Compact Index is on page 56.

The sustainability report relates to financial year 2016 and includes Gränges' operations as at the beginning of 2016. During the summer of 2016 Gränges acquired Noranda Aluminium Holding Corporation's rolled aluminium operations. The acquired operations are not included in the report, but will be as of 2016.

Gränges intends to publish a sustainability report annually, according to GRI guidelines.

For more information, please contact:

Pernilla Grennfelt  
SVP Communications & IR  
pernilla.grennfelt@granges.com  
+46 702 90 99 55

Gränges' core values of action, commitment and accessibility constitute the foundation of the company's culture, and are also qualities of our work with sustainability. The company takes economic, environmental, and social responsibility and strives to improve the conditions in all parts of its value chain. Through participation in industry initiatives, Gränges works to ensure that aluminium is mined, produced and used sustainably.

Gränges' products increase the efficiency of customers' production processes, as well as the performance of the end-products. In this way Gränges contributes to more sustainable products for customers and improve their customers' competitiveness.

During 2016 Gränges continued to develop the company's work on sustainability and objectives based on a comprehensive stakeholder dialogue and materiality analysis. In the coming year, Gränges intends to further develop strategies and measures to strengthen its sustainability work.

### SUSTAINABILITY MANAGEMENT

Sustainability activities are led by group management, and the SVP Communications & IR is responsible for Gränges' sustainability work at a group level. The General Counsel is responsible for governance, the SVP Process Engineering & Operational Development for environment, health and safety, and the SVP Human Resources for social responsibility.

Gränges observes all applicable local and international laws and regulations and continuously works with the precautionary principle by including sustainability aspects in risk assessments.

Sustainability activities are governed by Gränges' policies and management systems. Gränges is dedicated to the development and implementation of these policies to guide employees in their everyday work with sustainability and communication with stakeholders. Gränges' policies include its Code of Conduct, supplier declaration, anti-corruption policy, environmental policy, health and safety, energy policy, crisis plan and information policy.

### A NEW MEMBER OF THE GLOBAL COMPACT

In October 2016 Gränges joined the UN Global Compact. By doing so, Gränges undertakes to fulfil the principles of the Global Compact relating to human rights, labour law, the environment and anti-corruption. The membership highlights Gränges' commitment to sustainability issues.

### NETWORKING AND CO-OPERATION

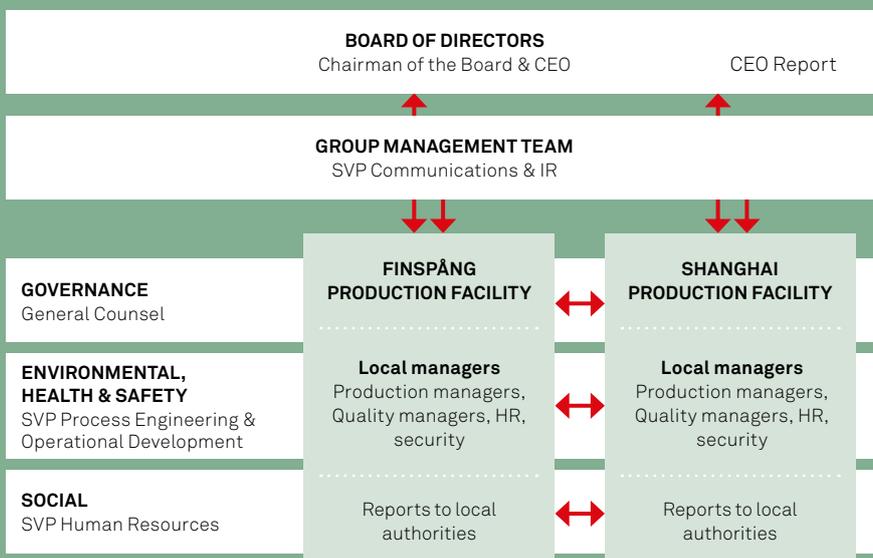
Gränges is a member of several industry bodies that contribute to improvements in the industry, and promotes robust networks on markets where the company is active e.g. the Global Aluminium Foil Roller Initiative. Additionally, Gränges is a member of Svenskt Aluminium, European Aluminium and the Confederation of Swedish Enterprise in Europe. In Asia Gränges is a member of the China Nonferrous Metals Industry Association, the Nonferrous Metals Society of Shanghai and the Shanghai Aluminium Trade Association. In the US Gränges is a member of the Aluminum Association.

Gränges also follows developments at the global Aluminium Stewardship Initiative and is considering joining the body.



## GRÄNGES SUSTAINABILITY ORGANISATION

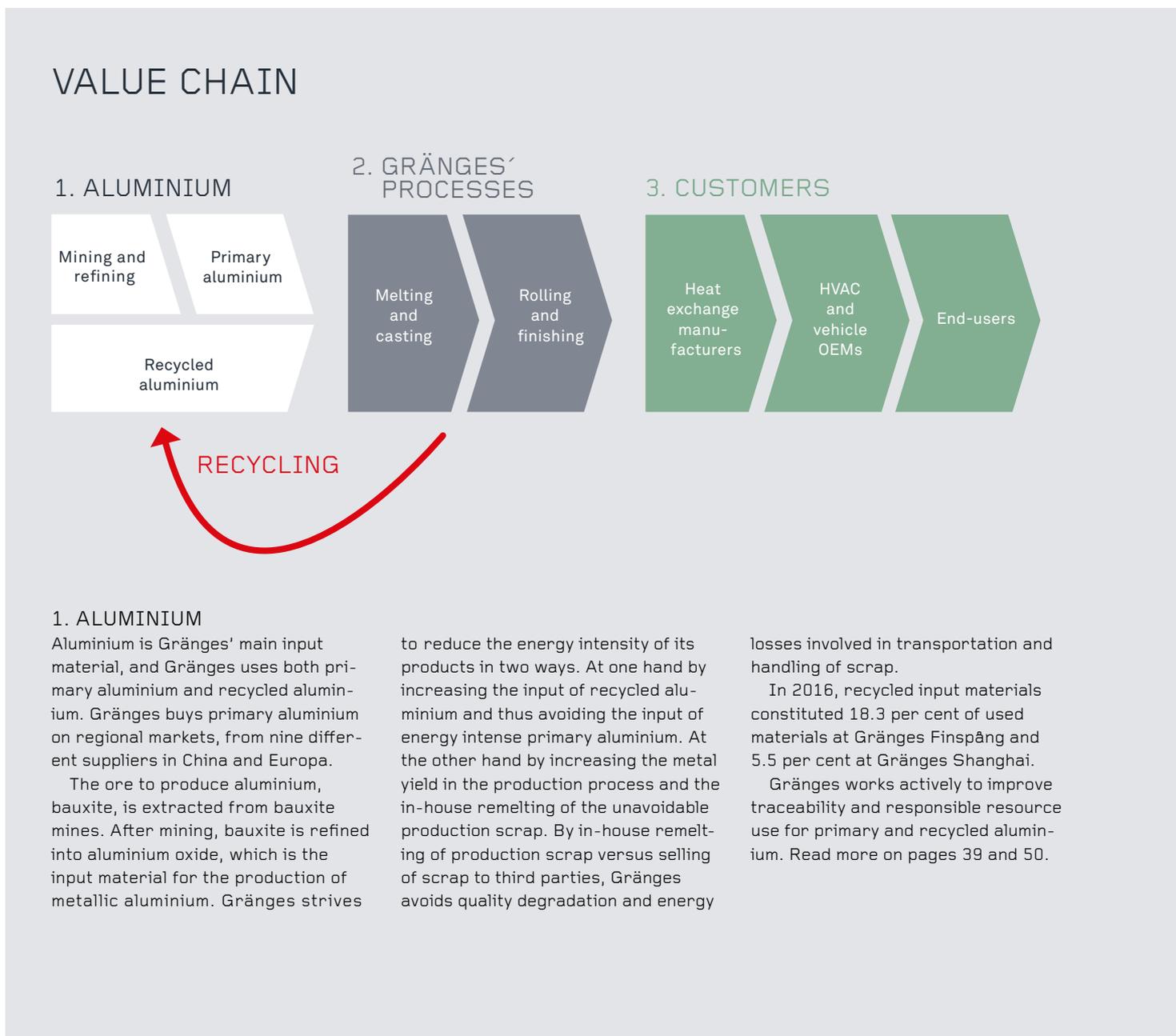
The SVP of Communications & IR is responsible for Gränges' work on sustainability at Group level. The SVP Process Engineering & Operational Development is responsible for environment, health, and safety; the General Counsel for governance; and the SVP Human Resources for social responsibility.



# VALUE CHAIN

## RESPONSIBLE RESOURCE USE

Gränges' value chain ranges from mines where bauxite is extracted to end-users of rolled aluminium products. Gränges works to improve conditions at all stages of the value chain, and takes responsibility for those areas of the value chain that fall under the control of the company.



## 2. GRÄNGES' PROCESSES

Gränges' processes transform aluminium into products with a high added value. Efficient processes are critical for Gränges to achieve sustainable, long-term growth. Energy costs are the most significant expense after metal and personnel costs. As a result of efficient process improvements, Gränges has successfully reduced the company's energy consumption per tonne of aluminium in the past three years.

Product development is also a key way to ensure relevance and long-term profitability. Research and development spend amounted to 73 MSEK (57) in 2016, which corresponds to 1.0 per cent of the company's net sales.

## 3. CUSTOMERS

Gränges' material is used in products such as engine cooling products, climate control solutions, transformers and packaging. Gränges takes on its customers' challenges together with them and constantly look for opportunities to apply its technical expertise. Aluminium from Gränges is found in the heat exchangers of half of the world's cars that are manufactured today, and the prevailing trend is towards more, smaller and lighter heat exchangers. Increased environmental requirements for stationary heat exchangers supports the shift from copper to aluminium, and Gränges has a strong position to capture opportunities in this respect.

# 18.3

per cent of used materials constituted recycled input materials at Gränges Finspång in 2016.

# STAKEHOLDER DIALOGUE AND MATERIALITY ANALYSIS

Gränges seeks to establish long-term and transparent dialogues with stakeholders. The key issues raised in the stakeholder dialogue constitutes the main parts of the company's materiality analysis and reporting.

## STAKEHOLDER DIALOGUE

The company had an on-going dialogue with stakeholders throughout the year, and also conducts more in-depth discussions with selected stakeholders as part of its sustainability activities.

During 2016, Gränges conducted a web-based survey regarding the company's sustainability activities. The survey focused on relevant industry

standards, reporting frameworks and issues previously raised by stakeholders. Respondents also had the option of raising additional sustainability issues in the survey.

Gränges has identified five main stakeholder groups: customers, suppliers, employees, society and investors. The company invited all employees and a selection of representatives from the

other stakeholder groups to respond to the survey. To obtain a more thorough understanding for stakeholders' expectations of Gränges, the survey was followed up by interviews with a selection of representatives from respective groups in Sweden. Gränges plans to conduct similar interviews in China and the US in 2017.

## Stakeholder dialogue

Stakeholder	Communication examples	Key sustainability issues for stakeholders	Further reading
<b>Customers</b>	• Customer survey	• Material handling and proportion of recycled aluminium	See page 39
	• On-going dialogue	• Customer satisfaction	See page 53
<b>Suppliers</b>	• Supplier declaration	• Purchasing processes	See page 50
	• On-going dialogue	• Proportion of recycled aluminium	See page 39
<b>Employees</b>	• Performance reviews	• Gränges as a workplace	See page 43
	• Employee surveys	• Health and safety	See page 45
	• Intranet	• Diversity and equality	See page 48
<b>Investors</b>		• Code of Conduct	See page 44
	• Annual General Meeting	• Code of Conduct and supplier declaration	See page 44, 49 and 50
	• Quarterly reports and annual report	• Ethics and anti-corruption	See page 49
	• Press releases	• Emissions and energy use	See page 40 and 41
	• Conference calls	• Customer satisfaction	See page 53
<b>Society</b>	• Capital markets days		
	• Local co-operation	• Gränges as a workplace	See page 43
	• Participation in networks and working groups	• Gränges in the local community	See page 52
	• Interns and student dissertations	• Emissions	See page 41

### MATERIALITY ANALYSIS

Results from the online survey and interviews constituted the main parts of the materiality analysis that Gränges carried out in 2016 within its work on GRI G4. The materiality analysis was conducted by a working group made up of Gränges management team and other senior company executives.

Those areas highlighted in the stakeholder dialogue were evaluated according to a materiality perspective where both stakeholders' expectations of Gränges, and Gränges economic, social and environmental impact were taken into account.

The materiality analysis resulted in Gränges defining eight material aspects

for its work on sustainability and communication with stakeholders. These aspects will be reviewed on an annual basis by a working group to ensure that Gränges is focusing on the relevant issues, and is communicated with stakeholders in line with their wishes.

### Gränges' material aspects

	Material aspect within Gränges' operations	Material aspects outside Gränges' operations	Further reading
Use of recycled aluminium	X	Suppliers	See page 39
Internal energy use	X	—	See page 40
Emissions	X	—	See page 41
Health and safety	X	—	See page 45
Diversity and equality	X	—	See page 48
Ethics and anti-corruption	X	Suppliers and customers	See page 49
Supplier evaluation	X	Suppliers	See page 50
Customer satisfaction	X	Customers	See page 53

# ENVIRONMENTAL IMPACT



# USE OF RECYCLED ALUMINIUM

The extraction of bauxite and production of primary aluminium are energy-intensive processes. It is possible, however, to recycle aluminium without any appreciable impact on quality. Gränges therefore strives to maximize the use of recycled aluminium as recycling is more cost efficient as well as more advantageous from a sustainability perspective.

## CONTINUOUS IMPROVEMENT

Gränges works continuously to optimise processes to increase aluminium yield. A certain amount of process scrap cannot be avoided in the production process. To ensure that the process is as cost effective as possible, internal scrap is reinserted into the process through remelting.

If internal scrap of the right quality is unavailable, external scrap (recycled aluminium) is purchased. If external scrap of sufficient quality is unavailable on the market, primary aluminium is used. Primary aluminium is generally more expensive than recycled aluminium and therefore the use of recycled aluminium is always prioritised.

## PURCHASING RECYCLED ALUMINIUM

Recycled aluminium is mainly purchased from aluminium scrap dealers. Gränges is also deploying some activities to buy back scrap from customers. The advantage of buying scrap from Gränges' own customers is that the composition is known, and it is therefore easier to remelt the scrap.

The production facility in Shanghai does currently not use externally sourced scrap as it is difficult to obtain scrap with sufficient quality on the Chinese market.

## NEW SCRAP PRESS IN FINSPÅNG

To further increase the use of recycled aluminium, a new scrap press has been installed in Finspång; similar to what is already in place in Shanghai. The new press enables Gränges to make scrap more compact and thereby make the melting process more efficient. This is thanks to reduced energy use, and reduced generation of dross.

## SCRAP CODES RESULT IN MORE EFFICIENT USE

Group-wide scrap codes, for classification of different scrap types, are used to ensure that scrap is used in appropriate processes, and that the amount of unused scrap is minimised. Scrap codes are continuously developed in line with Gränges development strategy for new alloys. For both Finspång and Shanghai, Gränges has developed a code system that allows different clad scrap combinations to be grouped together. The purpose of the coding system is to allow efficient scrap handling and to optimize the remelting, and thus minimizing the sale of scrap that cannot be re-used for own production.

## ALLOYS OF THE FUTURE

Recycling possibilities are increasingly important when developing new products and alloys. Research and development work is focused on identifying integrated

solutions that not only achieve the required technical specification, but also enables improved recycling rates.

To ensure the suitable material properties Gränges clads different alloys onto the aluminium alloy cores. The claddings change the composition which affects the recycling potential. Gränges runs a research program to obtain so called "sustainable alloys". These alloys are designed towards optimal combinations of application requirements and recyclability.

## GOALS AND PERFORMANCE

Gränges' goal is to increase the use of recycled aluminium in its production process. This will be achieved by:

- Increasing the percentage of recycled scrap input versus primary aluminium and alloying elements
- Ensuring that internal aluminium scrap can be reinserted into the production process.

More specific goals connected to metal yield and internal scrap utilization is set for each production facility.

The recycled input materials utilized in Finspång emanates from purchased external scrap. In Shanghai no aluminium scrap is purchased, however aluminium slabs contain a certain amount of recycled material.

In 2017, Gränges plans to invest in its suppliers' manufacturing processes. The investment will enable the supplier to deliver slabs in a size that reduces the amount of scrap in Gränges' own processes, and thereby improving the overall efficiency and reduce costs. This investment is unique for Gränges, and is a way to, together with our suppliers, increase efficiency throughout the supply chain.

## Percentage of materials used that are recycled input materials

%	2016	2015	2014
Gränges Finspång	18.3	22.7	17.3
Gränges Shanghai	5.5	5.6	5.5

# ENERGY USE

Reducing energy consumption is a focus area for Gränges. Use of energy is a key cost driver and reductions therefor offer opportunities to improve profitability and competitiveness.

## ENERGY EFFICIENCY MEASURES

Gränges primarily uses energy in the form of electricity, natural gas and liquefied petroleum gas. Furnaces consume large amounts of energy either via direct combustion or induction. Work on improving energy efficiency is undertaken in a number of ways, mainly:

- Gränges selects the Best Available Technology (BAT) when making new investments.
- Gränges continuously works with energy audits to improve energy efficiency. Energy efficiency goals are set for the production facilities and improvements are defined accordingly for the facilities' different processes
- Gränges works to increase energy efficiency by, for example, use excess heat from a process to meet the heat demand of other processes

During the year, Gränges focused primarily on activities linked to increased metal yield and recovery of waste heat from different processes.

Gränges also conducted a number of process optimization activities to reduce leakages from pneumatic devices, avoid unnecessary idling, reduce internal transport, upgrade motors and pumps, and insulate furnaces and improve furnace efficiency.

At the production facility in Shanghai the conformity handling procedures has been optimised to ensure that the manufacturing process can be stopped as early and as quickly as possible following an incident. This reduces the risk of material and energy being used to produce sub-standard products.

At the production facility in Finspång, work to replace old mercury lamps with new low energy alternatives has continued, and upgrades were made in several areas during the year.

Gränges has a company-wide energy policy and the production facility in Finspång have a certified energy management system according to ISO 50001. The facility also falls under the energy efficiency directive, but given that there already is a certified energy manage-

ment system in place, no additional activities are required to fulfil the legal requirements of the directive.

## STAFF TRAINING

At Finspång there is an e-learning course available to all employees. The course has been taken by 269 people since the start in April 2015. The purpose of the course is to increase the energy efficiency awareness of all staff, especially around how everyone can contribute in their daily work.

In Shanghai operators and supervisors are trained in energy efficiency and energy use.

## GOALS AND PERFORMANCE

Gränges' short term goal is to implement certified energy management systems for all production facilities in order to ensure continuous improvements.

The production facility in Finspång has implemented a certified energy management system. Activities to certify remaining facilities will begin in 2017.

Gränges has since 2014 worked on a large energy recovery project which will enable the entire site in Finspång to be independent of external heat supplies. The heat demand will be met by utilizing waste heat from furnaces, which is fed into the local district heating network. Only on really cold winter days will the facility be reliant on external heat sources. The project is scheduled for completion in 2017.

### Total energy use

GWh	2016	2015	2014
Electricity	223.5	216.6	206.2
Natural gas	151.3	145.8	153.0
Liquefied petroleum gas	46.0	46.4	47.3
Diesel	6.9	6.5	6.4
Other	2.5	1.8	2.6

### Energy intensity

MWh/tonne aluminium	2016	2015	2014
Gränges Re-melting and cast house	1.21	1.22	1.27
Finspång Mill	1.16	1.14	1.18
Gränges Re-melting and cast house	1.22	1.19	1.22
Shanghai Mill	1.25	1.30	1.31
Gränges Total	2.46	2.50	2.62

# EMISSIONS TO AIR

Gränges' emissions to air consist predominantly of carbon dioxide, nitrogen oxide and dust. Emissions are primarily emanating from the combustion of fossil fuels in production processes and transportation. Initiatives to reduce emissions are continuously implemented.

## CLIMATE CHANGE INCREASINGLY IN FOCUS

Climate change is an increasingly important societal issue, one that also affects Gränges' operations. Greenhouse gases are generated by the combustion of fossil fuels, which has a long-term impact on the climate.

Gränges' emissions of greenhouse gases originate from fossil fuels, mainly natural gas, liquefied petroleum gas and diesel, which are used to mainly power furnaces. Gränges has worked continuously with energy efficiency for many years, measures that have reduced emissions of greenhouse gases.

The climate issue has also been raised by stakeholders during the year. In response to this, Gränges has set a long term goal to reduce greenhouse gas emissions, both direct and indirect.

## REGULATED BY LAW

Emissions are regulated by legislation, and compliance is a prerequisite for Gränges' continued license to operate. Local authorities continually monitor compliance to ensure that emission levels are within limits. Emission limits in Sweden are based on requirements from the Industry Emissions Directive (IED), and in China national legislation, linked to Regulations of Shanghai Municipality on the Prevention and Control of Atmospheric Pollution. Emissions that are regulated by legislation include nitrogen oxides and dust.

Gränges monitors regulatory developments in the area, and upcoming emission requirements, as these can have considerable impact on Gränges future operations.

## STRUCTURED ENVIRONMENTAL WORK

Gränges' has an environmental management system certified according to ISO 14001. Within the system work towards continuous improvements are made in a number of areas, including airborne emissions.

Gränges' production facilities have modern technologies and effective flue gas cleaning equipment and emission levels are generally maintained well below the limits. In order to avoid potential exceedance of emission limits, Gränges is continuously working with inspections and controls in its maintenance routines.

## MEASURES TO REDUCE EMISSIONS

During the year Gränges has made improvements to a number of filters to reduce emissions, primarily of dust and other particulate matter at the production facilities. Gränges has also implemented process optimisation measures that, for example, reduce the use of nitrogen and thereby emissions of nitrogen compounds. Reduction of greenhouse gas emissions can directly be linked to energy efficiency measures and thereby reduced use of energy, read more on page 40.

To further reduce emissions of, for instance, nitrogen oxides, Gränges is

exploring the possibility to introduce oxy-fuel technology at the production facility in Shanghai. Oxy-fuel involves burning fuel in pure oxygen. This technology is already utilized at the production facility in Finspång.

## TRANSPORTATION

Transportation also generates greenhouse gas emissions. Gränges continuously reviews how it can optimise transportation and logistics flows. The average load per truck is being increased by reviewing production planning, and optimizing finished goods inventory levels. Gränges strives to make internal logistics more efficient through process improvements and investments to reduce the use of forklifts.

At Finspång, ECO-driving has been introduced to reduce fuel use. By increasing loading co-ordination between different machines, Gränges has also been able to reduce the number of trucks at the production facility.

## GOALS AND PERFORMANCE

Gränges' long term goal is to reduce its carbon footprint by reducing greenhouse gas emissions throughout the value chain, both direct and indirect.

Direct emissions of carbon dioxide increased slightly in 2016 due to increased production. Carbon dioxide intensity decreased as a result of improved energy efficiency, see also page 40. Dust emissions decreased mainly due to improved maintenance routines in Finspång.

### Total emissions

tonnes	2016	2015	2014
Carbon dioxide	42,902	41,761	43,394
Dust	3.8	5.3	5.1

### Carbon dioxide intensity

kg CO <sub>2</sub> /tonne aluminium		2016	2015	2014
Gränges Finspång	Re-melting and cast house	145	147	157
	Mill	6.6	6.6	6.5
Gränges Shanghai	Re-melting and cast house	210	207	220
	Mill	100	102	102
Gränges Total		245	250	273

# SOCIAL IMPACT



# AN ATTRACTIVE WORKPLACE

Gränges shall offer an attractive and safe working environment, where all employees regardless of gender, age, ethnicity and background have the opportunity to develop and receive competitive remuneration.

Gränges employs a total of around 1,500 (950) people as per 31 December 2016. The marked increase in the number of employees compared to the previous year is in large part due to the acquisition of Noranda's rolled aluminium operations in the US, which was completed during the year.

Gränges seeks to offer good working conditions and interesting opportunities to develop with the aim of attracting and retaining competent personnel, something that is of the utmost importance for Gränges' long-term competitiveness.

Employees shall feel proud to work at Gränges. Competent, engaged and innovative employees with solid knowledge provide the foundation to develop and manufacture high quality products.

The company applies professional recruitment processes to ensure recruiting of qualified personnel. The company also performs continuous training to maintain top-level craftsmanship and leadership, which is an important aspect in the future growth of the company.

Multiple training, personnel development and leadership initiatives have been carried out throughout the year:

- The processes for Talent Management have been improved in order to better take advantage of the individuals' talents and develop selected employees based on their individual needs.
- A company-wide Succession Programme has been developed with the aim of securing future generational changes and long-term leadership of the company.
- All managers in Finspång have taken a common training programme in which leadership and communication is combined with business knowledge, quality control, marketing and finance.

To develop the leadership skills within the company, all managers regularly undergo various types of leadership training. Other employees are entitled to individual training within the range of their key responsibilities and competence. This is revised on a yearly basis, based on the individual's unique development plan compiled after each employees' yearly performance review.

International expansion, such as the acquisition of Noranda's rolled aluminium operations in the US, also contributes to creating new career opportunities for employees.

Salary and performance reviews are held for all employees every year. Gränges also has an incentive programme for senior executives and key people.

All employees have the right to join unions or other organisations, and are covered by collective bargaining agreements.

Sick leave during the year increased to 2.2 per cent (2.0), excluding Gränges Americas, which is in line with the company's goal of achieving sick leave of a maximum of three per cent.

## **A strong company culture**

The company's culture is extremely important for Gränges as a workplace where employees feel good, thrive, develop and perform, all of which results in reduced sick leave and accidents, improved effectiveness at work, better product quality and improved profitability.

Gränges' company culture is underpinned by its core values of action, commitment and accessibility. This means, amongst other things, that decisions

COMPETENT, ENGAGED AND INNOVATIVE EMPLOYEES WITH SOLID KNOWLEDGE PROVIDE THE BASIS TO DEVELOP AND MANUFACTURE HIGH QUALITY PRODUCTS.

## GRÄNGES' CORE VALUES

## ACTION



## COMMITMENT



## ACCESSIBILITY



shall be taken as far down the organisation as possible, and that all employees are expected to drive change in line with agreed goals to be proactive, sustained and accurate. Requirements for co-operation and good service levels are very high.

Gränges works continuously on reinforcing the company culture and values. To entrench its core values Gränges has held seminars and workshops with all employees in Sweden and with managers at other offices around the world throughout the year. Gränges' core values form an integral part of the leadership programmes and other training programmes. These values are also significant for recruitment and promotion.

To measure and follow-up measures taken and identify areas for improvement, Gränges regularly – every 18 months – conducts employee surveys. Employees answer questions related to their workplace, such as leadership, remuneration, influence, working environment, carer development, health and safety. The most recent survey had a response rate of 86 per cent and showed improved results in virtually all areas compared with the previous survey. Confidence in management, job satisfaction, opportunities for skill develop-

ment, health, safety and equal treatment are examples of areas that have seen very positive results.

**Code of Conduct**

The Gränges Code of Conduct provides a framework for what Gränges considers to be responsible and in all senses sustainable behaviour. All activities shall be conducted according to responsible, ethical and sound company and business principles, and in line with all applicable laws and regulations, as well as the 10 principles of the UN Global Compact.

All employees – permanent and temporary – as well as the Gränges board, are subject to the Code of Conduct. The code also applies to independent consultants and others who act on behalf of Gränges.

The values of the Code of Conduct shall permeate employees' daily work and all the company's business relationships. All employees are familiar with the Code of Conduct, and virtually all officials, particularly managers and key people, have also taken a web-based training course on the Code of Conduct.

All new employees receive an introduction to the Code of Conduct when they join the company.

**Gränges' employees**

	2016 <sup>1)</sup>	2016 <sup>2)</sup>	2015	2014
Average number of employees	1,154	962	964	952
– of which employed in production	807	619	631	616
Employee turnover, %	–	3.4	4.5	3.4
Sick leave, %	–	2.2	2.0	1.8
Average age	–	39	39	38

1) Including Gränges Americas from 22 August 2016.

2) Excluding Gränges Americas.

# HEALTH AND SAFETY

Gränges observes strict safety routines and works continuously to improve safety in the workplace.

The company invests in and focuses regularly on different types of safety measures to prevent accidents at its production facilities in Finspång and Shanghai, and to achieve the goal of an injury free workplace.

A good and safe working environment is of the utmost importance to Gränges, which cares about its employees; no employee shall risk injury at their place of work. A culture of high safety standards, where accidents are rare, also contributes to high quality production, a positive environment at the workplace, and robust profitability. This is also key to safeguarding the Gränges brand. A high degree of safety is also an important way of avoiding the negative and emotional costs and consequences of accidents, for individuals and the company.

Gränges believes that employees who are safe and well, and who are allowed to develop, perform better.

## Continuous improvement

During the year, Gränges completed a number of measures with the aim of further improving the working environment and safety at the workplace. These include:

- the development and implementation of a new company-wide environmental, health and safety policy
- the completion of internal audits in Shanghai and Finspång, with a view to learning from each other and to work together more in accordance with best practice. The aim of this approach is to improve safety and the working environment, which also contributes to improved profitability for Gränges (read more on page 47)
- increased focus on training at the remelter in Finspång to reduce risks and improve safety when working with molten metal
- continued focus on behaviour-based safety where local activities and training drives are conducted at production facilities on an on-going basis.

Gränges continues to focus on the five critical risk categories in particular. These are fall protection, molten metal, mobile equipment such as forklifts, confined spaces such as tanks, and control of hazardous energy lockout/tagout/verify, i.e. that machinery is completely switched off and de-energized prior to maintenance. These areas are prioritised, and Gränges continually reviews and works on improvements to ensure that safety becomes even better. Gränges also runs training and improve-



ment in other areas such as fire protection. During the year, Gränges in Finspång also held a theme week focused on behavioural-based safety, during which 40 observers were trained.

### Zero tolerance

Gränges strives towards an injury free workplace and analyses the hazards and minimizes the risks for serious injuries. During 2016 Gränges had three serious accidents where a person was injured, which resulted in a total of 306 days absence from work.

The most common injuries at Gränges in Finspång are finger and hand injuries and these account for around 5 out of 9 injuries. The most common injuries in Shanghai are foot and leg injuries, accounting for 3 out of 5 injuries.

The number of accidents resulting in absence from work increased to 9 out of 14 recordable accidents.

### Training, risk minimisation and detailed follow-up

Gränges observes all relevant laws and regulations in the EHS sphere.

Health and safety issues at Finspång and Shanghai are handled within the framework of a management system in line with the global OSHAS18001 standard. Shanghai is also OSHAS18001-certified.

The new EHS policy is based on the ILO Occupational Safety and Health Conventions principles and the policy is implemented across the company. The company also has a rehabilitation policy,

to ensure that those who have been injured or fall ill return to work in the best possible way.

All employees are insured against accident and illness, and undergo regular health checks.

To ensure a good and safe workplace, Gränges has a structured and preventative approach. Both for repetitive and non-repetitive tasks, so called JSAs (Job-Safety-Analysis) are performed. This entails the identification of hazards, inherent to the task, and the assessment of risks for harm or injuries, followed by action plans to reduce and mitigate the risks. Management and safety representatives coordinate and prioritize the actions.

All incidents are registered and classified in an incident reporting system, which is transparent and available for all. Outcomes of the incident reporting system are followed up weekly and monthly.

The company regularly conducts safety inspections where office and production environments are inventoried physically. Reviews are made of everything from lighting, desk heights, and that emergency exits are clear to checking that safety information and signage are correctly located in production areas. Safety inspections are followed-up in safety committees for our various factories. Overarching safety committees, headed by the Presidents of Europe and Asia respectively, monitor that work is done by all safety committees.

Safety training is held for all employees at Finspång and Shanghai at least annually. Gränges also carries out targeted safety training programmes for specific safety issues. Production personnel receive specific subject training, for example related to risk for hand and finger injuries.

New employees receive training in safety issues as part of their introductory programme.

Gränges also performs chemical substance hazard analysis and regularly substitutes chemicals in order to reduce the exposure to personnel.

Gränges' production facility in Shanghai meets all Chinese legal requirements and regulations, and Gränges' production facility in Finspång fulfils obligations under the EU's chemicals legislation REACH, (Registration, Evaluation, Authorisation and Restriction of Chemicals).

## GOALS AND PERFORMANCE

### Health and safety

- Gränges has a zero tolerance towards injuries and accidents. Gränges has reduced its number of total recordable accidents by 2 as compared to 2015.
- Gränges shall have absence from work due to illness of max 3 per cent overall. In 2016 absence from work due to illness increased to 2.2 per cent (excluding Gränges Americas).

### Number of recordable accidents per million of hours worked

	2016	2015	2014
Gränges Finspång	12.3	13.3	12.6
Gränges Shanghai	3.5	4.8	4.0
Gränges total <sup>1)</sup>	6.5	7.5	6.6

1) Excluding Gränges Americas.



Screenshot from Gränges' internal safety film shot during cross-audit in Finspång.

## IMPROVED SAFETY WITH CROSS AUDITING

Internal audits have been carried out at Gränges' production sites in Finspång and Shanghai with the aim of improving working environments and safety standards. These audits were made in line with the group's new environmental, health and safety policy.

A working group travelled from Finspång to Shanghai, and two working groups, one from Shanghai and one from Gränges Americas, travelled to Finspång, to learn from each other and further enhance operational integration. Such activities help to drive further improvements in safety standards for those who work primarily in production. Working according to best practice also contributes to improved profitability for Gränges.

Audits were conducted by a working group made up of those responsible for, and specialists in, environmental and working environment issues, and health and safety; and were headed by production managers from Finspång, Americas and Shanghai respectively.

The audits focused on safety in the five critical areas: fall protection, molten metal, mobile equip-

ment, confined spaces and lockout/tagout/verify. Fire prevention measures were also reviewed.

One of the areas audited this year, as mentioned above, was mobile equipment. Safety is of the utmost importance for those who use the mobile equipment, and for pedestrians in and around our factories. This year, the audit included routines for the control of mobile equipment prior to use. The audits also examined how employees drove the vehicles, for example forklift trucks. Other areas that were audited included ensuring that all employees have the relevant training.

Following the auditing process, the working groups have developed recommendations and proposals for improvements.

Cross audits will continue to be carried out regularly at our various production sites.

# EQUALITY AND DIVERSITY

Gränges maintains the highest possible standards in terms of ensuring that the workplace is suitable for all individuals. A workplace that is diverse and equal, and where all types of skill sets are utilised, is of the utmost importance to ensure that Gränges maintains long-term competitiveness.

No individual shall be discriminated against due to their gender, life stance, background, sexual orientation, ethnicity, physical ability, or in any other way. People of different ages, genders, ethnicities, and backgrounds should be well represented at all management levels.

Gränges believes that a multi-faceted workplace contributes to more successful and profitable operations. Diversity in the workplace is also a reflection of the international markets in which Gränges is present.

Gränges' long-term goal is that the proportion of female employees, including management positions, should reach 20 per cent. During the year, Gränges adopted a number of measures to improve equality:

- In recruitment processes, if all other factors are equal, the under-represented gender is prioritised.
- Leadership programmes conducted by Gränges Europe include activities that support a more equal gender balance.

- The company's Talent Management programme, and the Successions Programme (see page 43), include gender elements as key parameters.

All employees should have equal opportunities to develop their careers. It should be easy for employees to combine their work commitments with their family lives, and as far as is reasonably possible Gränges seeks to provide a variety of flexible working arrangements.

## SALARY BREAKDOWN, PROGRAMME AND POLICIES

All employees shall have fair and market-based salaries. Gränges regularly carries out salary reviews with a view to identify, address, and prevent unwarranted salary differences between men and women with similar responsibilities. In 2016 a salary review was conducted with particular focus on gender and salary structure. The review showed that there are no unwarranted gender-related salary differences. In addition, a comparative survey was made of senior

executives' pay, which showed that remuneration levels at Gränges were in line with comparable companies.

At Gränges' production facility in China, salary levels are based on employees' respective positions, and there are no differences between salaries for men and women.

Gränges' equality plan is part of the company's equality policy. The equality policy states that no employee may be discriminated against in any way due to gender, life stance, background, sexual orientation, ethnicity, physical ability, or for any other reason. This policy, together with the company's leadership and salary policy, ensures that no group is disadvantaged or disregarded in any way.

## GOALS AND PERFORMANCE

Twenty per cent of all employees including managers should be female. In 2016 the proportion of women employed by the company increased to 13.6 per cent, excluding Gränges Americas. The ambition is that thirty per cent of all new recruitments shall be women on group level.

### Gender balance<sup>1)</sup>

	2016	2015	2014
	men/women	men/women	men/women
Gender balance total, %	86/14	87/13	86/14
Gender balance production, %	94/6	95/5	95/5
Gender balance administrative staff, %	73/27	72/28	69/31
Gender balance Gränges' management team	7/1	7/1	7/1
Gender balance Gränges' Board <sup>2)</sup>	7/4	7/2	7/2

1) Excluding Gränges Americas.

2) Includes employee representatives and deputy employee representatives.

### Age structure 2016<sup>1)</sup>

%	Management team		
	Total	Management team	Board
Under 30	12	0	11
30–50	69	50	22
Over 50	19	50	67

# ETHICS AND ANTI-CORRUPTION

Sound business ethics and an honest and open business culture lie at the very heart of Gränges' approach. All internal relationships and relationships with suppliers, customers and other business partners shall be characterised by responsible, ethical and sound business principles. Gränges categorically rejects all forms of bribery and corruption.

An ethical and transparent approach is essential for Gränges to avoid conflicts of interest. It also ensures that the company has accurate reporting, has long-term sustainable and profitable operations, and strengthens the Gränges brand.

## CODE OF CONDUCT, POLICIES AND TRAINING

Gränges observes all applicable local and international laws and regulations. Gränges has a Code of Conduct, which applies to employees, the board, and independent consultants and others who act on Gränges' behalf. The Code of Conduct provides a framework for what Gränges considers responsible and sustainable behaviour, and states that operations are to be run according to responsible, ethical and sound company and business principles. These principles apply to the daily work of all employees.

Gränges also has an insider policy and an anti-corruption policy that all employees are obliged to follow. The anti-corruption policy explains and expands on Gränges' view of corruption including the handling of gifts to charity, which primarily occurs on a local level, and to political campaigns.

In principle, all Gränges managers, officers in positions of responsibility and key people in purchasing and sales have taken a training programme in anti-corruption issues. The training is held every 18 months. The company's General Counsel regularly reviews regulations and guidelines in the company's Code of Conduct and anti-corruption policy with all sales representatives and

purchasers. Seminars and workshops are held once a year with all sales representatives and purchasers in Shanghai and Finspång. All new employees undergo an introduction to the Code of Conduct and corruption issues when they join the company. The Board is also subject to the anti-corruption policy and is informed of this.

All Gränges' suppliers of materials, ingot, alloys and scrap as well as other larger suppliers are required to follow Gränges' Supplier Declaration. This means that suppliers are required, amongst other commitments, to maintain the same standards as Gränges in terms of anti-corruption and to not engage in any form of bribery or corruption.

Prior to mergers with, or acquisition of, other companies Gränges carries out thorough due diligence to ensure that corruption has neither taken place nor is currently taking place.

As the company works to ensure ethical behaviour in all its business relationships, Gränges has also continued to tighten internal auditing routines.

## WHISTLE-BLOWER FUNCTION

Gränges has a whistle-blower function where employees are able to anonymously report suspicions they may have that anything improper is happening in the company, if there is an individual who commits irregularities, or in any other way violates the principles of the company's Code of Conduct. Reports are submitted anonymously to a panel composed of the General Counsel and SVP Human Resources.

The whistle-blower function is available to all employees, and is described in the Code of Conduct and on the company's intranet site.

One whistle blower complaint was brought in 2016. This has not resulted in any further action.

## GOALS AND PERFORMANCE

Gränges has a zero tolerance policy for all types of corruption and bribery. In 2016, there were no incidents relating to corruption. No business contracts were cancelled, or were not renewed, due to corruption. Neither were there any incidents relating to corruption in 2014 nor 2015.

# A SUSTAINABLE SUPPLY CHAIN

An effective and sustainable supply chain is a key element to how Gränges manages its metal purchases. Gränges has well-established purchasing routines and guidelines.

An effective supply chain provides Gränges with the right raw materials at the right time to enable the company to meet customer requirements. It is also important that purchasing is optimised so that the right types of scrap materials, with documented contents, are purchased. In this way, excess scrap from production processes can be used effectively, so that Gränges is able to recycle as much excess material as possible. Purchasing of scrap material therefore needs to be continually co-ordinated with the production.

Responsible purchasing is also of great importance for Gränges: the ambition is that suppliers shall observe similarly high standards on sustainability issues as Gränges does.

## LONG-TERM CO-OPERATION

Gränges has a close and long-term co-operation with its suppliers. Co-operation also occurs with suppliers on, for example, product development and alloys.

Gränges has a total of some 40 suppliers of material, ingots, alloys and scrap. No new suppliers were added during 2016.

Gränges' suppliers that deliver to production facilities in Finspång are located primarily in Sweden and Norway, but also in Germany, the Netherlands, Spain and Russia. Those that deliver to our production facility in Shanghai are located in China.

Suppliers are selected according to quality, service, price, reliability, and in the case of scrap suppliers also ethics and traceability of materials. The company's suppliers shall share Gränges values on sustainability issues, and just like Gränges strives to minimise environ-

mental impact, take employment law responsibility and ensure good working conditions, not tolerate any form of bribery or corruption, and respect human rights.

Supply chain risks include lack of readily available materials, ethical risks such as bribes and corruption, especially in terms of scrap material suppliers, labour law risks such as unfair working conditions and child labour.

Gränges works continuously to improve controls and routines for purchasing of scrap and other materials.

## SUPPLIER DECLARATION

In order to ensure that the company acts sustainably, all suppliers of material, ingots, alloys and scrap material, and other larger suppliers shall follow and sign the Gränges Supplier Declaration which was introduced in 2015. By signing the Supplier Declaration suppliers pledge to observe all applicable laws and regulations, including the 10 principles of the UN Global Compact on issues such as the environment, labour, human rights, and to fight corruption, as well as comply with responsible, ethical and sound business and company principles.

Gränges Supplier Declaration means that suppliers shall have zero tolerance of all types of bribes, corruption and co-operation that breaches competition law, avoid conflicts of interest, have reasonable working conditions, good health and safety standards at their places of work, respect human rights such as not accepting child labour or any form of forced labour, respect for the environment by, amongst other things, minimising damaging emissions and waste production.

Suppliers shall, in turn, work to implement the principles outlined in the Supplier Declaration with their own suppliers.

Virtually all suppliers have signed the Gränges Supplier Declaration. Those companies that have not signed the declaration have their own codes of conduct that they follow, which fulfils Gränges' requirements and have illustrated this to Gränges. If a supplier should break the Supplier Declaration, Gränges first has discussions with the supplier in question on how to resolve the issue, followed by the development of an action plan. To date, no such discussions or action plans have been necessary.

## REGULAR AUDITING

Gränges ambition is to audit all strategic suppliers before working with them, and subsequently to conduct regular audits of such suppliers. Gränges has audited most of its strategic suppliers. A total of six strategic suppliers were audited in 2016.

Audits focus primarily on quality, but also issues relating to environment, employment law, health and safety, and human rights. Before Gränges begins working with larger suppliers, their management systems are also audited to ensure that they meet Gränges' requirements, and that they are fully implemented. Going forward, sustainability issues will have an even greater importance in supplier auditing.

## GOALS AND PERFORMANCE

All strategic suppliers shall be audited by 2020. A total of six strategic suppliers were audited in 2016.



# GRÄNGES IN SOCIETY

Gränges strives to contribute to society in positive ways, and to be an important and engaged member in the local communities.

Gränges creates employment opportunities in which employees have good terms of employment, and develops high quality products with the least possible amount of environmental impact.

The company contributes to charity and provides sponsorship, the majority of which is done in the local communities where Gränges is operating. Among

other activities, Gränges sponsors training and cultural projects, local sports clubs, for example a football-based initiative designed to support the integration of newly arrived immigrants in the Finspång community.

One of the schools that Gränges sponsors is Curt Nicolin High School in Finspång, where Gränges offers intern-

ships and summer jobs for students, and Gränges in Shanghai has a co-operation agreement with local primary schools to which the company donates. Gränges also takes an active role in Finspång's local business life, and takes part in a variety of initiatives to develop and make Finspång even more attractive as a municipality.



# CUSTOMER SATISFACTION

Gränges strives to be our customers' first choice as partner and supplier of rolled aluminium products. That our customers are satisfied with the products and service that Gränges provides lies at the core of the company's long-term profitability and existence.

Working closely with customers, Gränges develops new technologies and products designed to solve customers' specific needs. Our strong customer focus leads to long-term relationships: of Gränges' customers, 85 per cent have engaged the company for more than 10 years.

About half of Gränges' sales volume is to tier one suppliers in the automotive industry. Gränges customers demand high performance and cost efficiency, and the company works continually to develop products that result in lower process costs and reduced use of materials at customer applications.

## **CUSTOMER SATISFACTION: A SHARED RESPONSIBILITY**

Gränges is permeated by a focus on customer needs, leading technologies and industrial craftsmanship. The ultimate responsibility of ensuring customer satisfaction lies with each respective President in Asia, Europe and Americas. Responsibility is delegated to respective operating companies, and Gränges' sales organisations have daily contact with customers, and work continuously to meet customer expectations and deliver products of high and consistent quality. During the year, a new role was also introduced with responsibility for global customers and production development at company level.

## **NEW TOOLS**

Gränges conducts annual customer surveys. Every year a selected group of customers are invited to take part in the study. The results of the customer surveys are reviewed internally and results in an action list, for Gränges' internal processes and to develop specific customer relationships.

The customer surveys are managed by the operations in Sweden and China. The surveys that have been conducted in 2016 show great results. Gränges Europe scored 71 per cent in its Customer Satisfaction Index with customers praising Gränges for its competent staff, delivery quality and documentation. In Asia, 86 per cent of the clients are satisfied or extremely satisfied with Gränges. Customers are highlighting Gränges' product quality, research capability and technical support as some of the key reasons for choosing Gränges over its competitors. The studies are not comparable as different tools have been used for the two operations. In 2016, a new tool for measuring customer satisfaction was developed. From the next fiscal year it will be used on a group-wide basis, thus enabling comparison across the Gränges group.

# 85

per cent of Gränges' customers have engaged the company for more than 10 years.

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G4-DMA	Disclosure on Management Approach	41
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1).	41 Only reporting CO <sub>2</sub> .
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<b>MATERIAL ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT</b>		
G4-DMA	Disclosure on Management Approach	50
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	No new suppliers were added in 2016.
<b>CATEGORY: SOCIAL IMPACT</b>		
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<b>MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY</b>		
G4-DMA	Disclosure on Management Approach	46
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, by region and by gender.	46 No breakdown by gender.
<b>MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY</b>		
G4-DMA	Disclosure on Management Approach	48
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	48
<b>MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES</b>		
G4-DMA	Disclosure on Management Approach	50
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria.	No new suppliers were added in 2016.
<b>SUB-CATEGORY: HUMAN RIGHTS</b>		
<b>MATERIAL ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT</b>		
G4-DMA	Disclosure on Management Approach	50
G4-HR10	Percentage of new suppliers that were screened using human rights criteria.	No new suppliers were added in 2016.
<b>SUB-CATEGORY: SOCIETY</b>		
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<b>SUB-CATEGORY: PRODUCT RESPONSIBILITY</b>		
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# GLOBAL COMPACT INDEX

Principle	Description	Page reference
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Principle 2	make sure that they are not complicit in human rights abuses.	50
<b>LABOUR</b>		
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	43
Principle 4	the elimination of all forms of forced and compulsory labour;	50
Principle 5	the effective abolition of child labour; and	50
Principle 6	the elimination of discrimination in respect of employment and occupation.	43, 50
<b>ENVIRONMENT</b>		
Principle 7	Businesses should support a precautionary approach to environmental challenges;	32
Principle 8	undertake initiatives to promote greater environmental responsibility; and	39
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	39
<b>ANTI-CORRUPTION</b>		
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	49

# REPORTING PRINCIPLES SUSTAINABILITY

Gränges' sustainability reporting follows the Global Reporting Initiative (GRI) G4 guidelines with the objective that the reporting shall be both relevant and transparent.

## REPORTING PRINCIPLES

The reporting covers Gränges' operations in Sweden and China during the 2016 financial year. Gränges' newly acquired operations in the US are not included in the report unless otherwise indicated. Gränges has limited its reporting to the areas in which the company has full control over data collection and information quality.

Environmental and social data is consolidated according to financial reporting principles described in Note 2 in the consolidated group accounts. The consolidation includes subsidiaries in which Gränges owns shares corresponding to more than 50 per cent of the voting rights, or in some other way has management control. Limitations and deviations from these reporting principles are described in the respective sections or in comments to diagrams and tables.

## ENVIRONMENTAL IMPACT

Environmental data is reported on production facility level and aggregated annually using common definitions and principles. Carbon dioxide emissions are calculated using the group-wide emission factors for different fossil fuels. Other emissions, for example dust and nitrogen oxides are calculated based on regular measurements extrapolated to the total production volume. The data quality of the nitrogen oxide emissions is currently not sufficient enough, and more regular measurements will be conducted during 2017 to ensure more reliable reporting in the future.

## SOCIAL IMPACT

The reported employee data is based on verified information from Gränges' annual accounts. Serious injury is defined as an irreversible injury for

example an amputated finger or lost eyesight, or a reversible injury causing prolonged periods of pain or suffering for the employee. First-aid level injuries are not included.

## REPORTING TO UN GLOBAL COMPACT

This report also constitutes Communication on Progress (CoP) reporting to UN's Global Compact, where activities and results related to Global Compact's principles are reported, see page 32 for additional information.

# BOARD OF DIRECTORS' REPORT

The Board of Directors and the Chief Executive Officer of Gränges AB (publ), corporate identity number 556001-6122, hereby submit the annual accounts and consolidated accounts for the financial year 1 January–31 December 2016.

## OPERATIONS

Gränges is a global leader in aluminium engineering, manufacturing and innovation. Focus is on rolled aluminium products for heat exchangers and selected niche applications. In materials for brazed heat exchangers, Gränges is the global leader with a market share of approximately 20 per cent.

Demand for automotive heat exchanger strips is closely tied to the global automotive industry as well as the number of heat exchangers installed per vehicle. A number of unique heat exchangers are developed for every new vehicle platform. Advanced requirements for product performance, especially in terms of energy efficiency, mean that brazed aluminium heat exchangers are currently the prevalent technology in this industry.

A large number of manufacturers, end-users and applications fragment the market for stationary heat exchangers. Applications include commercial and residential property, data centres, and manufacturing. Together, these markets account for a considerable share of energy consumption in many countries. Demand for reduced energy use and limits to the amount of, and choice of, refrigerants is driving demand for smaller and lighter heat exchangers, and is speeding up the shift to brazed aluminium heat exchangers, which currently account for a small percentage of the total market.

Gränges has its headquarters in Stockholm, Sweden. Operations are divided organisationally into three regions: Asia, Europe and the Americas. Its production facilities are located in Sweden, China and the United States, and have a combined annual capacity of 400,000 metric tonnes.

Gränges has long-term customer relationships with global suppliers of heat exchangers to the automotive industry. During 2016, the company's seven largest customers accounted for 46 per cent of the net sales.

### ACQUISITION

Gränges completed its acquisition of Noranda's rolled aluminium business in the US on 22 August 2016. The acquisition implies that Gränges now has its own manufacturing capacity in North America and expanded its presence in stationary heat exchangers, food packaging, transformers and a number of other niche markets. In terms of sales volume, Gränges has doubled in size following the acquisition. Further, the acquisition is strategically important and in line with Gränges' target of being market leading in all geographical regions by 2020. For further information about the acquisition see note 29.

Following the acquisition in US, Gränges will coordinate the distribution in North America through the new company Gränges Americas Inc. The agreement with the current sales company in US, Norca Heat Transfer LLC, is set to expire 31 December 2017.

### SEASONAL VARIATIONS

Gränges' business is subject to seasonal variations. Following the acquisition in North America which was completed in August 2016, the second quarter of the year is the strongest and the fourth quarter the weakest

### MARKET DEVELOPMENT

Demand for aluminium products for automotive heat exchangers, which is Gränges' largest market and accounts for about half of the sales volume, is strongly correlated with the market for light vehicles. Due to lead times in the supply chain there is, however, a time lag between growth in demand for Gränges' products and growth in vehicle production.

Global production of light vehicles increased by 4.4 per cent in 2016 compared with 2015, according to the international research and analysis firm, IHS. Production of light vehicles in Asia increased by 6.6 per cent in 2016 and in China the increase isolated was 12.8 per cent. In Europe production of light vehicles increased by 2.6 per cent in 2016. In the Americas production of light vehicles increased by 0.1 per cent in 2016 where growth in North America was counteracted by a weaker market in South America.

Regarding Gränges newly acquired operations in the US, materials for stationary heat exchangers represents about half of the total sales volume. The growth of this market is to a large extent correlated with the development of the US economy as a whole. Further, product development is driven by needs for more energy efficient devices and use of less harmful refrigerants.

### SALES

During 2016 sales volume reached 239.1 ktonnes (163.9), an increase of 45.9 per cent compared with the previous year. Net sales amounted to SEK 7,207 million (5,494). The net effect of changes in exchange rates was positive and amounted to SEK 32 million (625) during 2016.

#### Asia

During 2016, sales volume in Asia increased to 80.8 ktonnes (75.5), which represents an increase of 7.1 per cent compared to previous year.

#### Europe

During the 2016, sales volume in Europe reached 63.7 ktonnes (62.7), representing an increase of 1.6 per cent compared to previous year.

#### Americas

During 2016, sales volume in the Americas reached 94.6 ktonnes (25.8), an increase of 266.7 per cent compared to previous year.

### OPERATING PROFIT

During 2016, operating profit amounted to SEK 559 million (538). Adjusted operating profit totalled SEK 687 (541), corresponding to an adjusted operating margin of 9.5 per cent (9.8). Changes in foreign exchange rates had a positive effect of SEK 79 million. The positive effect from higher sales volume was partly offset by lower average conversion price.

### PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

In 2016, net financial items amounted to SEK -61 million (-19). Profit before tax amounted to SEK 500 million (521), including profits from joint ventures of SEK 2 million (2). Income tax for the full year 2016 was SEK -2 million (-143). This includes the release of a provision for corporate income tax in China with a positive effect of SEK 139 million, as well as withholding tax of SEK -38 million paid on dividends from the Chinese subsidiary. Effective tax rate was 0 per cent (27), but if excluding the released tax provision and withholding tax, the effective tax rate was 21 per cent. Profit for the year increased to SEK 498 million (379) in 2016 and earnings per share diluted, increased to SEK 6.64 (5.07).

## CASH FLOW

During 2016, cash flow from operating activities amounted to SEK 686 million (725). Compared to the previous year the cash flow was negatively impacted by paid income tax related to withholding tax of SEK -38 million on dividends from the Chinese subsidiary.

During the year, cash flow from investing activities amounted to SEK -2 732 million (-125), whereof SEK-2,581 million relates to the acquisition purchase price for the US operation. Cash flow before financing activities amounted to SEK -2, 046 million (600) during 2016.

During 2016, cash flow from financing activities amounted to SEK 2,245 million (-647), mainly due to increased external bank financing in connection with the acquisition of the US operations. Dividend paid during 2016 had a negative impact of SEK -149 million (-112) on cash flow. Proceeds from rights issue related to the employee stock option program from 2014 has positively impacted the cash flow with SEK 34 million.

Cash and cash equivalents amounted to SEK 851 million at 31 December 2016 (SEK 634 million at 31 December 2015).

## FINANCIAL POSITION

Gränges' total assets amounted to SEK 7,950 million at 31 December 2016 (SEK 4,402 million at 31 December 2015). The equity to assets ratio was 37.0 per cent at 31 December 2016 (56.8 per cent at 31 December 2015). Consolidated net debt including pension liabilities was SEK 2,722 million at 31 December 2016 (SEK 275 million at 31 December 2015).

## EMPLOYEES

The average number of employees in the Gränges Group amounted to 1 154 (964) during 2016. The marked increase in the number of employees compared to the previous year is in large part due to the acquisition of rolled aluminium business in the US, which was completed during the year.

Gränges seeks to offer good working conditions and interesting opportunities to develop with the aim of attracting and retaining competent personnel, something that is of the utmost importance for Gränges' long-term competitiveness.

All managerial groups should be a good blend in terms of age, gender and ethnicity. Gränges' long-term objective is that the percentage of women shall amount to 20 per cent, and this includes managerial positions.

All employees are entitled to join unions and other organisations. Employees in Gränges' business in Sweden are covered by collective agreements.

Gränges has zero tolerance of injuries and accidents. Gränges has strict safety routines and constantly invests in different types of safety measures to prevent accidents at Gränges' production facilities.

More information on Gränges' equality, diversity and safety work is to be found in the Sustainability section.

## RESEARCH AND INNOVATION

Gränges conducts world-class strategic research and customer driven product development are based on extensive knowledge of material properties and characteristics, and into our own and customer production processes. This strategic research work is managed globally, while the customer-driven development is carried out locally, in close coordination with customers and production plants.

Gränges' R&I is conducted by some 60 specialists, many of whom have doctorates and collaborate with universities and colleges on a regular basis. New products are in most cases firstly developed in small-scale in the laboratory. Prior to full-scale production of new products, Gränges uses computer simulations to design the process

route. This approach enables the planning of efficient production processes with a great deal of accuracy.

At 31 December 2016, Gränges' research and development has resulted in 52 patent families and 168 patents; a further 100 patent applications are under review. An important research project, which Gränges also offers to commercial customers, is TRILLIUM®.

## ENVIRONMENTAL IMPACT AND SUSTAINABLE DEVELOPMENT

Gränges' environmental responsibility is based on minimising the environmental impact of its operations and the prevailing risks, in relation to both products and processes. Gränges conducts operations that require permits both in Finspång and in Shanghai. Increased energy efficiency is an important aspect of Gränges' environmental strategy, as well as maximum metal yield and greater use of recycled aluminium in production. Gränges' environmental impact mainly consists of energy and water usage.

Health and safety are prioritised areas for sustainable development. Gränges has a holistic view in relation to health and safety, which is based on communication, training, review and reward. More information about Gränges' environmental and safety work is to be found in the Sustainability section.

## CHANGE IN GROUP MANAGEMENT

Patrick Lawlor was appointed President Americas of Gränges 22 August 2016, and replaced Dan Daoust in group management.

## EVENTS AFTER THE END OF THE YEAR

From 1 January 2017 Torbjörn Sternsjö, SVP Technology & Business Development, replace Paul Neutjens in Gränges' group management. Furthermore, CFO Oskar Hellström has been appointed Deputy CEO of Gränges.

Due to exercise of 20,000 warrants within Gränges employee stock option program (LTI 2014), the Board of Directors have decided to issue 20,000 new shares during March 2017.

## OUTLOOK

The market for heat exchanger materials to the automotive industry is expected to continue to grow in 2017. According to IHS, global light vehicle production is expected to increase by 1 per cent during the full year 2017. For Gränges' other products, mainly materials to the stationary heat exchangers, the markets are expected to continue to develop positively and show growth. Increased requirements for energy efficiency and reduced environmental impact are all factors that contribute positively to the demand. In Asia, price reductions are expected at the same rate as in the previous years, while the price levels in Europe and the Americas are expected to develop steadily. Gränges has a strong market position and our ambition is to strengthen it further during the coming year.

## PARENT COMPANY

Gränges AB is the parent company of the Gränges Group. Operations include Group Management and joint corporate functions such as strategic R&I, accounting, treasury, legal, communication and leasing of properties. The parent company has six directly or indirectly wholly-owned Group companies and one indirect branch office, and is a partner in two joint ventures via subsidiaries.

During 2016, net sales in the parent company amounted to SEK 119 million (128). These sales consisted primarily of invoicing of services to the subsidiaries and leasing of properties.

Operating profit amounted to SEK -77 million (-47) in 2016 and the decrease is primarily due to increased costs for expanded operation due to the acquisition in US.

Profit for the year in 2016 amounted to SEK 718 million (254) and this includes dividend of SEK 757 million received from a subsidiary.

### THE GRÄNGES SHARE AND OWNERSHIP

The share capital in Gränges amounts to SEK 101 million, divided into 75,155,386 shares, each with a quota value of SEK 1.339775. Gränges only has one class of shares.

There are no pre-emption clauses, refusal clauses or other restrictions on the transfer of shares in the company by law, the company's articles of association or any agreement or other document in which the company is a party.

At 31 December 2015 Gränges had no shareholder that owned more than 10 per cent of Gränges' capital and votes.

Ahead of the IPO in 2014, an employee stock option programme was established for senior executives and other key people in the company. 516,000 employee stock options have been exercised during 2016 and the number of outstanding employee stock options per 31 December 2016 amounts to 397,000, all have been vested for. In the event of full exercise of the remaining employee stock options it would result in a dilution of 0.5 per cent of the total number of shares in Gränges.

### OPERATING RISKS AND UNCERTAINTY FACTORS

As a global business with operations in different parts of the world, Gränges is exposed to various risks and uncertainties such as raw material prices, market risk, operational and legal risk, as well as financial risk related to foreign exchange, interest rates, liquidity and funding opportunities. In its risk management, Gränges seeks to identify, evaluate, and reduce risk related to the Group's business and operations. In section, risk management, on page 27 Gränges' risks and risk management is further described.

For a more comprehensive description of the financial risks, see Note 25.

### GUIDELINES FOR REMUNERATION TO THE MANAGEMENT TEAM

**General** Gränges will offer remuneration levels and employment terms necessary in order to recruit, develop and retain senior executives. These individuals must have the expertise, motivation and capacity to be able to uphold, develop and implement comprehensive, value-creating strategic objectives for the Gränges Group. Senior executives refers to the Group's Chief Executive Officer and members of the Management Team. Remuneration to the Management Team is to be determined by the Board of Directors, but must follow the guidelines adopted by the General Meeting. The basic principle is that remuneration is to be competitive and consist of a fixed salary and a variable component in the form of various incentive programmes. Applicable laws and other relevant regulations – both Swedish and foreign – in the sector should always be observed.

**Fixed salary** The fixed salary is to consist of normal basic pay. The salary is based on responsibility, performance, skills and the complexity and scope of the duties.

**Variable pay** Variable pay consists of an annual short-term incentive programme (STI 2016) and a long-term incentive programme (LTI 2016). Both STI 2016 and the proposed LTI 2016 programme will provide cash payouts. There is no guaranteed variable remuneration.

**Annual short-term incentive programme (STI 2016)** The outcome of the STI is determined by a number of parameters consisting of financial key ratios for the Group, such as EBITA/adjusted operating profit and cash conversion, and individual predetermined targets. Remuneration under STI 2016 are not to exceed 60 per cent of basic pay.

**Long-term incentive programme (LTI 2016)** The long-term incentive program (LTI 2016) is offered to senior executives and certain key individuals. LTI 2016 will run for three years and is structured as follows: An amount equivalent to the payout from STI 2016 for each participant will be reserved in a special so-called LTI bank. Provided that the participants remain in the employ of the Gränges Group, the payout will be made at the rate of one third per year during the years 2018, 2019 and 2020, adjusted for the Gränges Group's total return. The total payout from LTI 2016 and STI 2016 payable in one year is maximised at 1.5 times an annual salary.

**Other benefits** Benefits that are not directly related to fixed and variable pay, such as car allowance, should facilitate the execution of duties and be in line with standard practices in the market for this target group.

**Pension** Pension benefits are to comply with Swedish laws and relevant collective agreements, and be limited to the ITP plan (supplementary pension for salaried employees in industry and commerce). Gränges thus has both defined contribution and defined benefit commitments based on individual circumstances. Pension terms are to be in line with market norms. The retirement age for the Chief Executive Officer is 65. The retirement age for other senior executives is 60–65, depending on in which country they are employed.

**Period of notice of termination** The contract between the company and Chief Executive Officer stipulates a mutual twelve-month period of notice. Additionally, in the case of termination by the company, severance pay is payable without deduction for an additional twelve months. The contracts between the company and other senior executives stipulate a mutual six-month period of notice. Additionally, in the case of termination by the company, severance pay is payable of an additional twelve months, without deduction for the first six months.

**Information on previously agreed remuneration not yet due for payment** According to the decision taken at the Extraordinary General Meeting 2 September 2014, a long-term, shared-based incentive programme (LTI 2014) was introduced. The programme has a term of two years, and matured in the autumn of 2016, but can thereafter be exercised for a further year. It includes senior executives and certain key individuals. According to the decision taken at the Annual General Meeting 4 May 2015 to stimulate long-term engagement, leading executives and selected key employees were offered a long-term, share-based incentive programme (LTI 2015) in 2015. The programme runs for three years and is designed as follows: an amount equivalent to the outcome from STI 2015 for each participant is set aside in a special so-called LTI bank. Provided participants continue to be employed by Gränges, a third of the amount will be paid in 2017, 2018 and 2019 respectively, adjusted for the total return of the Gränges share. The total outcome from LTI 2015, together with STI for payment in a single year, is limited to 1.5 times an annual salary.

**Other** Insofar as elected board members conduct work on behalf of the company, in addition to board assignments, consultancy fees and other compensation for such work shall be paid. The board may deviate from these guidelines in individual cases if there are specific reasons for doing so. However, such reasons shall imply limited scope to deviate from these guidelines.

The Board of Directors is expected to make a decision during March 2017 regarding the guidelines for remuneration of senior executives that the Board will propose to the AGM.

# CORPORATE GOVERNANCE REPORT 2016



"IN THE PAST YEAR, THE GRÄNGES' BOARD HAS CONTINUED TO FOCUS ON MEASURES DESIGNED TO IMPROVE EARNINGS IN EXISTING BUSINESSES AND LOOK AT OPPORTUNITIES RELATED TO GROWTH."

## DEAR SHAREHOLDER,

In the past year, the Gränges' Board has continued to focus on measures designed to improve earnings in existing businesses and look at opportunities related to growth.

One of the most important challenges that the Board had to address during the year was the acquisition of Noranda's rolled aluminium business in the US, which was completed in August 2016. A foothold in North America has long been on our agenda to improve Gränges' opportunities for long-term growth, and to strengthen the position globally. The presence in North America means that Gränges has manufacturing capacity in Europe, China and North America. Furthermore, Gränges has added new market niches. The business we acquired is well run and stable, and will make a substantial contribution to Gränges' earnings and cash flow from 2017. Together with a strong balance sheet, and given last year's acquisition, the Board is of the opinion that a dividend increase of 20 per cent to SEK 2.40 per share is reasonable.

## Sound corporate governance for a sustainable future

The global market for heat exchanger materials, which is Gränges' largest market, grew in 2016. Gränges continues to see excellent opportunities to take market share in all regions, especially so in Asia and Americas. It is encouraging that the Group has maintained focus on the business despite carrying out a major acquisition. During the past year, the Board has discussed topics such as governance, market position and production capacity; and early in 2017, the Board visited one of our new plants in Tennessee in the US. A review is currently being conducted into a potential expansion of US operations to meet increased demand in the region.

Gränges' 2016 annual report contains the Group's first sustainability report compiled according to GRI guidelines. Environmental considerations such as energy consumption, recycling and emissions, along with equality, are highly important areas for Gränges. From the Board's perspective, work in these areas is about strengthening the company's position and business opportunities in the longer term, while also reducing sustainability-related risks.

I would also like to take this opportunity to express the Board's appreciation of Gränges management and employees for their purposeful and well executed work in the past twelve months. Under the leadership of CEO Johan Menckel, Gränges has continued to improve business performance, completed an acquisition in North America, and at the same time strengthened our position on existing markets. Today, Gränges is a significantly larger company with a more balanced product portfolio.

Stockholm, February 2017

Anders G. Carlberg  
Chairman of the Board

Gränges AB has been listed on the Nasdaq Stockholm since October 2014. Gränges' corporate governance is based on Swedish regulations and Swedish legislation, primarily the Swedish Companies' Act, but also Nasdaq Stockholm's regulatory structure for issuers, the Swedish Corporate Governance Code ("the Code"), the Articles of Association, and other relevant internal and external regulations and policies.

Good corporate governance is about ensuring that the company is run in a sustainable, responsible and effective manner with the interests of its owners as guiding principles. Good corporate governance contributes to increased confidence among existing and potential owners, customers, legislators, the public and other stakeholders. In this way, industry's freedom to develop is ensured, as is the supply of risk capital and competence. The aim of the Code is to strengthen the confidence in Swedish listed companies by promoting the positive development of corporate governance in such enterprises.

This Corporate Governance Report has been prepared as part of Gränges' application of the Code. The company's auditors have reviewed this Report, and have not made any comments regarding its contents.

Gränges has not reported any infringements of the Code in 2016.

**ORGANISATION**

The Group's operations in 2016 consisted of three geographical regions: Asia, Europe, and Americas. On 22 August 2016, three production facilities in the US were acquired. These are in Huntingdon, Tennessee, in Salisbury, North Carolina and in Newport, Arkansas. The company already had two other production facilities located in

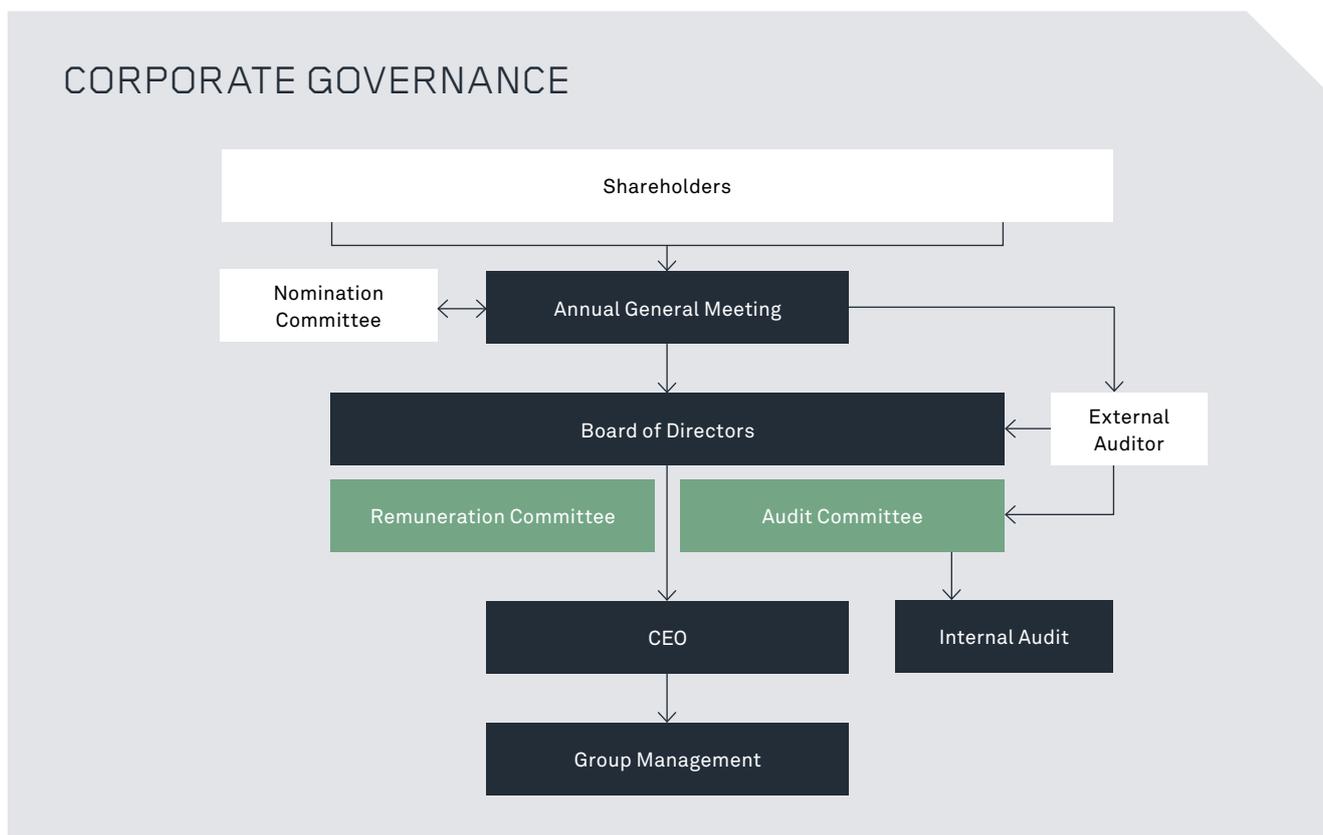
Finspång, Sweden, and in Shanghai, in China. The Chinese subsidiary also owns fifty per cent of another company based in Shanghai, which is engaged in metal stamping. The Group's parent company, Gränges AB, is a Swedish public listed company. Its organisation number is 556001-6122, and its registered office is in Stockholm with its head office on Humlegårdsgatan 19 A.

**THE CODE**

All companies with shares or receipts listed for trading on the Nasdaq Stockholm or other regulated market in Sweden, irrespective of market value, are required to apply the Code. The Code is based on the principle of "comply or explain", which means that a company may deviate from the Code's provisions, if, in certain circumstances, doing so results in improved corporate governance, without this constituting a breach of the Code. However, a company that fails to apply a provision of the Code is required to provide an acceptable explanation as to why it has chosen to do so. Effective corporate governance at Gränges may be summarised as several complementary components, as described below.

**SHAREHOLDERS**

Share capital in Gränges amounts to SEK 101 million, distributed among 75,155,386 shares that give the right to an equal number of votes and an equal share in the company's assets and profits. On 31 December 2016, the number of shareholders amounted to 7,757. Fjärde AP-fonden was the largest shareholder, followed by AFA Försäkring. Of the shareholders, 66.2 per cent held 500 shares or



fewer, and the ten largest shareholders held 35.0 per cent of the total number of shares. Foreign-based share ownership amounted to 56.5 per cent. A detailed table showing share ownership as at 31 December 2016 can be found on page 31. Shareholdings of Board members and Group management are shown on pages 68–71.

No shareholders own a shareholding amounting to more than 10 per cent of the total number of shares or the total number of votes. This should be compared with the situation on 31 December 2015, when Orkla Industriinvesteringar AB and Lannebo Fonder AB both owned more than 10 per cent of shares in the company.

There are no limitations regarding how many votes each shareholder may cast at a general meeting of shareholders.

The Annual General Meeting (AGM), held on 28 April 2016, authorised the Board, on one or more occasions prior to the 2017 AGM, to have the option of deciding to issue new shares and/or convertible instruments equivalent to 10 per cent of the total number of shares outstanding in the company at the time of the resolution adopted by the AGM, i.e.: 7,463,938 shares.

#### ANNUAL GENERAL MEETING

The company's highest decision making body is the AGM, during which shareholders exercise their influence over the company.

#### Annual General Meeting 2016

The AGM was held on 28 April 2016. At the meeting, 30.9 per cent of the shares in the company were represented.

At the AGM, Anders G. Carlberg was re-elected as Chairman of the Board. In addition, Terje Andersen, Ragnhild Wiborg and Carina Andersson were re-elected as Board members; and Katarina Lindström, Hans Porat and Peter Carlsson were elected as Board members. This means that the Board has a relatively even gender balance, with three of seven Board members being women. Ernst & Young AB were again appointed as the company's auditors, and authorised public accountant Erik Sandström was appointed by Ernst & Young AB as chief auditor.

Other resolutions taken during the AGM included:

- To pay a dividend of SEK 2.00 per share.
- To authorise the Board – as indicated above – to issue a maximum of 10 per cent of the number of shares at the time of the AGM via a new issue of shares and/or issue of convertibles.
- To adopt a short-term annual incentive programme for senior executives and other key people in the company. The programme is to be determined by several parameters consisting of key financial performance indicators of the company, such as adjusted operating profit and capital employed, and by predetermined individual objectives. Under the resolution, remuneration (STI) for 2016 may amount to a maximum of 60 per cent of basic annual salary.
- To adopt a long-term incentive programme for senior executives and key people in the Group whereby an amount corresponding to the outcome of STI 2016 for each respective participant is set aside in a so-called LTI bank, and, provided the person continues to be employed by Gränges, a third of the amount will be paid in each of the years 2018, 2019 and 2020 adjusted for Gränges' total return, including reference to the share price until respective payments.
- To approve Board members' and auditors' fees.

#### NOMINATION COMMITTEE

The duties of the Nomination Committee prior to the AGM consist of proposing nominations for the Chairman of the Board, Board members, the auditor, AGM chairman, Board fees, fees for committee work

and fees for the author. The Nomination Committee also proposes a new nomination committee or criteria for its composition.

The Nomination Committee for the 2017 AGM was appointed in line with the resolution agreed pertaining to the Nomination Committee at the AGM on 4 May 2015. Under this resolution, which was not subject to change at the 2016 AGM, the Gränges' Nomination Committee shall, prior to the 2017 AGM, comprise representatives from the company's three largest shareholders as at August 31 2016, and the Chairman of the Board. If one of these shareholders is no longer one of the three largest shareholders, its representatives shall step down from his/her post, and the shareholder who has become one of the three largest shareholders shall be offered a seat on the Nomination Committee, if the Nomination Committee deems this necessary. The Chairman of the Nomination Committee shall be the committee member who represents the largest shareholder, unless otherwise agreed by the Nomination Committee.

As at 31 August 2016, Gränges' three largest shareholders were Fjärde AP-fonden, AFA Försäkring and JP Morgan Asset Management, which have been invited to nominate candidates for the nomination Committee. JP Morgan Asset Management chose to give up its place on the Nomination Committee, as did fourth largest shareholder, Old Mutual plc, and fifth largest shareholder, Catella Fonder. The sixth largest shareholder, SEB Fonder, was then offered a place on the Nomination Committee. As shown on the table on page 31, 31 December 2016, Fjärde AP-fonden, AFA Försäkring and SEB Fonder, were the company's largest, second largest and fourth largest shareholders respectively. On 24 September 2016, it was announced on the company's website that the Nomination Committee ahead of the 2017 AGM had the following composition: Jannis Kitsakis (Fjärde AP-fonden), Anders Algotsson (AFA Försäkring), Rikard Andersson (SEB Fonder) and Anders G Carlberg (Gränges' Chairman). The Chairman of the Nomination Committee is Jannis Kitsakis.

#### Nomination Committee for the 2017 AGM

Appointed by/name	Per cent of votes as at 31 December 2016
Fjärde AP-fonden/Jannis Kitsakis	8.7
AFA Försäkring/Anders Algotsson	5.6
SEB Fonder/Rikard Andersson	4.5
Chairman of the Board of Gränges AB/ Anders G. Carlberg	0.0

Shareholders had until 31 January 2017 to submit proposals and comments to the Nomination Committee. The Nomination Committee's proposals are published with the notice convening the AGM. In conjunction with the publication of this notice, the Nomination Committee has published a statement on granges.com that supports its proposals to the Board and a report on how the Nomination Committee's work has been conducted.

#### Work of the Nomination Committee prior to the 2017 AGM

Since the Nomination Committee was formed in the autumn of 2016, it has met on one occasion. The Chairman of the Board presented an evaluation of the Board's work that was conducted in September 2016 at the Nomination Committee's first meeting on 28 September 2016 and thereafter also notified the Board of the results of its evaluation at the meeting held on 21 October. The result of this evaluation was broadly positive, and differed marginally from the evaluation conducted in the autumn of 2015.

Prior to the 2017 AGM, the Nomination Committee has assessed whether the composition of the current Board is sufficiently broad, diverse and gender equal, and whether it meets the demands placed on the Board given the company's current and future circumstances. According to the review carried out by the Nomination Committee, the Board has strong breadth, is diverse in terms of backgrounds and skill sets, and has an excellent gender balance. The annual evaluation of the Board has formed part of the basis of this assessment. The Nomination Committee works continuously to identify and evaluate potential new Board members.

Pursuant to the instructions for the Nomination Committee, no fees shall be paid to the Nomination Committee.

### THE BOARD

The primary responsibility of the Board is to manage the affairs of the company in the best interests of the company and all shareholders. The Board shall assess the financial position of the company and the Group on a continuous basis, and ensure that the company's financial position can be satisfactorily verified. The Board shall also evaluate Group management. The Board decides on issues related to the Group's strategic direction and organisation, and decides on key acquisitions, investments and disposals. Prior to every AGM, and based on proposals made by the Remuneration Committee, the Board shall prepare proposals for guidelines for the determination of remuneration for the CEO and other members of Group management. Adopting a systematic and structured process, and on an annual basis, the Board shall evaluate the work of the Board with the aim of developing the Board's procedures and efficiency. In 2016 this was conducted under the leadership of the Chairman of the Board who asked all Board members to grade given aspects of the Board's work, and gave Board members the opportunity to submit proposals for improvements. The results of the evaluation, which are presented in the Nomination Committee section (above), were strongly positive throughout.

#### Board of Director's formal work plan

Each year, the Board adopts a formal work plan that includes instructions for the CEO, which, among other aspects, governs the division of work between the Board and the CEO.

The formal work plan governs how the Board's work is to be distributed among Board members, how often the Board should meet, and how work should be divided between the Board's various committees. Furthermore, the formal work plan states that there shall be a Remuneration Committee and an Audit Committee. Prior to every Board meeting, Board members receive an agenda and data on which to base decisions. Each Board meeting includes a review of current business conditions, Group results and financial position and outlook. Other issues that are considered include competition and general market conditions. The Board regularly reviews the overall risk situation from a variety of aspects, and the Group's work on health and safety, including accident statistics. The Board also has a system for continuous follow-up of decision making and unresolved issues.

#### Chairman of the Board

The Chairman organises and leads the Board's work, represents the company in ownership matters, and is responsible for the evaluation of the Board's work. The Chairman is also responsible for day-to-day contact with the CEO and for ensuring that the Board fulfils its duties and obligations effectively.

#### Composition of the Board of Directors

Under the Articles of Association, the Board shall be composed of at least four and no more than eight members elected by a general meeting of shareholders, with no more than four deputy members. The Board constitutes a quorum when more than half of all Board members (including members appointed by employees) are present. The composition of the Board should be broad and diverse in terms of Board members' competence, experience and background, reflecting the nature of the company's operations, phase of development, and general circumstances. Pursuant to the law regarding Board representation of private sector employees, employees are entitled to appoint two Board members and two deputy Board members. The employee organisations have exercised this right in 2016.

#### The Board's work in 2016

Fourteen minuted Board meetings were held in 2016, of which two were so-called per capsulam meetings, and five were telephone meetings. The remaining seven meetings, were conventional meetings, one of which was held at Gränges' plant in Finspång, while the others were held in Stockholm. The Board formed a quorum at all these meetings. At the meetings held on 3 February and 13 September, the Board held sessions in the absence of Group management. The CEO and CFO participated in all meetings. The Secretary of the Board is Gränges General Counsel, Niclas Nelson, who is not a Board member.

One of the most important issues that the Board worked on in 2016 was the acquisition in the US, which was formally concluded on 22 August. Additional Board meetings in the spring and summer of 2016 dealt almost exclusively with this complex issue, and outstanding points relating to the acquisition and its financing were reviewed and approved by Board members on a continuous basis. The Board and Group Management have devoted considerable amount of time and effort to the acquisition. In February 2017, the Board visited Gränges' production plant in Huntingdon, Tennessee and held its board meeting at the company's US headquarters in Franklin, Tennessee.

#### Remuneration Committee

Together with the Chairman of the Board, the Remuneration Committee shall consist of one or more Board members elected at a general meeting of shareholders, who shall be independent in relation to the company and Group management. Members of the Remuneration Committee should have the required knowledge and experience of issues relating to senior executive remuneration. The duties of the Remuneration Committee are set out in the Board's formal work plan. The CEO is co-opted to the Committee in a rapporteur capacity, but does not participate in the discussions relating to his or her own salary or terms of employment. Gränges' General Counsel is the Committee's secretary.

During 2016 the Remuneration Committee's work included preparing short- and long-term incentive programmes for senior executives and other key people. This work was more complex in 2016 than previous years due to the acquisition of the business in the US, because norms relating to incentive programmes in the US differ from those that prevail in Sweden. During its meetings, the Committee has analysed many models for short- and long-term remuneration and thereby the Committee also conducted a thorough analysis of praxis in the Swedish market. The aim of the Committee's work was to ensure that a connection with shareholders exists with the long-term programme. The Committee also discussed and prepared decisions regarding remuneration for the CEO in connection with the annual audit and the acquisition of the US business.

### Audit Committee

According to the formal work plan of the Board, the Audit Committee should consist of at least three Board members elected at a general meeting of shareholders. The majority of its members should be independent of the company and Group management. The Committee elects a chairman from among its members who may not be the Chairman of the Board. The duties of the Audit Committee are described in Board's formal work plan. An additional responsibility was added to the Committee's remit in 2016: the Committee will examine the Auditor's independence in relation to the other services purchased by the company. The Committee's rapporteur is the company's CFO. The company's General Counsel acted as the Committee's secretary until the AGM in April 2016, from when the role was filled by the company's Director Group Accounting, Carolin Thysell.

An established risk management process exists within the company that is based on operational and process flows. The Audit Committee reviews risk areas that are identified, (business risk and risk associated with errors in financial reporting), in these processes. Based on the outcome, the focus and scope of the audit are analysed together with the company's auditors.

The Audit Committee adopts an annual internal audit plan, which amongst other things is based on the risks that have emerged in the risk management process. The audit plan is discussed with external auditors to streamline and improve the quality of ongoing auditing work.

In May 2016, an internal audit was conducted of joint venture company Norca Heat Transfer LLC's operations in North America.

An internal audit was also commissioned of Gränges Sweden AB's operations in November.

The audit was carried out on a rolling schedule and was conducted by the company's group accounting function with support from the accounting functions of subsidiaries with the exception of the business that was the subject of the audit.

The Committee also analyses and highlights the key auditing issues that affected the company, and assists the Nomination Committee to prepare proposals for auditors as well the determination of their fees.

Finally, during 2016, the Audit Committee reviewed processes related to the preparation of quarterly reports to always ensure the quality of financial reporting. The Group's auditor, Erik Sandström, attended all Committee meetings and reported on controls and audit planning throughout the year.

### AUDITOR

The company's internal auditing is reported to the Board and shall ensure that the company has sufficient internal control systems in place for financial reporting. The external auditor is responsible for reviewing the company's annual accounts and bookkeeping, and to examine the Board and CEO's management of the company.

According to the Articles of Association, Gränges AB shall have at least one and at most two auditors. Registered auditing firms may be appointed as auditors. Ernst & Young AB were appointed auditors at the AGM. Ernst & Young AB has informed the company that authorised auditor Erik Sandström will be chief auditor until the 2017 AGM.

The external audit of the parent company and Group accounts, and of the administration of the Board and CEO is conducted in accordance with the International Standards on Auditing (ISA), and in accordance with generally accepted auditing standards in Sweden. The company's chief auditor participates in all Audit Committee meetings. For information regarding auditor fees, please refer to Note 9.

### Board attendance and remuneration

Name	Independent in relation to the company/ owners	Attendance Board meetings	Attendance Audit Committee meetings	Attendance Remuneration Committee meetings	Directors' fees, SEK	Audit Committee fees, SEK	Remuneration Committee fees, SEK	Total fees, SEK
Anders G. Carlberg	x	14/14	n/a	3/3	500,000	–	50,000	550,000
Terje Andersen (independent since 17 March 2016)	x	14/14	6/6	1/1	275,000	40,000	8,333	323,333
Ragnhild Wiborg	x	13/14	6/6	n/a	275,000	80,000	–	355,000
Hans Porat (from 28 April 2016)	x	9/10	n/a	2/2	183,333	–	16,666	200,000
Carina Andersson	x	14/14	n/a	2/2	275,000	–	16,666	291,666
Peter Carlsson (from 28 April 2016)	x	10/10	n/a	n/a	183,333	–	–	183,333
Katarina Lindström (from 28 April 2016)	x	10/10	3/3	n/a	183,333	26,666	–	210,000
Bertil Villard (until 28 April 2016)	x	4/4	3/3	1/1	91,666	13,333	8,333	113,333
Konny Svensson		14/14	6/6	n/a	40,000	–	–	40,000
Öystein Larsen		14/14	n/a	3/3	40,000	–	–	40,000
Tommy Andersson		13/13	n/a	n/a	40,000	–	–	40,000
Claudi Martin Callizo (until 1 July 2016)		7/7	n/a	n/a	20,000	–	–	20,000
Elin Lindfors (from 1 July 2016)		6/6	n/a	n/a	20,000	–	–	20,000

## GROUP MANAGEMENT

Group management is responsible for developing and implementing the Group's overall strategies that relate to issues such as product and customer strategies, and acquisitions and divestments. These issues, and larger investments, are prepared by Group management to be decided upon by the Board.

The CEO is responsible for the day-to-day management of the company in accordance with the Board's instructions and guidelines. On 1 January 2017, Group management consisted of eight people: the CEO, President Europe, President Asia, President Americas, the CFO, SVP Technology & Business Development, General Counsel, and SVP Communications & Investor Relations. The SVP Human Resources Magnus Carlström and the SVP Process Engineering & Operational Development Paul Neutjens are part of the extended Group Management.

During autumn 2016, the Board appointed the Group's CFO to Deputy CEO of Gränges AB with effect from 1 January 2017.

Group management holds monthly meetings to review the results and financial position of the Group and subsidiaries. Other questions dealt with at these meetings include strategy issues and follow-up of budgets and forecasts. Subsidiaries are also monitored more closely due to the CEO being Chairman of the three subsidiaries in Sweden, China and the US. Other members of Group management and employee representatives also serve on these companies' Boards. The subsidiaries' Boards monitor day-to-day operations, and approve the strategy and budget of each subsidiary. In 2016, due to the acquisition of the business in the US, an American subsidiary based in the state of Delaware was formed. This Board consists of the CEO, CFO and General Counsel.

### Remuneration of Group Management

Guidelines for remuneration of senior executives have been analysed and developed by the Remuneration Committee at the end of 2016 and beginning of 2017. The proposition regarding new guidelines will be presented in their entirety in the decision data for the AGM to be held on 4 May 2017.

### The Board's description of internal control and risk management regarding financial reporting

Under the Swedish Companies Act and the Code, the Gränges AB Board is responsible for ensuring that the company has good internal control. Internal control shall ensure that the company's financial reporting is reliable and prepared in accordance with laws, applicable accounting standards and other requirements for listed companies.

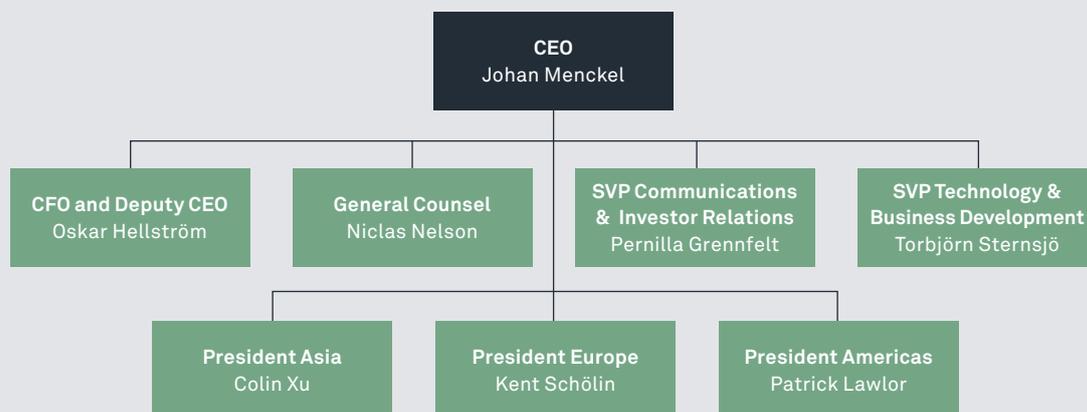
### Framework for internal control and risk management regarding financial reporting

Gränges complies with the established international framework, Internal Control Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In accordance with COSO, Gränges' process for internal control of financial reporting is based on five components. These five are: control environment, risk assessment, control activities, information and communication and monitoring. Gränges' internal control process is designed to ensure with reasonable certainty the quality and accuracy of financial reporting, and ensure that reporting is prepared in accordance with applicable laws and regulations, accounting standards and other requirements for listed companies in Sweden. This is dependent on a healthy control environment, reliable risk assessment and established control activities; and that information, communication and monitoring work satisfactorily.

### Control environment

The control environment is defined by the Group's organisational structure, Group management's working methods and values, and other roles and responsibilities within the organisation. The Audit Committee assists the Board with essential accounting issues that the Group applies, and monitors the internal control of financial reporting. To maintain an effective control environment and robust internal controls, the Board has delegated the day-to-day responsibility to the CEO, who in turn has assigned this responsibility to other members of Group management.

## GROUP MANAGEMENT



From 1 January, 2017.

Quality in financial reporting is ensured through several measures and routines. Continual work is ongoing to further develop common Group policies and manuals. These include the Financial Management Policy, the Metal Management Policy, the Group Accounting Manual and the Instruction for Financial Reporting. In addition to the above, there are important Group-wide steering documents such as the Information Policy, the Authorization Policy and the Code of Conduct (rules on business ethics). In 2016, a large number of Group employees have taken a web-based training course following the Group's decision to join the UN Global Compact. All employees required to take this course have done so. Since 2015 the company has had a whistle blower function that is described in detail on the Group's intranet. The whistle blower function makes it possible to anonymously report serious abuse and violations of Group rules regarding business ethics. One of the aims of the function is to guarantee safety in the workplace, to maintain good business ethics and curb financial irregularities, and thereby further improve the quality of Gränges' financial reporting to benefit the company's shareholders, employees, customers and suppliers. One whistle blower complaint was brought in 2016. This has not resulted in any further action by the Board.

#### **Risk assessment**

Gränges' organisation is exposed to internal and external risks. To reasonably ensure good internal control, risks that may affect financial reporting are identified, measured and managed. This is an integral part of day-to-day reporting to Group management and the Board, which forms the basis for the assessment of risks of errors in financial reporting. Gränges' operations are characterised by processes with established routines and systems. Risk assessment thus largely occurs within the framework of these processes. At Group level, only general risk assessments are conducted. Managers in the Group identify, monitor and follow-up on these risks. This creates the basis for taking well-rounded and correct business decisions at all levels. As a rule, financial risk such as currency, commodity, refinancing and counterparty risk, and interest rate and credit risk are mainly handled by the parent company's accounting and finance functions per the Financial Management Policy, the Metal Management Policy, the Group Accounting Manual and the Instruction for Financial Reporting.

#### **Control measures and activities**

The main purpose of control activities is to prevent and discover material errors in financial reporting at an early stage so that such errors can be managed and resolved. Control activities are conducted at a general level and at more detailed levels throughout the Group, and are both manual and automated in nature. Routines and activities have been designed to manage and resolve material risks related to financial reporting, and that are identified in risk assessments. Depending on the character and type of control activity, corrective action, implementation, documentation and quality assurance occur at a Group or subsidiary level. As is the case for other processes, each manager is responsible for the completeness and accuracy of the control activities.

The Group has a common consolidation system, where the legal entities report, which provides good internal control of financial reporting. Most controls and processes are automated and authorisation to access IT systems is limited.

Control activities are performed at all levels of the Group. One such example is the established controller function that analyses and monitors deviations and reports its findings to other parts of the Group. Monitoring by Group management occurs, for example, through regular meetings with subsidiary managing directors to discuss operations, financial position and results, as well as key financial and operating indicators. The Board continually analyses reports on operations in which Group management describes the previous period, and comments on the Group's financial position and results. Significant fluctuations and deviations are thus monitored, which limits the risks of errors in financial reporting.

The closing of the books and work on the annual accounts are processes where there is further risk that errors arise in financial reporting. Naturally, this work is less repetitive and often includes several instances where estimates are made. Important control activities include ensuring that there is a well-functioning reporting structure where subsidiaries report per standardised models, and that important income and balance sheet items are specified and commented upon.

#### **Information and communication**

Gränges' financial reporting follows Group guidelines and policies, and is updated and communicated regularly by Group management to all relevant employees. The accounting function has operational responsibility for day-to-day financial reporting, and works to ensure that the Group's guidelines, policies and instructions are applied in a uniform manner across the Group. The accounting function is also tasked with identifying and communicating deficiencies in financial reporting. All communication shall occur in accordance with the Nasdaq's rules for issuers, and conform to other applicable regulations. Financial information should provide capital and stock markets with a clear and comprehensive view of the company, its financial position, development and strategy. All financial reports and press releases published on the company's website are simultaneously released to the Nasdaq and the Swedish Financial Supervisory Board.

As indicated above, due to the MAR Directive, the Board adopted a new Insider policy on 29 June to meet demands now placed on the company and insiders. Furthermore, a system for managing insider issues was procured during the autumn.

#### **Monitoring**

The Board's monitoring of the internal control of financial reporting occurs primarily through the Audit Committee, including the monitoring of the internal audit and through contact with external auditors and their work and reports. External auditors monitor selected areas of internal control on an annual basis within the framework of the group audit. External auditors report the outcome of their audit to the Audit Committee and Group management. Material observations are also reported directly to the Board. In terms of the 2016 audit, the auditors have monitored the internal controls in selected key processes, and have reported their findings to the Audit Committee and Group management.

## BOARD OF DIRECTORS



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Auditor

**1. ANDERS G. CARLBERG**

Chairman

**Born:** 1943

M.Sc. Business Administration.

Chairman of Herenco. Board member of Erik Penser, Investmentbolaget Latour, Sweco, AxFast, Recipharm and Beijer Alma.

**Previous positions:** Board member of Sapa 2002–2013. CEO of J.S. Saba, CEO of Nobel Industrier, CEO of Axel Johnson International, Deputy CEO of SSAB and other management positions.

Elected to the Board, 2014.

Chairman of the Remuneration Committee.

**Shareholding:** 35,294 shares.

**2. TERJE ANDERSEN**

Board member

**Born:** 1958

M.Sc. Business Administration.

CEO of Orkla Investments, Orkla ASA. Chairman of Orkla Energi, Orkla Industriinvesteringar and Sarpsfoss. Board member of Borregaard, Jotun and Sapa.

**Previous positions:** CFO of Orkla. Various management positions at Orkla since 1989. Prior to that worked at Nevi Finans and as a consultant at Deloitte Touche.

Elected to the Board, 2009.

Member of the Audit Committee.

**Shareholding:** 2,352 shares.

**3. CARINA ANDERSSON**

Board member

**Born:** 1964

M.Sc. Engineering, Material Science.

Board member of Beijer Alma, SinterCast and Systemair.

**Previous positions:** General Manager Powder Technology, Sandvik Materials Technology, CEO of Ramnäs Bruk and CEO of Scana Ramnäs. Board member of Mälardalens Högskola, Sandvik Riser Technology and chairman of Sandvik Powdermet and Sandvik Osprey.

Elected to the Board, 2014.

**Shareholding:** 2,352 shares.

**4. PETER CARLSSON**

Board member

**Born:** 1970

B. Sc. Economics.

CEO and president of Northvolt. Board member of Metso, Orbital Systems and Ketra Lightning.

**Previous positions:** Vice President Supply Chain and Chief Procurement Officer at Tesla Motors, Senior Vice President and Chief Procurement Officer at NXP Semiconductors, Head of Sourcing at Sony Ericsson.

Elected to the Board, 2016.

**Shareholding:** 0 shares.

**5. KATARINA LINDSTRÖM**

Board member

**Born:** 1965

M. Sc. Material Science.

Senior Vice President, Operations and Supply Chain Management, Volvo Group Trucks Operation. Elected member of the Swedish Royal Engineering Academy.

**Previous positions:** Various management positions at Volvo since 1988; led the Maintenance Department in the Skövde Engine plant, Program Manager for engines at Volvo Powertrain, Senior Vice President, Global Manufacturing of Volvo Powertrain.

Elected to the Board, 2016.

Member of the Audit Committee.

**Shareholding:** 0 shares.

**6. HANS PORAT**

Board member

**Born:** 1955

M.Sc. Engineering, Material Science

Board member of Cloetta, Ecolan, Diab, Lindab International, and chairman of the board at Autoropa.

**Previous positions:** President and CEO of Nolato, various executive positions at ABB, Vice President of Trelleborg, President of Gadelius Japan.

Elected to the Board, 2016.

Member of the Remuneration Committee.

**Shareholding:** 0 shares.**7. RAGNHILD WIBORG**

Board member

**Born:** 1961

M.Sc. Business Administration.

Board member of Kistefos, REC Silicon, Borregaard, IM Skaugen and EAM Solar.

**Previous positions:** Fund management operations at Odin Fonder and at Wiborg Kapitalförvaltning. Worked at several investment banks, including Pareto, ABG Sundal Collier, First Chicago and Scandinavian Bank.

Elected to the Board, 2014.

Chairman of the Audit Committee.

**Shareholding:** 1,176 shares.

## AUDITOR

**ERIK SANDSTRÖM**

Auditor in charge

**Born:** 1975

Authorized public accountant and member of FAR.

**Other assignments:** Södra Skogsägarna, Rottneros, Munters, Tradedoubler, Mycronic.

## EMPLOYEE REPRESENTATIVES



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**1. ÖYSTEIN LARSEN**

Employee representative

**Born:** 1957

Has been an employee representative on the Board since 2010.

Employed at Gränges since 1979. IT architect.

Employee representative of Unionen.

**Shareholding:** 470 shares.**3. TOMMY ANDERSSON**

Deputy employee representative

**Born:** 1980

Has been an employee representative on the Board since 2014.

Employed at Gränges since 1999. Production technician.

Employee representative of IF Metall.

**Shareholding:** 276 shares.**2. KONNY SVENSSON**

Employee representative

**Born:** 1954

Upper secondary school education.

Has been an employee representative on the Board since 2013.

Employed at Gränges since 2008.

Chairman of blue collar union IF Metall.

Employee representative of IF Metall.

**Shareholding:** 235 shares.**4. ELIN LINDFORS**

Deputy employee representative

**Born:** 1988

B.Sc. Material Science.

Has been an employee representative on the Board since 2016.

Employed at Gränges since 2013.

Production technician.

Representative of the Swedish Association of Graduate Engineers and the Union for Professionals.

**Shareholding:** 420 shares.



Oskar Hellström, Colin Xu, Kent Schölin and Torbjörn Sternsjö

# GROUP MANAGEMENT

## OSKAR HELLSTRÖM

CFO & Deputy CEO

**Born:** 1979

M.Sc. Engineering and B.Sc. Economics.

CFO of Gränges since 2013 and Deputy CEO of Gränges since 2017. CFO of Sapa Heat Transfer, 2011–2013. Director Group Development & Control at Sapa Group, 2009–2011. Strategy Manager at Sapa Group, 2008–2009. Consultant at Booz Allen Hamilton, 2005–2008.

Member of the Management Team since 2013.

**Shareholding:** 15,000 shares, 50 000 employee stock options.

## COLIN XU

President Asia

**Born:** 1976

M.Sc. Economics and Business Administration, MBA.

President for Gränges Asia since 2013. MD for Sapa Heat Transfer Shanghai, 2011–2013. At Sapa Heat Transfer Shanghai, 2001–2010, with several leading management positions since 2003.

Member of the Management Team since 2013.

**Shareholding:** 0 shares

## KENT SCHÖLIN

President Europe

**Born:** 1964

M.Sc. Engineering, Material Science.

President for Gränges Europe since 2013. MD for Sapa Heat Transfer Finspång, 2012–2013. MD of Gunnebo Gateway, 2005–2012. Several management positions at Sapa Heat Transfer, 1994–2004. Research engineer at Gränges Technology 1989–1994.

Member of the Management Board since 2013.

**Shareholding:** 4,705 shares, 100,000 employee stock options.

## TORBJÖRN STERNSJÖ

SVP Technology & Business Development

**Born:** 1962

M.Sc. Engineering.

SVP Technology & Business Development since 2017. Director Business Development at Gränges 2015–2017. President of the joint venture Sapa Chalco Aluminium Products Chongqing 2011–2015. President of Sapa Profiles in Asia 2007–2010. Managing Director of Gränges Shanghai 1999–2007. Various senior positions within Gränges and Sapa since 1994.

Member of the Management Team since 2017.

**Shareholding:** 10,000 shares

## PAUL NEUTJENS

SVP Process Engineering & Operational Development

**Born:** 1959

M.Sc. Engineering, Metallurgy and Applied Material Science.

SVP Process Engineering & Operational Development since 2017. CTO at Gränges and member of the Management Team, 2013–2017.

Strategic Project Director at Sapa Heat Transfer, 2011–2013. Director of Lean Production at Sapa Profiles Europe, 2007–2010. Several management positions at Alcoa, 1994–2007. Several management positions at Hoogovens Aluminium, 1986–1994.

Member of Extended Management Team since 2017.

**Shareholding:** 4,000 shares.

## PERNILLA GRENNFELT

SVP Communications & Investor Relations

**Born:** 1970

B.Sc. Economics.

SVP Communications & Investor Relations at Gränges since 2014. IR Manager at ICA Gruppen, 2013–2014. Head of Investor Relations at Hakon Invest, 2005–2013. Journalist and Editor at News Agency Direkt, 1999–2005. Advisor at Mat-teus Fondkommission, 1996–1999.

Member of the Management Team since 2014.

**Shareholding:** 4,905 shares, 20,000 employee stock options.



Paul Neutjens, Pernilla Grennfelt, Niclas Nelson and Johan Menckel

#### NICLAS NELSON

General Counsel

**Born:** 1964  
LL.M.

General Counsel at Gränges since 2014. Associate General Counsel at Autoliv, 2002–2014. Legal Counsel at ABB, 1998–2002. Attorney at Hökerberg & Söderqvist Advokatbyrå, 1993–1998. Associate at Vinge, 1992–1993. Law Clerk at City Court of Malmö, 1990–1992. Member of the Management Team since 2014.

**Other assignments:** Chairman of the Board of Directors of SWERMA (Swedish Risk Management Association).

**Shareholding:** 5,000 shares, 20,000 employee stock options.

#### JOHAN MENCKEL

CEO

**Born:** 1971  
M.Sc. Engineering.

CEO of Gränges since 2013. CEO of Sapa Heat Transfer, 2012–2013. Business Area President of Sapa Profiles Asia, 2011–2012. MD of Sapa Heat Transfer Shanghai, 2007–2010. Management positions at Sapa Heat Transfer, 2004–2006. Consultant at Accenture, 1996–2004.

Member of the Management Team since 2013.

**Other assignments:** Member of the Board of Directors in Svenska Postkodföreningen AB and Norderman Holding.

**Shareholding:** 38,000 shares, 100,000 employee stock options.



#### PATRICK LAWLOR

President Americas

**Born:** 1964  
B.Sc. Economics.

President Americas of Gränges since 2016. President Americas of Sapa Extrusions during 2010–2015. CFO at Sapa Extrusion North America, 2009–2010. CFO at Indalex, Inc., 2007–2009. Several managerial positions at Norsk Hydro, 1997–2007.

Member of the Management Team since 2016.

**Shareholding:** 0 shares.



#### MAGNUS CARLSTRÖM

SVP Human Resources

**Born:** 1966  
LL.M., Executive MBA, Behavioral Sciences (3.5 Y).

SVP Human Resources of Gränges since 2017. Director HR & Communications of Gränges AB and Gränges Europe 2012–2016. VP HR at Strabag Scandinavia 2009–2012. Head of Strategic Leadership & Training at Peab Group 2006–2009. Head of HR at Peab Sverige 2000–2006.

Member of Extended Management Team since 2017.

**Shareholding:** 0 shares.

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# CONSOLIDATED INCOME STATEMENT

SEK million	Note	2016	2015
Sales revenues	31	7,199	5,485
Other operating revenues		9	9
<b>Net sales</b>	7	<b>7,207</b>	<b>5,494</b>
Cost of materials		-4,374	-3,280
Payroll expenses	8, 10	-727	-501
Other operating expenses	11	-1,155	-965
Depreciation, amortisation and impairment charges	16, 17	-265	-208
Items affecting comparability	12	-128	-3
<b>Operating profit</b>		<b>559</b>	<b>538</b>
Profit from joint ventures	6	2	2
Financial income	13	5	5
Financial costs	13	-66	-24
<b>Profit before taxes</b>		<b>500</b>	<b>521</b>
Income Tax	14	-2	-143
<b>Profit for the year</b>		<b>498</b>	<b>379</b>
Profit for the year attributable to owners of the parent		498	379
Adjusted operating profit <sup>1)</sup>		687	541

1) Operating profit before items affecting comparability, see note 12.

## EARNINGS PER SHARE

SEK	Note	2016	2015
Earnings per share, basic	15	6.66	5.07
Earnings per share, diluted	15	6.64	5.07

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK million	Note	2016	2015
<b>Profit for the year</b>		<b>498</b>	<b>379</b>
<i>Items not to be reclassified to profit/loss in subsequent years</i>			
Remeasurement of pensions before tax	10	29	13
Tax on above		-13	-3
<i>Items to be reclassified to profit/loss in subsequent years</i>			
Change in hedging reserve before tax	26	-33	29
Tax on above		7	-6
Translation differences		69	62
<b>Comprehensive income for the year attributable to the owners of the parent company</b>		<b>557</b>	<b>474</b>

# CONSOLIDATED BALANCE SHEET

SEK million	Note	2016	2015
<b>ASSETS</b>			
Property, plant and equipment	17	3,347	1,669
Intangible assets	16	584	9
Deferred tax assets	14	64	54
Interests in joint ventures	6	30	30
Interest-bearing receivables	19, 24, 31	36	34
Other non-current receivables	26	10	4
<b>Total non-current assets</b>		<b>4,071</b>	<b>1,800</b>
Inventories	18	1,428	888
Receivables	20, 31	1,600	1,080
Cash and cash equivalents	21	851	634
<b>Total current assets</b>		<b>3,878</b>	<b>2,601</b>
<b>TOTAL ASSETS</b>		<b>7,950</b>	<b>4,402</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	27	101	100
Other paid in capital	27	33	-
Reserves		512	453
Retained earnings		2,296	1,947
<b>Total equity</b>		<b>2,942</b>	<b>2,499</b>
Deferred tax liabilities	14	24	45
Pension liabilities	10	288	138
Interest-bearing liabilities	19, 24	2,888	804
Other non-current liabilities	26	9	1
<b>Total non-current liabilities</b>		<b>3,209</b>	<b>989</b>
Interest-bearing liabilities	19, 24	436	0
Current tax liabilities	14	34	185
Other current liabilities	22	1,329	728
<b>Total current liabilities</b>		<b>1,799</b>	<b>914</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,950</b>	<b>4,402</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK million	Note	Share capital	Other paid in equity	Hedging reserve	Defined benefit pension plans	Translation differences	Retained earnings	Total equity
<b>Opening balance, 1 January 2015</b>		<b>100</b>	<b>0</b>	<b>-26</b>	<b>-46</b>	<b>430</b>	<b>1,679</b>	<b>2,137</b>
Profit for the year		-	-	-	-	-	379	379
<i>Items in comprehensive income</i>		-	-	23	10	62	-	95
<b>Group comprehensive income</b>		<b>-</b>	<b>-</b>	<b>23</b>	<b>10</b>	<b>62</b>	<b>379</b>	<b>474</b>
Employee stock option scheme		-	-	-	-	-	1	1
Dividend		-	-	-	-	-	-112	-112
<b>Closing balance, 31 December 2015</b>		<b>100</b>	<b>0</b>	<b>-3</b>	<b>-36</b>	<b>492</b>	<b>1,947</b>	<b>2,499</b>
<b>Opening balance, 1 January 2016</b>		<b>100</b>	<b>0</b>	<b>-3</b>	<b>-36</b>	<b>492</b>	<b>1,947</b>	<b>2,499</b>
Profit for the year		-	-	-	-	-	498	498
<i>Items in comprehensive income</i>		-	-	-26	16	69	-	59
<b>Group comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-26</b>	<b>16</b>	<b>69</b>	<b>498</b>	<b>557</b>
Employee stock option scheme		-	-	-	-	-	1	1
Dividend <sup>1)</sup>		-	-	-	-	-	-149	-149
Rights issue	27	1	33	-	-	-	-	34
<b>Closing balance, 31 December 2016</b>		<b>101</b>	<b>33</b>	<b>-29</b>	<b>-20</b>	<b>561</b>	<b>2,296</b>	<b>2,942</b>

1) Dividend per share was amounted to SEK 2.00 (1.50) during 2016.

# CONSOLIDATED CASH FLOW STATEMENT

SEK million	Note	2016	2015
Operating profit		559	538
Depreciation and impairment charges		265	217
Change in net working capital etc.		43	100
Income taxes paid		-181	-130
<b>Cash flow from operating activities</b>		<b>686</b>	<b>725</b>
Acquisition	29	-2,581	-
Investments in property, plant and equipment and intangible assets	16, 17	-155	-134
Divestment of property, plant and equipment		0	5
Other capital transactions		4	4
<b>Cash flow from investing activities</b>		<b>-2,732</b>	<b>-125</b>
Dividend		-149	-112
Rights issue	27	34	-
Interest paid and received	13	-35	-15
New loans		3,620	-
Amortisations		-1,224	-520
<b>Cash flow from financing activities</b>		<b>2,245</b>	<b>-647</b>
<b>Cash flow for the year</b>		<b>198</b>	<b>-47</b>
<b>Cash and cash equivalents at 1 January</b>		<b>634</b>	<b>644</b>
Cash flow for the year		198	-47
Translation difference on cash and cash equivalents		19	37
<b>Cash and cash equivalents at 31 December</b>	21	<b>851</b>	<b>634</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Gränges AB (the parent company) and its subsidiaries (together called the Group) develops, manufactures and markets rolled aluminium material for the production of heat exchangers and selected niche applications. The Groups' geographical markets are Europe, Asia and the Americas. Its production facilities are located in Sweden, China and the USA and serves the global market through sales offices in India, Japan and South Korea. The parent company is registered in Sweden and has its head office at Humlegårdsgatan 19A, SE-114 85 Stockholm.

This document was approved for publication by the Board of Directors of Gränges AB on 8 March 2017.

## 2 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### BASIS OF PREPARATION

The Gränges Group includes, in addition to the parent company Gränges AB, directly and indirectly held subsidiaries of Gränges AB.

Significant accounting principles applied in preparing these consolidated financial statements are described below. Unless otherwise stated, these principles have been applied consistently for all the years presented. The consolidated financial statements have been prepared and presented in compliance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Swedish Annual Accounts Act and RFR 1 Supplementary Accounting Rules for Groups.

The financial statements have been prepared by applying the cost method, with the exception of financial assets and liabilities (including derivatives), which are measured at fair value. Preparing financial statements in accordance with IFRS requires the use of important accounting estimates.

Management is also required to make certain judgements in applying the Group's accounting principles. Areas which involve a high degree of judgement, are complex or where assumptions and estimates have a material impact on the consolidated accounts are described in Note 5.

An asset or liability is classified as current when it is a part of an entity's normal operations, is primarily held for trading, matures within 12 months and consists of cash and cash equivalents at the balance sheet date. Other items are classified as non-current. A dividend is classified as a liability only upon formal approval by a general meeting of shareholders.

Unless otherwise stated, all amounts are stated in SEK million. Negative amounts refer to expenses or outgoing payments (cash flow).

### ITEMS AFFECTING COMPARABILITY

Items affecting comparability are presented in a separate line and refer to non-recurring income and expenses.

The primary purpose of this is to present significant non-recurring items separately in order to ensure that changes and the comparability of items presented in adjusted operating profit are more relevant for comparative purposes. Income and expenses that are carried in this line and specified and commented on in Note 12.

### CONSOLIDATION

#### Subsidiaries

All companies over which the Group exercises a controlling influence are classified as subsidiaries. The Group controls a company when it is exposed to or has the right to a variable return from its involvement with the company and has the ability to affect those returns through its power over the company. Subsidiaries are included in the consoli-

dated accounts as of the date when the control is transferred to the Group and are consolidated up to the date when the controlling influence ceases.

Business combinations are accounted for in accordance with the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business and equity interests issued by the group. The consideration also includes fair value of all assets or liabilities resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

### Joint arrangements

Shares in companies in which the Group exercises a controlling influence are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Gränges has made a judgement of its joint arrangements and determined they should be classified as a joint ventures. Interests in joint ventures are accounted for using the equity method.

Under the equity method, investments in joint ventures are initially carried at cost in the consolidated statement of financial position. The carrying amount is then increased or decreased to take account of the Group's share of the profit or loss and other comprehensive income from its joint ventures after the date of acquisition. The Group's share of the profit or loss is presented in the line "Profit from joint ventures" in the income statement and the line "Interests in joint ventures" in the balance sheet. The principal company in this category is Norca Heat Transfer LLC, in which Gränges has a 50 per cent stake. The remaining 50 per cent is owned by Kirchain Inc. (see Note 6).

### FOREIGN CURRENCY TRANSLATION

#### Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the operates ('the functional currency'). The consolidated financial statements are presented in Swedish krona (SEK), which is the Group's presentation currency.

#### Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency at the exchange rates applying on the transaction date or the date when the items were re-measured. Foreign exchange gains and losses arising from such transactions and upon translation of monetary assets and liabilities in foreign currency at closing day rates are recognised in the income statement. The exception is when the transactions constitute hedges and meet the criteria for hedge accounting of cash flows or net investments, in which case any gains and losses are recognised in other comprehensive income.

Financial receivables and liabilities in foreign currency are stated at the closing rate and any gain or loss is recognised in financial items in the income statement. Other monetary items in foreign currency are carried at the closing rate and any gain or loss is recognised in operating items in the income statement.

## 3

## NEW ACCOUNTING STANDARDS

**NEW ACCOUNTING STANDARDS ADOPTED BY THE GROUP IN 2016**

No standards, amendments and interpretations which became effective for financial years beginning on 1 January 2016 have had a material impact on the consolidated financial statements.

**NEW AND AMENDED STANDARDS AND INTERPRETATIONS WHICH HAVE NOT YET BECOME EFFECTIVE BUT WILL BE APPLIED IN FUTURE PERIODS**

A number of new standards and interpretations are effective for financial years beginning after 1 January 2017 and have not been applied in preparing these financial statements. None of these are expected to have a material impact on the Group's financial statements, with the following exceptions:

**IFRS 9 Financial Instruments**

IFRS 9 will enter into force on 1 January 2018 and replaces IAS 39 Financial Instruments: Recognition and measurement. Various parts of IFRS 9 have been revised, and one part relates to the classification and measurement of financial assets and liabilities. Classification of financial assets is determined on initial recognition based on the cash flow characteristics of the asset and the company's business model. Dependent on classification the financial assets will be measured at amortised cost, at fair value through other comprehensive income (OCI) or at fair value through profit or loss. For financial liabilities there are no changes that will impact the Group.

Further the hedge accounting principles have been revised in IFRS 9. The new principles give companies better opportunities to present the financial risk management strategies in the financial statements. As a general rule, it will be easier to apply hedge accounting, as more risk components can qualify as hedged item. The new standard also introduces expanded disclosure requirements and changes in presentation.

IFRS 9 also introduces a new impairment model based on expected credit losses. The new expected credit loss (ECL) model involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. A simplified approach is to be used for financial assets that do not have a significant financing component (eg accounts and lease receivables), which means impairment will be recognised based on lifetime ECL and there is no need to track the changes in credit quality.

The Group believes that mainly hedge accounting and impairment will impact the financial statements. Classification and measurement of financial assets is not expected to affect the way the assets are valued, but the process of how the classification is done will need to be reviewed. Investigations of the effects from IFRS 9 will have on the consolidated financial statements are in progress. The Group has not yet fully evaluated the effects of introducing the standard but does not expect any material impact.

**IFRS 15 Revenue from contracts with customers**

IFRS 15 is the new standard for recognition of revenue. IFRS 15 replace IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations (IFRIC and SIC). Revenue is recognised when control of a goods or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The basic principle in IFRS 15 is that a company recognise revenue in the way that best reflects the transfer of the goods or service to the customer. A new five-step process must be applied before revenue can be recognised:

- Step 1: identify contracts with customers
- Step 2: identify the separate performance obligation
- Step 3: determine the transaction price of the contract
- Step 4: allocate the transaction price to each of the separate performance obligations, and
- Step 5: recognise revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The Group has not yet fully evaluated the effects of introducing the standard but does not expect any material impact.

**IFRS 16 Leases**

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. EU has not yet adopted the standard. The Group has not yet assessed the impact of IFRS 16.

## 4

## ACCOUNTING STANDARDS

**REVENUE RECOGNITION**

Revenue is recognised to the extent that it is likely that the economic benefits will accrue to the company and the revenue can be reliably measured, irrespective of when payment is made. Revenue is stated at the fair value of the compensation which has been or will be received, having regard to contractual terms governing payment excluding taxes and duties.

**Sales of goods.** The Gränges Group sells goods in different markets, and revenues from the sale of goods are recognised in the income statement when the material risks and benefits associated with ownership of the goods have been transferred to the buyer.

**Sales of services.** Revenues from the sale of services are limited for the Gränges Group and primarily refer to rental income from properties owned by Gränges AB. Rental income is allocated to accounting periods in accordance with the lease and is recognised in the income statement in the period to which the lease refers.

cont. Note 4

Gains on the sale of property, plant and equipment are accounted for as "Other income" and are included in the income statement.

Interest income is recognised using the effective interest method and accounted for under "Financial income".

#### STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income includes items which are recognised in equity but which are not included in the regular profit or loss for the period. The items in the statement are actuarial gains and losses on pensions, changes in the hedging reserve in hedging transactions and currency translation effects.

#### ASSETS

Property, plant and equipment are tangible, long-lived assets which are intended for the production or delivery of goods or for administrative purposes. They are stated at cost in the balance sheet less accumulated depreciation and impairment. Maintenance of assets is recognised in operating expenses when the maintenance is carried out while more significant periodic maintenance and expenses for replacements and improvements are accounted for as an investment and added to the cost of the assets.

To distribute the cost down to the estimated residual value, items of property, plant and equipment are depreciated on a straight-line basis, divided into different components, over their useful lives using the following percentage rates:

- buildings and land improvements 2.5–10 per cent,
- machinery and installations 5–20 per cent,
- fixtures and vehicles 5–20 per cent,
- IT equipment and software 10–20 per cent.

Useful lives and residual values of assets are reviewed each year and adjusted where required.

If the residual value exceeds the carrying amount no further depreciation charges are recognised. This applies especially to buildings. If there are indications of impairment of an asset, the asset is written down to its recoverable amount if this is lower than the carrying amount. The recoverable amount is the higher of net realisable value and value in use.

Loan expenses in connection with the production of the Group's own property, plant and equipment are recognised as part of the cost of the asset.

**Intangible assets.** The Group has expenses for research and development. Expenditure for research is carried as an expense immediately while expenditure for development is recognised as an intangible asset if the underlying economic factors are identifiable and represent future economic benefits controlled by the Group.

The Group is running a large number of development projects but the criteria for recognising the projects as intangible assets are currently not met (see Note 16).

Capitalised expenditure for internally generated or specially adapted software is recognised as intangible assets. These are depreciated on a straight-line basis over 5–10 years.

Expenditure for internally generated intangible assets is expensed immediately, as the future economic benefits for the company cannot be identified and because it is not possible to obtain any degree of certainty during the development phase of the intangible assets. The fair value of intangible assets acquired by the company through acquisitions is capitalised.

The customer relationships were acquired as part of a business combination (see note 29 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line bases over their estimated useful lives of 20 years.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately as an expense and is not subsequently reversed.

**Inventories** are measured at the lower of cost and net realisable value. Purchased goods are measured at cost in accordance with the FIFO principle while own-produced finished goods and products in progress are measured at production cost. A deduction is made for obsolescence. The net realisable value is the estimated selling price less selling costs. For a description of inventories as hedged item in a fair value hedge see "Fair value hedging" page 81.

**Cash and cash equivalents** comprise cash and cash equivalents with maturities of up to three months.

#### PROVISIONS AND LIABILITIES

**Pensions.** Gränges group has a pension system in Sweden and US that primarily consists of defined contribution plans as well as some unfunded defined benefit plans.

For defined contribution pension plans the company has a responsibility to make contractual payments for its employees' future pensions. Future pensions are determined by the size of contributions and the return on the plan assets. After the contributions have been paid the company has no further payment obligations under the defined contribution plan. No provisions are therefore made in the balance sheet.

The company's pension costs for its defined contribution plans consist of payments to employees' pension plans during the reporting period and are accounted for as payroll expenses.

Defined benefit pension plans are based on a promise from the company to the employees that they will receive a certain pension upon retirement, normally defined as a percentage of their final salary. The company is responsible for the size of the future pension benefit and the economic value of this obligation are recognised in the income statement and balance sheet.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The cost relating to service during the current period is accounted for as payroll expenses. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

**Provisions** are recognised for potential loss-making contracts and for restructuring when the decision to restructure is made. Provisions do not cover any potential future operating losses. As regards restructuring reserves, there must exist a detailed plan identifying which operations will be restructured as well as a well-founded expectation among those affected by the restructuring. It must also be possible to reliably estimate the cost of the restructuring.

The provision is calculated based on the best estimate of expected costs. If the effect is significant, expected future cash flows will be discounted.

**Contingent liabilities and contingent assets.** A contingent liability or contingent asset is a potential obligation or potential asset whose existence is uncertain and which will be confirmed by the occurrence or non-occurrence of a specific future event, such as the outcome of legal proceedings or the final settlement of an insurance claim. If the probability that the liability has been incurred exceeds 50 per cent a provision is recognised in the balance sheet. If the probability is lower a contingent liability is shown as an additional disclosure in the financial statements, unless the probability of an outgoing payment is remote. An asset is only recognised in the balance sheet if it is highly probable that the Group will receive the asset. Disclosures regarding contingent assets are given where an inflow of resources is probable.

**Tax.** Income tax is the sum of current tax and changes in deferred tax. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Current tax is recognised at the amount that is expected to be paid to the tax authorities based on the taxable income that is reported for the units included in the consolidated financial statements. The income tax is determined using tax rates that have been enacted on the balance sheet date.

Deferred tax in the balance sheet has been calculated at the nominal tax rate based on temporary differences for assets and liabilities at the balance sheet date.

A provision for deferred tax on retained earnings in foreign subsidiaries is recognised to the extent that it is likely that the dividend will be distributed in a near future.

Deferred tax assets are reviewed continually and recognised in the balance sheet only to the extent that it is likely that future taxable profits can be used.

Deferred tax liabilities and deferred tax assets are offset insofar as this is possible under local tax laws and regulations.

## FINANCIAL INSTRUMENTS

The Group's financial assets comprise loans and accounts receivable as well as derivatives. Purchases and sales of financial assets are recognised at the transaction date, which is the date when the Group undertakes to buy or sell the asset. Accounts receivable are recognised when the invoice has been sent. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has transferred essentially all risks and benefits associated with ownership to another party.

The Group's financial liabilities comprise borrowings and accounts payable as well as derivatives. Financial liabilities are recognised in the balance sheet when the counterparty has performed and a contractual obligation to pay exists. Accounts payable are recognised when the invoice has been received. Financial liabilities are derecognised from the balance sheet when the contractual obligation has been fulfilled or in some other way is extinguished.

Financial instruments are initially recognised at fair value plus transaction costs, which applies to all financial assets and liabilities that are not measured at fair value through profit and loss. These are initially recognised at fair value excluding transaction costs.

Financial assets and liabilities are in general not netted even when there is a legal right of netting the carrying amounts and an intention to settle them by a net amount or to simultaneously realise the asset and settle the liability. The legal right must not depend on future events and must be legally binding for the company and the counterparty both in case of normal business activities and in the event of default, insolvency or bankruptcy.

**Derivatives** are classified either as measured at fair value through profit and loss in the subcategory that is called held for trading or as hedging instrument for which hedge accounting is applied. Derivatives are measured at fair value at the balance sheet date and accounted for as assets or liabilities. Gains and losses on changes in fair value are recognised in profit or loss when the derivative is not part of a hedge relationship which meets the criteria for hedge accounting. Embedded derivatives in contracts are identified and measured separately. Gränges currently has no embedded derivatives. Purchases and sales of derivatives are recognised at the transaction date.

**Loans and receivables** are financial assets which are non-derivatives, have fixed or determinable payments, and are not listed on an active market. They are included in current assets, with the exception of items maturing later than twelve months from the end of the reporting period, which are classified as non-current assets. Accounts receivable are always classified as current assets. The Group's loans and receivables comprise accounts receivable and other receivable as well as cash and cash equivalents. These are carried at amortised cost in the balance sheet applying the effective interest rate method. Accounts receivable are measured at the amount expected to be paid, i.e. after deducting bad debts. At the end of each reporting period the Group assesses whether there is objective evidence of impairment of financial assets. Objective evidence of impairment includes, for example, indications of significant financial difficulties of a debtor, non-payment of interest or principal and observable information pointing to a measurable decrease in estimated future cash flows.

Impairment loss is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses which have not occurred), discounted at the financial asset's original effective interest rate. The asset's carrying amount is written down and the impairment loss is recognised in the consolidated income statement. If the impairment is

reduced in a subsequent period and this can objectively be attributed to an event occurring after recognition of the impairment loss (such as an improvement in a debtor's credit-worthiness), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

**Accounts payable** are obligations to pay for goods or services which have been acquired from suppliers or service providers in the course of the company's operating activities. Accounts payable are classified as current liabilities. Accounts payable are measured at amortised cost.

**Borrowings** (loans) are initially recognised at fair value, net of transaction costs. Subsequently loans are carried at amortised cost and any difference between the amount received (net of transaction costs) and the amount repayable is recognised in the income statement over the term of the loan by applying the effective interest method.

**Hedge accounting.** The Group uses the following criteria for classifying a derivative or other financial instrument as a hedging instrument: (1) the hedging instrument is expected to be very effective in offsetting changes in the fair value of or cash flows for an identifiable item (hedged item), with an expected hedge efficiency of 80–125 per cent, (2) the hedge efficiency can be reliably measured, (3) satisfactory documentation is drawn up before the hedging instrument is acquired showing, in particular, that the hedge relationship is effective, (4) in case of the use of cash flow hedges, that the future transaction is deemed to be highly probable, and (5) the hedge relationship is reviewed on a regular basis and has proved to be effective, i.e. between 80–125 per cent.

Gains and losses on the hedging instrument are recognised in the income statement at the same time as gains and losses from the hedged item.

**Fair value hedging.** Changes in the fair values of derivatives designated as hedging instruments are recognised immediately in the income statement. Changes in the fair value of the hedged item (inventory) relating to the hedged risk are recognised in the income statement in the same way and are recognised as an adjustment on the hedged item's carrying amount. Hedge accounting is discontinued if: (a) the hedge instrument has expired, been terminated, exercised or sold, (b) the hedge no longer meets the aforementioned criteria for hedging, or (c) the Group for some reason chooses not to continue to hedge fair value. In the case of a discontinued hedge, changes in the fair value of the hedged item are recognised in the balance sheet until the hedged item (inventory) is recognised as cost of materials in the income statement.

**Cash flow hedges.** The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the hedging reserve until the hedged transaction is executed. At that time the accumulated gains or losses on the hedging instrument will be reclassified to the income statement. The ineffective portion of the hedging instrument is recognised immediately in the income statement. When a hedging instrument has expired, been sold, exercised or terminated, or the Group has discontinued the hedge relationship, the accumulated gains or losses will remain in the hedging reserve and will be recognised in the income statement upon execution of the hedged transaction. If the hedged transaction is no longer expected to occur, the accumulated gain or loss on the hedging instrument will be recognised immediately in the income statement.

## SEGMENTS

Gränges mainly develops, produces and distributes aluminium material for heat exchanger applications. The heat exchanger industry is global and relatively consolidated, with a small number of global customers accounting for about half of Gränges' sales volume. A single Key Account organisation handles all Gränges' global key customers. The operations are governed through a matrix structure which combines key customers with regional markets and production units.

Due to the global character of the operations Gränges reports a single global segment in line with IFRS 8.

For information on the geographic distribution of non-current assets, sales revenue and the average number of employees (see Note 7).

cont. Note 4

## OTHER PRINCIPLES

**Cash flow.** The cash flow statement, which has been prepared using the indirect method, shows cash flows from operating activities, investing activities and financing activities, and explains changes in “Cash and cash equivalents” for the reporting period.

**Acquisitions.** The acquisition method is used to account for the acquisitions of subsidiaries and operations. All payments to acquire a business are recorded at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

**Leasing.** Leases are classified based on the extent to which the economic risks and benefits associated with ownership of the leased asset are held by the lessor or lessee. A lease is classified as a financial lease if it essentially transfers all risks and benefits associated with ownership of an asset. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term. Other leases are classified as operating leases. Expenses related to such leases are accounted for as operating expenses.

**Share-based payments.** The Group operates a share-based compensation plan under which payments are made in the form of shares and the company receives services from employees as compensation for the Group's equity instruments (employee stock options). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense along with a corresponding increase in equity. The total amount recognised as an expense is based on the fair value of the granted employee stock options as determined on the grant date.

The Group also has a share-based remuneration plan based on cash settlement. The fair value of employee services received in exchange for the grant of the options is recognised as an expense along with a corresponding increase in liabilities. The cost of cash-settled instruments is based on the fair value of the granted employee stock options, as determined at each closing date until final settlement.

At the end of each reporting period the Group reviews its estimates of how many shares are expected to be vested based on the service condition. Any deviations from the original estimates identified in such reviews are recognised in the income statement with corresponding adjustments in equity for equity-settled instruments and liabilities for cash-settled instruments.

When options are exercised, the company issues new shares. The proceeds received, net after any directly attributable transaction costs, are credited to the share capital (quotient value) and other paid in equity.

Social security contributions payable in connection with the grant of stock options are considered as an integral part of the grant itself, and the charge will be treated as cash-settled transaction that is remeasured at each closing date until settlement is made.

**Government grants** are recognised in the financial statements when it is a reasonable assurance that the grant will be received. The grants are accounted for either as income or a reduction of expenses, and are in the latter case matched with the expenses which they are intended to compensate for. Government grants attributable to assets are accounted for as a reduction of the cost of the asset. The grant reduces the depreciation of the asset.

## 5

## USE OF ESTIMATES AND ASSUMPTIONS IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing Gränges' consolidated accounts, it is necessary to make a number of estimates and assumptions which can influence the carrying amounts of assets and liabilities. When preparing the financial statements, management makes its best judgements in areas of significant importance. Areas where estimates and judgements are of significant importance for the consolidated financial statements are:

Accounting item	Note	Estimate/assumptions
Property, plant and equipment	17	Recoverable amount and estimate of correct remaining useful life
Income tax	14	Determination of tax rate for profits in China
Pension liability	10	Economic and demographic assumptions
Property, plant and equipment and Intangible assets	16, 17	Assumptions and methods for determining the fair value of acquired business

The value of property, plant and equipment is based on cost and is depreciated over the estimated useful life. For several of Gränges' items of property, plant and equipment changes in assumptions can have a significant impact on the value.

Gränges has applied for a qualification as a high technology company in China for the period 2016 to 2018. This qualification would mean that Gränges in China can avail of an income tax rate of 15 per cent instead of the ordinary rate of 25 per cent. However, in order to obtain the classification special requirements established needs to be met and local authorities will subsequently review that Gränges has met these requirements. Since no pre-approval has been received and in view of the difficulties to currently estimate whether these special requirements will be met for the classification, income tax in the Chinese operation has been based on ordinary tax of 25 per cent for 2016. Further information is provided in Note 14.

Gränges has a number of defined benefit pension plans. The present value of the pension obligations depends on a number of factors which are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net pension expense (income) include the discount rate. Each change in these assumptions has an impact on the carrying amount of the pension obligation. Further information on sensitivity analyses etc. for changes in material assumptions is provided in Note 10.

Future events and changes in operating parameters may make it necessary to make other estimates and assumptions.

The financial statements can also be affected by the choice of accounting principles and judgements made in applying the principles. This applies, for example, to certain items which are accounted for as “Items affecting comparability” in a separate line. Gränges has also chosen to present earnings from joint ventures after the operating profit.

The valuation of identifiable assets and liabilities in connection with the business combination in the US is performed by revaluing items already recorded in the balance sheet, as well as items which have not previously been recorded in the balance sheet, such as customer relationships, to fair value. Inventories, which primarily consists of aluminium, have been valued according to listed market prices. The valuation of acquired buildings has been performed using external valuation data. The valuation is based on property transactions performed for similar objects in the relevant regions as well as certain other assumptions regarding the properties. For other fixed tangible assets a method based on replacement cost, where Gränges has made assumptions and judgements regarding the present state of those assets and the cost of replacing them, has been used. Intangible assets, which primarily consists of customer relationships, have been valued based on the expected future cash flows from the acquired business' present customer portfolio.

The US business combination was completed 22 of August 2016. The process of determining values of acquired assets and liabilities in accordance with the description above has been ongoing throughout the fall and the purchase price allocation per 31 December 2016 is still preliminary. No events subsequent to the business combination which indicate impairment for the allocated values of acquired assets and liabilities have occurred.

## 6

## INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Gränges reports two joint ventures, in which Gränges has a share of 50 per cent based on the equity method.

Norca Heat Transfer LLC is a sales and distribution company which acts as distributor for Gränges' products in the North American market. Sales to Norca were SEK 961 million (801) in 2016.

Shanghai Gränges Moriyasu Aluminium Co Ltd provides stamping capacity for Gränges' customers in China.

The company does not deem that any significant capital injections will be required in the joint ventures in which Gränges participates.

## Investments accounted for in accordance with the equity method

SEK million	Norca Heat Transfer	Shanghai Gränges Moriyasu Aluminium	Total
<b>Carrying amount 1 January 2016</b>	<b>24</b>	<b>6</b>	<b>30</b>
Acquisitions/sales	–	–	–
Share of profit/loss	2	0	2
Dividend	–4	–	–4
Translation differences	2	0	2
<b>Carrying amount 31 December 2016</b>	<b>24</b>	<b>7</b>	<b>30</b>
<b>Carrying amount 1 January 2015</b>	<b>24</b>	<b>6</b>	<b>30</b>
Acquisitions/sales	–	–	–
Share of profit/loss	2	0	2
Dividend	–4	–	–4
Translation differences	2	0	2
<b>Carrying amount 31 December 2015</b>	<b>24</b>	<b>6</b>	<b>30</b>

## Norca Heat Transfer (100 per cent)

Items in the income statement and statement of financial position (100 per cent).

USD million	Norca Heat Transfer	
	2016	2015
Operating revenue	115	99
Operating profit	2	2
Profit after tax	1	1
Current assets	41	46
Non-current assets	–	–
<b>Total assets</b>	<b>41</b>	<b>46</b>
Current liabilities	8	13
Non-current liabilities	25	25
<b>Total liabilities</b>	<b>33</b>	<b>38</b>

## 7

## GEOGRAPHIC BREAKDOWN OF NET SALES, NON-CURRENT ASSETS AND AVERAGE NUMBER OF EMPLOYEES

Net sales are distributed regionally based on where the customers are located. Non-current assets and the average number of employees are based on where Gränges is located.

SEK million	Net sales		Non-current assets <sup>1)</sup>		Average no. of employees	
	2016	2015	2016	2015	2016	2015
Asia	2,623	2,637	1,039	1,108	528	541
Sweden	265	226	548	576	434	423
Rest of Europe	1,668	1,752	–	–	–	–
Americas	2,651	880	2,373	24	192	–
<b>Total</b>	<b>7,207</b>	<b>5,494</b>	<b>3,960</b>	<b>1,708</b>	<b>1,154</b>	<b>964</b>

1) Excluding deferred tax assets, interest-bearing receivables and other non-current receivables.

The seven largest customers accounted for 46 per cent (57) of sales. No customers accounted for more than 10 per cent of total sales in 2016, while in 2015 two customers represented more than 10 per cent each of total sales.

## 8

## PAYROLL EXPENSES

## Average number of employees

	2016		2015	
	Average no. of employees	Of which, women	Average no. of employees	Of which, women
<b>Gränges AB</b>				
Sweden	24	8	41	16
<b>Subsidiaries</b>				
Sweden	410	77	382	56
China	516	53	528	51
US	192	23	–	–
Other countries	12	3	13	4
<b>Group total</b>	<b>1,154</b>	<b>164</b>	<b>964</b>	<b>127</b>

## Board members and other senior executives

	2016		2015	
	No. at balance sheet date	Of which, women	No. at balance sheet date	Of which, women
<b>Gränges AB</b>				
Board members	9	3	7	2
CEO and other senior executives	8	1	8	1

## Salaries, other remuneration and social security contributions

SEK million	2016			2015		
	Salaries and remuneration (of which, variable portion)	Social sec. contrib.	Pension	Salaries and remuneration (of which, variable portion)	Social sec. contrib.	Pension
<b>Gränges AB</b>						
Board, CEO and other senior executives	21 (10)	10	4	19 (9)	7	4
Other employees	17	6	4	21	7	3
<b>Subsidiaries</b>						
Board, CEO and other senior executives	17 (7)	2	1	14 (6)	4	1
Other employees	499	118	26	305	98	17
<b>Group total</b>	<b>555</b>	<b>136</b>	<b>35</b>	<b>360</b>	<b>117</b>	<b>24</b>

## SALARIES AND OTHER REMUNERATION TO THE BOARD MEMBERS, CEO AND OTHER SENIOR EXECUTIVES

## Board members

Until the Annual General Meeting on 28 April 2016 the Board of Directors consisted of five members, elected by the Annual General Meeting in 2015. Following the Annual General Meeting in 2016 the Board of Directors consisted of seven members, elected by said Annual General Meeting. The Chairman and other members of the Board receive Directors' fees in accordance with the resolutions adopted by the annual general meeting. The Chairman of the Board receives 500 kSEK and the other members of the Board 275 kSEK in remuneration. The chairman of the Audit Committee receives an additional remuneration of 80 kSEK and the chairman of the Remuneration Committee an additional remuneration of 50 kSEK. Employee representatives receive a remuneration of 40 kSEK which also is applied for the deputies.

Remuneration to the Board members are in some cases done through invoicing from their own companies. In addition to the directors fee, social security contributions are then charged as a cost, which is considered to be cost neutral for Gränges.

## CEO and other senior executives

The remuneration paid to the CEO and other senior executives consists of a basic salary, variable remuneration, other benefits and pension. Senior executives refer to the members of the Group management team. During 2016 the Group management team consisted of eight persons, including the CEO.

The salary is deliberated in the Remuneration Committee and adopted by the Board of Directors. For all other senior executives the salaries are deliberated and decided by the CEO with the support of the Chairman of the Board. The variable remuneration is based on results achieved in relation to the set targets and is made up of two

components, short-term incentive programme (STI) and long-term incentive programme (LTI). Several long-term incentive programmes can run in parallel. The remuneration from the short-term incentive programme can amount to a maximum of 60 per cent of the basic salary for the CEO and for the other senior executives.

A basic salary of SEK 4.5 million (4.0) and short term incentive of SEK 2.7 million (1.8) was paid to the CEO during the year. A provision for long term incentive (LTI) was done by SEK 1.9 million (2.2). A basic salary of SEK 14.4 million (12.9) and short term incentive (STI) of SEK 6.7 million (4.6) was paid to other senior executives during the year. A provision for long term incentive (LTI) was done by SEK 6.0 million (6.2).

The contract between the company and CEO is subject to twelve months' notice by either party without deduction. In case of termination by the company the CEO is also entitled to severance pay of a further twelve monthly salaries, which is set off against income from new employment. The contracts between the company and other senior executives are subject to six months' notice by either party without deduction. In case of termination by the company the executive is entitled to severance pay of a further twelve monthly salaries, which is set-off against income from new employment.

## PENSION

The retirement age for the CEO is 65 years. In addition to ordinary defined-benefit pension in accordance with the ITP-plan, the CEO has a direct pension in form of a company-owned endowment insurance. The premiums to the endowment insurance amounts to 35 per cent of the basic salary, reduced with what is being paid to ITP. For other senior executives the retirement age is 60–65 years depending on the country of employment and both premium-based and defined-benefit-based obligations exist.

**Remuneration and other benefits in 2016**

	Basic salary/ Directors' fee	Short-term incentive pro- gramme (STI) <sup>1)</sup>	Employee stock option programme (LTI 2014)	Long-term incentive programmes (LTI 2016 and 2015)	Total variable remuneration	Other benefits	Pension	Total
<b>Board of Directors</b>								
Anders G. Carlberg	0.6	–	–	–	–	–	–	0.6
Terje Andersen	0.3	–	–	–	–	–	–	0.3
Ragnhild Wiborg	0.4	–	–	–	–	–	–	0.4
Hans Porat	0.2	–	–	–	–	–	–	0.2
Carina Andersson	0.3	–	–	–	–	–	–	0.3
Peter Carlsson	0.2	–	–	–	–	–	–	0.2
Katarina Lindström	0.2	–	–	–	–	–	–	0.2
Bertil Villard	0.1	–	–	–	–	–	–	0.1
<b>Management</b>								
CEO Johan Menckel	4.5	2.7	0.3 <sup>3)</sup>	1.6	4.6	0.1	1.6	10.8
Other senior executives (7 individuals)	14.4	6.7	2.6 <sup>4)</sup>	3.5	12.7	0.9	2.7	30.8
<b>Total</b>	<b>21.1</b>	<b>9.4</b>	<b>2.9</b>	<b>5.0</b>	<b>17.3</b>	<b>1.0</b>	<b>4.3</b>	<b>43.8</b>

**Remuneration and other benefits in 2015**

	Basic salary/ Directors' fee	Short-term incentive pro- gramme (STI) <sup>2)</sup>	Employee stock option programme (LTI 2014)	Long-term incentive programme (LTI 2015)	Total variable remuneration	Other benefits	Pension	Total
<b>Board of Directors</b>								
Anders G. Carlberg	0.6	–	–	–	–	–	–	0.6
Terje Andersen	0.3	–	–	–	–	–	–	0.3
Carina Andersson	0.3	–	–	–	–	–	–	0.3
Bertil Villard	0.3	–	–	–	–	–	–	0.3
Ragnhild Wiborg	0.4	–	–	–	–	–	–	0.4
<b>Management</b>								
CEO Johan Menckel	4.0	1.8	0.4	1.8	4.0	0.0	1.4	9.5
Other senior executives (7 individuals)	12.9	4.6	1.5	4.6	10.8	0.2	2.7	26.6
<b>Total</b>	<b>18.8</b>	<b>6.5</b>	<b>1.9</b>	<b>6.5</b>	<b>14.8</b>	<b>0.2</b>	<b>4.1</b>	<b>37.9</b>

- 1) The amounts are attributable to 2016 but will be disbursed in 2017. 2) The amounts are attributable to 2015 but were disbursed in 2016.  
3) Vested employee stock options is settled with equity (shares) which means that the expense is based on the fair value of the option at grant date, i.e. 10 October 2014 which was 3.82 SEK per option. However, the benefit value (current fair value per option) at 31 December 2016 for the employee amounts to 36.91 SEK per option (19.08). A total of 77,534 (100,000) number of options have been vested for during the year. 100,000 options have been executed during 2016 for a benefit value of 38,72 SEK per option.  
4) Vested employee stock options for four employees is settled with equity (shares), see above footnote 3, while vested employee options for one employee is settled with cash. The expense for cash-settled options is based on fair value of the option at each reporting period, 36.91 SEK per option (19.08), which is equivalent to the benefit value. A total of 118,240 (152,500) number of equity-settled options and 38,867 (50,000) number of cash-settled options have been vested. 215,000 options has been executed during the year to a benefit value of 38,72 SEK per option.

**VARIABLE REMUNERATION****Short-term incentive programme (STI)**

The remuneration from the short-term incentive programme can amount to a maximum of 60 per cent of the basic salary for the CEO and for the other senior executives.

The outcome of the short-term incentive programme is determined by a number of parameters consisting of key financial indicators for the Group, such as adjusted operating profit and cash flow, and by performance against predetermined individual objectives.

**Long-term incentive programmes (LTI 2015 and LTI 2016)**

Gränges' long-term incentive programmes comprise the company's senior executives and certain selected key persons. The incentive programmes aim to promote and encourage loyalty to the company by aligning personal objectives and interests with the shareholders' interest of strong share price performance and a good dividend.

The programmes are designed so that an amount corresponding to the outcome from STI for each year and participant is set aside in a so-called LTI bank. The costs are provided for during the performance years and the provision for LTI for each year are shown in the table Remuneration and other benefits. Provided that the participant is still employed at Gränges, one third of the amount for LTI 2015 is paid per year during 2017, 2018 and 2019, and for LTI 2016 during the years 2018, 2019 and 2020. The payments are adjusted for total return of Gränges share. The total payment of LTI and STI in any one year shall be a maximum of 1.5 times an annual salary.

**Employee stock option programme (LTI 2014)**

On 10 October 2014 employee stock options were granted free of charge to senior executives and other key individuals in the Group. The granted stock options have a term of two years from the grant-date (vesting period) followed by an exercise period of one year. The exercise price is SEK 51.00 equivalent to 120 per cent of the price in the offering in connection with the stock market listing less dividends until all options have either been exercised or lapsed which will be no later than 9 November 2017. 516,000 employee stock options have been exercised during 2016 and the number of outstanding employee stock options per 31 December 2016 amounts to 397,000, all have been vested for. In the event of full exercise of the remaining employee stock options it would result in a dilution of 0.5 per cent of the total number of shares in Gränges.

The total expense recognised in the income statement for the employee stock options, including expenses for social security contributions, in 2016 was SEK 10.6 million (8.6). Equity has increased by SEK 1.0 million (1.0) while cash-settled employee stock options and expenses for social security contributions have led to an increase in liabilities of SEK 9.6 million (7.5).

**OTHER BENEFITS**

Other benefits mainly consist of company cars and medical benefits.

## 9 REMUNERATION TO AUDITORS

SEK million	2016	2015
<b>EY</b>		
Audit engagement	6.6	2.9
Audit services in addition to audit engagement	0.5	0.3
Tax advisory services	0.8	0.9
Other services	8.2	4.2
<b>Total remuneration to auditors</b>	<b>16.1</b>	<b>8.3</b>

Audit engagement refers to the examination of the annual report and accounting records and of the Board of Directors and CEO's management of the company, other tasks incumbent on the company's auditor as well as advice and other assistance occasioned by observations made in the course of such examinations or the performance of such other tasks. Audit services in addition to audit engagement is mainly related to review of interim reports.

Tax advisory services include advice on tax, including transfer pricing issues, as well as value-added tax.

Other services refer to advice that is not attributable to any of the aforementioned categories of services. In 2016 other services consisted mainly of services related to the acquisition activities.

## 10 PENSIONS

Gränges has pension plans in Sweden and the US. Approximately 74 per cent (71) of the employees in Sweden are covered by defined contribution pension plans, with the remainder covered by defined benefit plans. All permanent full time employees in the US are eligible for the defined contribution plan. Approximately 27 per cent of permanent full time employees in the US are eligible for the defined benefit pension plan.

### DEFINED CONTRIBUTION PLANS

Employees of Gränges in the Swedish operation are mainly covered by pension plans classified as defined contribution plans. Defined contribution plans are arrangements in which the company pays annual contributions to its employees' pension plans and where future pensions are determined by the amount of contributions paid and the return on the pension assets. In Sweden employees covered by a collective bargaining agreement have defined contribution pension plans, as do salaried employees born after 1979 under the ITP1 supplementary pension plan.

### DEFINED BENEFIT PLANS

The defined benefit pension plan in Sweden applies for salaried employees covered by the ITP2 supplementary pension plan, based on a collective agreement between the Confederation of Swedish Enterprise and the trade unions for salaried employees in the private sector. The pension plan is a net plan under which the pension obligation is not linked to changes in Swedish social insurance schemes. Under the applicable collective agreement, all salaried employees born in 1979 or after are covered by a defined contribution plan. This means that the scope of the defined benefit plan will be reduced over time. The group also operates defined benefit pension plans in the US under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefit to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the Swedish plans, pensions in payment are generally updated in line with the retail price index, whereas in the US plans, pensions generally do not receive inflationary increases once in payment. With the exception of this inflationary risk in Sweden, the plans face broadly similar risks, including the risk of increased life expectancy and sensitivity to changes in interest rates.

Both the Swedish and US defined benefit plans are accounted for as a provision in the balance sheet. Swedish plans are unfunded and

US plans are partially funded. To secure unfunded accrued pension rights of their employees in Sweden, companies need to take out a credit insurance policy with Försäkringsbolaget PRI Pensionsgaranti. PRI Pensionsgaranti also administers and calculates the Group's unfunded pension obligations. The Group's pensions in Sweden are regulated by the Swedish Pension Obligations Vesting Act. The Group also has a pension obligation, which is covered by transfer of funds to a pension trust, amounting to SEK 1 million.

Special payroll tax has been taken into account in calculating pension obligations.

### ASSUMPTIONS FOR DEFINED BENEFIT PLANS

The assumptions are defined in consultation with professional actuaries. Assumptions on future salary adjustments and sales are specific to the Group. The discount rate is determined by reference to high-quality corporate bonds traded in a well functioning market, which reflect the duration of the pension obligation. In Sweden the discount rate is based on secured mortgage bonds.

#### Assumptions for defined benefit plans, Sweden

	2016	2015
Discount rate	2.5 %	3.2 %
Future salary adjustments	2.6 %	2.6 %
Income base amount	2.5 %	2.5 %
Inflation	1.5 %	1.5 %
Employee turnover	4.0 %	4.0 %
Weighted average remaining duration, years	19.0	18.0

The assumptions for life expectancy are based on PRI's life expectancy tables as of 30 June 2011.

#### Assumptions for defined benefit plans, US

	2016	2015
Discount rate	2.5 %–4.2 %	–
Future salary adjustments	4.0 %	–
Income base amount	N/A	–
Inflation	N/A	–
Employee turnover	3.5 %–20.0 %	–
Weighted average remaining duration, years	10.9	–

The mortality assumption is based on the RP-2014 mortality tables.

### Distribution of pension costs

SEK million	2016	2015
Defined contribution plans	–26	–19
Current service cost	–9	–5
<b>Pension cost recognised as operating expense</b>	<b>–35</b>	<b>–24</b>
Interest on net pension liabilities recognised as a financial expense	–6	–4
<b>Pensions costs recognised in the income statement</b>	<b>–42</b>	<b>–28</b>
Actuarial gains and losses recognised in the statement of comprehensive income	27	13
Return on plan assets greater than discount rate	2	–
<b>Total pension costs</b>	<b>–12</b>	<b>–16</b>

### Distribution of pension liabilities at 31 December

SEK million	2016	2015
Present value of unfunded pension obligations	–169	–138
Present value of funded and partially funded pension obligations	–429	–1
Funded plan assets	310	1
<b>Total pension liabilities</b>	<b>–288</b>	<b>–138</b>

**Changes in the present value of pension obligations during the year**

SEK million	2016	2015
Pension obligations 1 January	-138	-146
Business combinations	-448	-
Current service cost	-9	-5
Interest on pension provision	-9	-4
Actuarial gains and losses recognised in the statement of comprehensive income:		
– due to changes in financial assumptions	13	15
– due to changes in demographic assumptions	15	-
– due to experienced-based adjustments	1	-3
Benefits paid during the year	13	5
Translation differences	-34	-
<b>Pension obligations 31 December</b>	<b>-597</b>	<b>-138</b>

**Changes in the present value of plan assets during the year**

SEK million	2016	2015
Business combinations	293	-
Interest on plan assets	3	-
Return on plan assets greater than discount rate	2	-
Employer contributions	0	-
Benefits paid during the year	-8	-
Translation differences	19	-
<b>Plan assets 31 December</b>	<b>310</b>	<b>-</b>

**Net pension liabilities** **-288** **-138**

**Distribution of plan assets**

SEK million	2016	2015
Equity	204	-
Fixed income	101	-
Cash	3	-
<b>Total plan assets</b>	<b>310</b>	<b>-</b>

**Sensitivity analysis**

The sensitivity for the material assumption on applied discount rate is calculated as follows:

- a decrease in discount rate by 0.5 per cent increases pension obligation by 9.9 per cent in Sweden and by 5.8 per cent in the US
- an increase in discount rate by 0.5 per cent decreases pension obligation by 8.7 per cent in Sweden and by 5.3 per cent in the US

An increase or decrease in life expectancy by one year increases or decreases the pension obligation by 4.0 per cent in Sweden and by 3.7 per cent in the US.

The sensitivity analysis is based on a change in an individual actuarial assumption while other assumptions remain unchanged. This method shows the obligation's sensitivity to a single assumption. This is a simplified method, as actuarial assumptions are normally correlated.

Contributions to plans for post-employment remuneration are estimated at SEK 30 million for the financial year 2017.

**11 OTHER OPERATING EXPENSES**

SEK million	2016	2015
Energy expenses	-287	-254
Freight expenses	-199	-149
Repair and maintenance expenses	-200	-128
Consultants, legal advisors, temporary staff	-95	-56
Insurance	-36	-28
Rental/leasing	-26	-18
Vehicle operating expenses	-21	-14
Operating expenses for office equipment	-8	-8
Other	-284	-309
<b>Total other operating expenses</b>	<b>-1,155</b>	<b>-965</b>

**12 ITEMS AFFECTING COMPARABILITY**

SEK million	2016	2015
Mergers and Acquisition costs	-70	-
Realisation of fair value inventory step-up on acquired business	-48	-
Closure costs for US sales company	-10	-
Restructuring costs	-	-15
Insurance settlement	-	21
Write-down of machinery	-	-8
<b>Total items affecting comparability</b>	<b>-128</b>	<b>-3</b>

Items affecting comparability include non-recurring income and expenses. Disclosure is made to improve the comparability between different periods.

In 2016 Gränges conducted acquisition activities in North America to a total cost of SEK -70 million, and on 22 August 2016 the acquisition of Noranda Aluminum Holding Corporation's downstream aluminium rolling business in the US was completed. The acquired inventory was measured at fair value in accordance with IFRS. The realisation cost of the difference between the inventory valued at fair value and at cost, the so called step-up amounted to SEK -48 million and has been considered as an item affecting comparability for the year 2016.

Following the acquisition in US, Gränges will coordinate the distribution in North America through the new company Gränges Americas Inc. The costs for closing the current sales company, Norca Heat Transfer LLC, are estimated to SEK -10 million and is included in items affecting comparability.

For further information about the US acquisition, see note 29.

Items affecting comparability for 2015, mainly relates to a settlement amounting to SEK 21 million with Gränges' insurance company for an embezzlement of metal scrap performed by a former employee in Finspång. Additional item 2015 comprise of personnel reductions due to restructuring of the Swedish operation at a cost of SEK -15 million. During 2015 write down of machinery no longer used in the operation was done with SEK -8 million

**13 FINANCIAL INCOME AND COSTS**

SEK million	2016	2015
Interest income	5	5
Other interest income	0	0
<b>Total financial income</b>	<b>5</b>	<b>5</b>
Interest expense	-44	-14
Interest expense, pensions	-6	-4
Net foreign exchange losses	0	-1
Other financial expenses	-15	-6
<b>Total financial costs</b>	<b>-66</b>	<b>-24</b>
<b>Total financial income and costs</b>	<b>-61</b>	<b>-19</b>

Financial income in 2016 mainly consists of interest income from bank deposits in China. Financial expenses primarily refers to interest on borrowings. Other financial expenses mainly can be referred to costs for financing of the acquisition in the US.

**14 TAXES**

SEK million	2016	2015
<b>Tax expense</b>		
Profit before taxes	500	521
Current tax	-29	-153
Deferred tax	27	10
<b>Total tax</b>	<b>-2</b>	<b>-143</b>
Tax as % of profit before taxes	0	27

cont. Note 14

### Reconciliation of the Group's tax rate

The following table shows a reconciliation of reported tax and tax calculated on Swedish tax rate of 22 per cent. The main tax components are shown below.

SEK million	2016	2015
Earnings before tax multiplied by nominal tax rate in Sweden	-110	-115
Effect of foreign operations with tax rates other than 22 %	-8	-17
Profit/loss from joint ventures	1	1
Non-deductible expenses	-3	-1
Non-taxable income	2	2
Tax subsidies abroad	15	4
Other income tax paid abroad	-43	-19
Adjustment of tax in respect of prior years	3	2
Release on tax provision in China	139	-
<b>Total tax</b>	<b>-2</b>	<b>-143</b>

A positive tax effect of SEK 139 million has been reported for 2016 due to release of provision for current tax for previous years for Gränges's Chinese subsidiary. The subsidiary has during the year received a final

approval for being classified as a high technology company for the period 2013 to 2015. This means that Gränges is entitled to an income tax rate of 15 per cent in China instead of the ordinary 25 per cent for the three year period.

The company has applied for an additional three-year period, 2016–2018, being classified for as a High Technology Enterprise. However, in order to obtain the classification special requirements needs to be met and local authorities will subsequently review that Gränges has met these requirements. Since no pre-approval has been received and in view of the difficulties to currently estimate whether the special requirements will be met for the classification, income tax in the Chinese operation has been based on the ordinary tax of 25 per cent for 2016.

Income tax paid abroad mainly consists of paid income tax of SEK -38 million in China on dividends from the subsidiary in Shanghai to Gränges AB.

### DEFERRED TAX

Deferred tax consists of the Group's tax items, which are settled in the future. The table below specifies deferred tax assets and tax liabilities relating to temporary differences between the carrying amounts and tax bases of assets and liabilities.

The table shows the breakdown of the Group's deferred taxes.

### Deferred tax on temporary differences

SEK million	2016			2015		
	Deferred tax asset (+)	Deferred tax liability (-)	Net deferred tax	Deferred tax asset (+)	Deferred tax liability (-)	Net deferred tax
Property, plant and equipment	1	-56	-54	-	-47	-47
Intangible assets	-	-13	-13	-	-	-
Hedging reserve in equity	9	-	9	2	-1	1
Net pension provision	14	-14	0	10	-	10
Other non-current items	12	-	12	0	-	0
<b>Total non-current items</b>	<b>35</b>	<b>-82</b>	<b>-47</b>	<b>13</b>	<b>-48</b>	<b>-36</b>
Current receivables	8	-	8	11	-	11
Inventories	6	-	6	4	-	4
Other current items	52	-3	49	30	-4	26
<b>Total current items</b>	<b>66</b>	<b>-3</b>	<b>63</b>	<b>45</b>	<b>-4</b>	<b>41</b>
Tax losses	24	-	24	11	-	11
Set-off	-61	61	0	-14	14	0
<b>Net deferred tax assets (+) / liabilities (-)</b>	<b>64</b>	<b>-24</b>	<b>40</b>	<b>54</b>	<b>-37</b>	<b>17</b>

Deferred tax asset in respect of tax losses have been taken into account in full since the company is of the opinion that sufficient income will be generated in the future to be utilised against the tax losses.

### Change in deferred tax in the income statement

SEK million	2016	2015
Change in deferred tax in balance sheet	23	4
Change in deferred tax, hedging reserve in other comprehensive income	-7	6
Change in deferred tax, actuarial gains and losses on pensions in other comprehensive income	13	3
Translation effects in other comprehensive income	-2	-3
<b>Change in deferred tax in the income statement</b>	<b>27</b>	<b>10</b>

## 15 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the year by the weighted average number of outstanding shares. For further information of Gränges shares see Note 27 Share capital.

	2016	2015
Profit for the year (SEK million)	498	379
Weighted average number of outstanding shares, basic	74,703,886	74,639,386
Weighted average number of outstanding shares, diluted	74,913,949	74,728,482
<b>Earnings per share, basic, SEK</b>	<b>6.66</b>	<b>5.07</b>
<b>Earnings per share, diluted, SEK</b>	<b>6.64</b>	<b>5.07</b>

In connection with the stock market listing of Gränges an employee stock option programme for senior executives and key individuals of the company was introduced (for more information, see Note 8 Payroll expenses). The employee stock option programme has resulted in a dilution effect of 210,063 (89,096) shares.

## 16 INTANGIBLE ASSETS

SEK million	IT	Goodwill	Customer relationships	Total	SEK million	IT	Goodwill	Customer relationships	Total
<b>Carrying amount, 1 January 2016</b>	<b>3</b>	<b>6</b>	<b>–</b>	<b>9</b>	<b>Carrying amount, 1 January 2015</b>	<b>6</b>	<b>5</b>	<b>–</b>	<b>11</b>
Acquisitions	16	–	–	16	Acquisitions	–	–	–	–
Business combinations	–	331	196	527	Business combinations	–	–	–	–
Amortisation	–2	–	–3	–6	Amortisation	–3	–	–	–3
Translation differences	–	22	14	37	Translation differences	–	0	–	0
<b>Carrying amount, 31 December 2016</b>	<b>17</b>	<b>359</b>	<b>207</b>	<b>584</b>	<b>Carrying amount, 31 December 2015</b>	<b>3</b>	<b>6</b>	<b>–</b>	<b>9</b>
<b>Cost, 31 December 2016</b>	<b>42</b>	<b>359</b>	<b>210</b>	<b>612</b>	<b>Cost, 31 December 2015</b>	<b>26</b>	<b>6</b>	<b>–</b>	<b>32</b>
Accumulated amortisation and impairment	–25	–	–3	–29	Accumulated amortisation and impairment	–23	–	–	–23
<b>Carrying amount, 31 December 2016</b>	<b>17</b>	<b>359</b>	<b>207</b>	<b>584</b>	<b>Carrying amount, 31 December 2015</b>	<b>3</b>	<b>6</b>	<b>–</b>	<b>9</b>

### Impairment testing

For the purpose of impairment testing, assets are identified at the lowest levels for which there are separately identifiable cash flows (Cash Generating Unit), that is within Gränges per country. Impairment tests for goodwill are carried out yearly or throughout the year if an event occurs that may result in an impairment requirement.

### Goodwill

The goodwill primary arose in conjunction with the US acquisition (see note 29 for further information) at 22 August 2016. The process of determining values of acquired assets and liabilities has been ongoing throughout the fall and the purchase price allocation per 31 December 2016 is still preliminary. No events subsequent to the business combination which indicate impairment for the allocated values of acquired assets and liabilities have occurred.

### Customer relationships

The customer relationships arose in conjunction with the US acquisition at 22 August 2016. The acquired business has a number of large customers that they have had long relationships with. The customer relationships are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line bases over their estimated useful lives of 20 years.

### Other

IT mainly refers to implementation of a new ERP system within the Group.

The Group expensed SEK 73 million (57) during 2016 for research and development.

## 17 PROPERTY, PLANT AND EQUIPMENT

SEK million	Land, land improvements and buildings <sup>1)</sup>	Machinery and equipment	Fixed assets under construction	Fixtures, vehicles, etc.	Total
<b>Carrying amount, 1 January 2016</b>	<b>451</b>	<b>1,071</b>	<b>105</b>	<b>42</b>	<b>1,669</b>
Acquisitions	0	39	87	12	139
Business combinations	261	1,392	13	7	1,673
Sales	–	–	–	–	–
Transferred assets, fixed assets under construction	12	34	–47	0	0
Impairment	–	–1	–	–	–1
Depreciation	–31	–212	–	–15	–258
Translation differences	19	104	1	1	125
<b>Carrying amount, 31 December 2016</b>	<b>713</b>	<b>2,428</b>	<b>159</b>	<b>46</b>	<b>3,347</b>
<b>Cost, 31 December 2016</b>	<b>1,041</b>	<b>4,479</b>	<b>159</b>	<b>192</b>	<b>5,871</b>
Accumulated depreciation and impairment	–329	–2,050	–	–145	–2,524
<b>Carrying amount, 31 December 2016</b>	<b>713</b>	<b>2,428</b>	<b>159</b>	<b>46</b>	<b>3,347</b>
<b>Carrying amount, 1 January 2015</b>	<b>463</b>	<b>1,065</b>	<b>144</b>	<b>41</b>	<b>1,713</b>
Acquisitions	12	79	31	12	134
Sales	–1	–1	–	–	–2
Transferred assets, fixed assets under construction	–5	75	–75	5	0
Impairment	–	–8	–	–	–8
Depreciation	–27	–162	–	–16	–205
Translation differences	9	24	5	0	37
<b>Carrying amount, 31 December 2015</b>	<b>451</b>	<b>1,071</b>	<b>105</b>	<b>42</b>	<b>1,669</b>
<b>Cost, 31 December 2015</b>	<b>749</b>	<b>2,910</b>	<b>105</b>	<b>173</b>	<b>3,937</b>
Accumulated depreciation and impairment	–298	–1,838	–	–130	–2,266
<b>Carrying amount, 31 December 2015</b>	<b>451</b>	<b>1,071</b>	<b>105</b>	<b>42</b>	<b>1,669</b>

1) The carrying amount relating to land was less than SEK 1 million in all presented periods.

For information on lease costs regarding leased property, plant and equipment, see Note 28.

For information on collateral and mortgages related to property, plant and equipment, see Note 30.

## 18 INVENTORIES

SEK million	2016	2015
Raw materials	407	339
Work in progress	510	242
Finished goods and merchandise	532	323
Provision for obsolescence	-22	-16
<b>Total inventories</b>	<b>1,428</b>	<b>888</b>

Inventories are measured at the lower of cost and fair value after deduction of selling costs.

## 19 OVERVIEW OF FINANCIAL INSTRUMENTS

2016 SEK million	Note	Measurement level	Financial instruments at fair value through profit or loss	Derivatives included in hedge accounting	Financial liabilities measured at amortised cost	Loans and receivables	Total	Of which interest- bearing
<i>Non-current assets</i>								
Non-current financial receivables	24, 31	-	-	-	-	36	36	36
Non-current derivatives	26	2	-	1	-	-	1	-
<b>Total</b>			<b>-</b>	<b>1</b>	<b>-</b>	<b>36</b>	<b>37</b>	<b>36</b>
<i>Current assets</i>								
Accounts receivable	20	-	-	-	-	1,392	1,392	-
Other current receivables	20	-	-	-	-	103	103	-
Current derivatives	20, 24, 26	2	27	4	-	-	31	2
Cash and cash equivalents	21	-	-	-	-	851	851	851
<b>Total</b>			<b>27</b>	<b>4</b>	<b>-</b>	<b>2,346</b>	<b>2,377</b>	<b>853</b>
<i>Non-current liabilities</i>								
Non-current financial liabilities	24	-	-	-	2,888	-	2,888	2,888
Non-current derivatives	26	2	-	8	-	-	8	-
<b>Total</b>			<b>-</b>	<b>8</b>	<b>2,888</b>	<b>-</b>	<b>2,895</b>	<b>2,888</b>
<i>Current liabilities</i>								
Current financial liabilities	24	-	-	-	433	-	433	433
Accounts payable	22	-	-	-	832	-	832	-
Other current liabilities	22	-	-	-	44	-	44	-
Current derivatives	22, 24, 26	2	56	35	-	-	91	3
<b>Total</b>			<b>56</b>	<b>35</b>	<b>1,309</b>	<b>-</b>	<b>1,400</b>	<b>436</b>
<b>Total financial instruments (receivables + / liabilities -)</b>			<b>-29</b>	<b>-38</b>	<b>-4,197</b>	<b>2,382</b>	<b>1,881</b>	<b>-2,434</b>

2015 SEK million	Note	Measurement level	Financial instruments at fair value through profit or loss	Derivatives included in hedge accounting	Financial liabilities measured at amortised cost	Loans and receivables	Total	Of which interest- bearing
<i>Non-current assets</i>								
Non-current financial receivables	24, 31	–	–	–	–	34	34	34
Non-current derivatives	26	2	–	4	–	–	4	–
<b>Total</b>			<b>–</b>	<b>4</b>	<b>–</b>	<b>34</b>	<b>38</b>	<b>34</b>
<i>Current assets</i>								
Accounts receivable	20	–	–	–	–	870	870	–
Other current receivables	20	–	–	–	–	106	106	–
Current derivatives	20, 26	2	30	12	–	–	42	0
Cash and cash equivalents	21	–	–	–	–	634	634	634
<b>Total</b>			<b>30</b>	<b>12</b>	<b>–</b>	<b>1,610</b>	<b>1,652</b>	<b>634</b>
<i>Non-current liabilities</i>								
Non-current financial liabilities	24	–	–	–	804	–	804	804
Non-current derivatives	26	2	–	1	–	–	1	–
<b>Total</b>			<b>–</b>	<b>1</b>	<b>804</b>	<b>–</b>	<b>805</b>	<b>804</b>
<i>Current liabilities</i>								
Current financial liabilities	24	–	–	–	–	–	–	–
Accounts payable	22	–	–	–	443	–	443	–
Other current liabilities	22	–	–	–	13	–	13	–
Current derivatives	22, 26	2	31	20	–	–	51	0
<b>Total</b>			<b>31</b>	<b>20</b>	<b>456</b>	<b>–</b>	<b>507</b>	<b>0</b>
<b>Total financial instruments (receivables + / liabilities –)</b>			<b>–1</b>	<b>–5</b>	<b>–1,260</b>	<b>1,644</b>	<b>378</b>	<b>–136</b>

### MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy to determine the fair values of financial instruments:

- Level 1: Quoted, unadjusted prices in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the instrument.
- Level 3: Non-observable inputs that have significant impact on the fair value of the instrument.

### Currency forwards

Fair value of currency forward contracts is calculated by discounting the difference between the contracted forward rate and the forward rate that can be contracted on the balance sheet date for the remaining contract period.

### Aluminium futures

Aluminium futures are measured at observable quoted prices on LME (London Metal Exchange) and SHFE (Shanghai Futures Exchange) for similar assets and liabilities.

### Interest-bearing receivables and liabilities

The fair value of interest-bearing assets and liabilities is provided for disclosure purposes and is estimated by discounting the future cash flows of principal and interest discounted at the current market rate. In the fair value measurement of borrowings the credit spread has remained constant unless there is clear evidence that a change in the Group's creditworthiness has resulted in an observable change in the credit spread. The fair value of borrowings amounted in 2016 to SEK 3,339 million (810).

### Other receivables and liabilities

For other receivables and liabilities, which are short-term, the carrying amount is considered to reflect the fair value.

No transfers from one level to another in the valuation hierarchy were made in 2016 and 2015.

## 20 CURRENT RECEIVABLES

SEK million	2016	2015
Accounts receivable	1,392	870
Derivatives	31	42
Other current receivables	103	106
<b>Total financial receivables</b>	<b>1,526</b>	<b>1,018</b>
Advances to suppliers/accrued income	33	22
Tax receivables	41	39
<b>Total current receivables</b>	<b>1,600</b>	<b>1,080</b>

### Change in provisions for bad debts

SEK million	2016	2015
Provisions for bad debts, 1 January	-46	-37
Bad debts recognised in income statement	15	-13
Used during the year	-1	5
Translation differences	0	-1
<b>Provisions for bad debts, 31 December</b>	<b>-32</b>	<b>-46</b>

### Accounts receivables maturity structure

SEK million	2016	2015
Not yet due	1,114	616
Overdue 1-30 days	121	144
Overdue 31-60 days	63	48
Overdue 61-90 days	45	32
Overdue more than 90 days	80	76
<b>Accounts receivable, carrying amount 31 December</b>	<b>1,423</b>	<b>916</b>

The maturity structure of overdue receivables has been relatively stable over time and reflects the fact that Gränges operates in certain regions and markets where payments from customers are generally somewhat slow. Overdue accounts receivable are allocated across the whole customer base.

Bad debts have historically been relatively small and stable. Five customers accounted for 34 per cent of total outstanding accounts receivable at 31 December 2016 (five customers accounted for 25 per cent of the total in 2015).

A more detailed description of the customer base is given in Note 4 (under section Segments) and in Note 7.

## 21 CASH AND CASH EQUIVALENTS

SEK million	2016	2015
Cash and bank balances	851	634
<b>Total cash and cash equivalents</b>	<b>851</b>	<b>634</b>

## 22 OTHER CURRENT LIABILITIES

SEK million	2016	2015
Accounts payable	832	443
Derivatives	88	51
Non-interest-bearing liabilities	44	13
<b>Total non-interest-bearing financial liabilities</b>	<b>964</b>	<b>507</b>
Value-added tax, employee withholding tax etc.	37	29
Accrued expenses	113	85
Employee-related liabilities	186	91
Other current liabilities	29	17
<b>Total other current liabilities</b>	<b>1,329</b>	<b>728</b>

## 23 CAPITAL MANAGEMENT

Gränges' capital management is governed by principles adopted by the Board of Directors. The capital structure is also adapted to legal and tax considerations. The company's financial objective for capital management is a net debt of one to two times EBITDA over the past twelve months. A further description of Gränges' management of financing is given in Notes 24 and 25. Gränges does not currently have an official credit rating.

SEK million	2016	2015
Total interest-bearing liabilities	3,324	804
Total interest-bearing receivables	38	34
Cash and cash equivalents	851	634
<b>Net interest-bearing liabilities</b>	<b>2,434</b>	<b>137</b>
Provision for pensions	288	138
Net debt	2,722	275
Adjusted EBITDA	1,274	749
<b>Net debt/Adjusted EBITDA</b>	<b>2.1</b>	<b>0.4</b>

Adjusted EBITDA for 2016 includes estimated adjusted EBITDA for the acquired business in the US as if part of the Gränges group for the full year.

## 24 FINANCING AND INTEREST-BEARING LIABILITIES

### FINANCING

Gränges' interest bearing debt consists mainly of a USD term loan of USD 210 million and SEK term loans of SEK 900 million. The duration of the interest bearing debt portfolio was approximately two months at 31 December 2016. Gränges also have a revolving credit facility of SEK 1,200 million, available in several currencies. Gränges has the right to choose among maturities and fixed interest terms of one, two, three or six months. At 31 December 2016 SEK 470 million (810) had been drawn with an average fixed interest term of one month. The loan facilities are subject to covenants, which are Net Debt/EBITDA and Interest coverage ratio. The covenants were fulfilled at 31 December 2016.

SEK million	Carrying amount	
	2016	2015
<i>Non-current interest-bearing liabilities</i>		
Interest-bearing loans	2,888	804
<b>Total non-current interest-bearing liabilities</b>	<b>2,888</b>	<b>804</b>
<i>Current interest-bearing liabilities</i>		
Interest-bearing loans	433	-
Interest-bearing derivatives	3	0
<b>Total current interest-bearing liabilities</b>	<b>436</b>	<b>0</b>
<b>Total interest-bearing liabilities</b>	<b>3,324</b>	<b>804</b>
<i>Interest-bearing receivables</i>		
Non-current interest-bearing receivables	36	34
Current interest-bearing derivatives	2	-
Cash and cash equivalents	851	634
<b>Total interest-bearing receivables</b>	<b>889</b>	<b>667</b>
<b>Net interest-bearing liabilities</b>	<b>2,434</b>	<b>137</b>

Under the current loan agreements Gränges has entered into customary undertakings not to pledge assets or in a similar manner use its property to give creditors a better right than the banks providing the credit facilities.

## 25 FINANCIAL RISK

### FINANCIAL RISK MANAGEMENT

Gränges operates on a global basis and is exposed to financial risks such as market risk in the form of currency risk, commodity price risk and interest rate risk, and also to liquidity risk and credit risk. Gränges uses derivatives and other financial instruments to reduce the risks in accordance with the Group's financial policy.

Some of Gränges treasury department's most important tasks are to secure the Group's short- and long-term financial flexibility and to monitor and manage financial risks in cooperation with the operating companies.

Financial risk refers to risk pertaining to financial instruments. These can either be hedging instruments for the underlying risk or be viewed as a source of risk in themselves. Gränges manages financial risks in a non-speculative manner, which means that all transactions in financial instruments are adapted to limit financial risks in the operations.

### CURRENCY RISK

#### Transaction exposure

Gränges conducts operations globally and is thereby exposed to currency risk. The main exposure derives from the Group's sales and purchases in different currencies. The currency risks consist partly of the risk of fluctuations in the value of financial instruments, i.e. debt instruments, accounts receivable and accounts payable, and partly of the currency risk in expected and contracted payment flows. In 2016, sales to countries outside Sweden accounted for 98 per cent (97) of Gränges' total sales volume while net revenues in foreign currencies totalled SEK 6,942 million (5,268). The largest currencies were USD, CNY and EUR.

The selling price for Gränges' products is divided into a metal price component for the raw aluminium and a conversion price component covering Gränges' processing costs and margin. The cost of the aluminium is passed on to the customer through metal price clauses. The aluminium price is generally set in connection with delivery. As both purchase and selling price for the metal component in general are based on the London Metal Exchange (LME) price for aluminium, which is expressed in US dollars, no material currency exposures arise on the metal price component. Unlike the metal price, the conversion price is subject to contracts covering a longer period of time, thus creating a greater currency risk.

The largest portion of Gränges' cost base for processing is in USD, CNY and SEK while the conversion price is set primarily in USD, CNY and EUR. The Group's sensitivity to exchange rate fluctuations before currency hedges, i.e. excluding the impact of currency derivatives, is shown in the table below.

2016	Change, %	Effect on operating profit, SEK million
USD/CNY	±10%	±78
USD/SEK	±10%	±26
EUR/SEK	±10%	±56

The transaction risk is hedged according to the financial policy. The objective for Gränges' currency hedging activities, is to minimize the exposure to rapid changes in currency rates in the short and medium term by hedging a carefully considered portion of the Group's foreign currency exposure. Exposures relating to customer orders without firm commitments are hedged up to 24 months out in time based on a rolling forecast in which a portion of the forecast currency exposure is hedged. In 2016, 50–70 per cent of the forecast currency exposure of the coming 12 months was hedged.

The Group's total outstanding currency hedges of future transactions at the balance sheet date are shown in the tables below.

#### Currency contracts linked to hedging of future income and expenses<sup>1)</sup>

31 Dec 2016 Maturity	EUR/SEK		USD/SEK		USD/CNY	
	Sold volumes, EUR million net	Price	Sold volumes, USD million net	Price	Sold volumes, USD million net	Price
Q1 2017	21	9.41	14	8.57	20	6.72
Q2 2017	18	9.45	9	8.63	17	6.71
Q3 2017	13	9.39	5	8.31	12	6.73
Q4 2017	10	9.52	5	8.46	9	6.73
FY 2018	17	9.50	7	8.44	10	6.83
<b>Total</b>	<b>79</b>	<b>9.45</b>	<b>41</b>	<b>8.51</b>	<b>67</b>	<b>6.74</b>
31 Dec 2015						
Q1–4 2016 and Q1 2017	87	9.33	30	8.29	79	6.44

#### Metal related currency contracts linked to hedging of future income and expenses<sup>1)</sup>

31 Dec 2016 Maturity	EUR/SEK		USD/SEK		USD/CNY	
	Sold volumes, EUR million net	Price	Sold volumes, USD million net	Price	Sold volumes, USD million net	Price
Q1–2 2017	–3	9.61	26	8.55	9	6.72
31 Dec 2015						
Q1–2 2016	–1	8.28	27	8.35	6	6.41

<sup>1)</sup> In currency pairs where the net hedged position exceeds SEK 20 million.

cont. Note 25

Gränges applies hedge accounting for most hedges of future transactions, either cash flow hedges or fair value hedges of firm commitments. The various types of hedging are described in Note 26.

#### Translation exposure

As SEK is the presentation currency for the Group, Gränges is exposed to currency risk upon translation of net investments in foreign operations. This refers mainly to CNY and USD, for which the translation exposure was SEK 2,755 million (2,241) at 31 December 2015. Gränges does not hedge this exposure.

#### COMMODITY PRICE RISK

Aluminium is traded mainly on the London Metal Exchange (LME) but also on the Shanghai Futures Exchange (SHFE). For Gränges, prices of metal purchases are influenced by fluctuations in the market price of aluminium on LME and SHFE. The guiding principle is that Gränges should, where possible, avoid exposures to changes in the LME price or other benchmark prices, such as the SHFE price. Gränges reduces this risk primarily by linking prices from metal suppliers to the prices it offers its customers. In addition, futures contracts for aluminium on LME and SHFE are concluded subject to defined limits in order to reduce the price risk in connection with orders and the value of unsold metal in stock.

Gränges normally has a certain level of stock for which the price to the customers has not been fixed. The part of the stock where the price has not been fixed with the customers are hedged using financial instruments. At 31 December 2016 Gränges had sold a net 15,875 tonnes (15,800) of aluminium for hedging on LME and 7,000 tonnes (7,500) for hedging on SHFE.

#### INTEREST RATE RISK

Gränges' interest rate risk is primarily related to the Group's interest-bearing liabilities and assets. Gränges' primary sources of funding allows for borrowing with interest terms of one, two, three or six months. The average maturity at 31 December 2016 was two months (two months). Gränges' loans have variable interest rates. The interest rate risk was not hedged with financial instruments during 2016.

#### LIQUIDITY RISK

Liquidity risk is the risk that Gränges will be unable to fulfil its payment obligations. Gränges financial policy stipulates measures that to ensure adequate liquidity in the Group. Cash flow from operating activities is managed centrally in the Gränges Group and Gränges monitors short and long-term liquidity flows through reporting.

The table below shows the maturity structure for the Gränges Group's contractual financial liabilities. The amounts refer to non-discounted future cash flows and may therefore differ from the recognised figures. All variable interest cash flows have been calculated at the rate prevailing on the balance sheet date and all future cash flows in foreign currency are translated to SEK using the closing rate at year-end. The table also includes derivatives which are recognised as assets at the balance sheet date, as derivatives can include both positive and negative cash flows, and the fair value varies over time. Financial liabilities are managed using operating cash flow, liquid and interest-bearing assets and, where necessary, undrawn credit facilities.

2016 SEK million	Carrying amount	Contractual cash flows	< 1 year	1–2 years	3–4 years	> 4 years
Other interest-bearing liabilities	3,321	3,652	535	918	2,200	–
Accounts payable	832	832	832	–	–	–
Other current liabilities	44	44	44	–	–	–
Net-settled derivatives <sup>1)</sup> – aluminium derivatives	0	–	–	–	–	–
Inflow	–	–15	–15	–	–	–
Outflow	–	15	15	–	–	–
Gross-settled derivatives <sup>1)</sup> – currency derivatives	66	–	–	–	–	–
Inflow	–	–3,356	–3,045	–311	–	–
Outflow	–	3,423	3,105	318	–	–
<b>Total</b>	<b>4,263</b>	<b>4,595</b>	<b>1,470</b>	<b>924</b>	<b>2,200</b>	<b>–</b>

2015 SEK million	Carrying amount	Contractual cash flows	< 1 year	1–2 years	3–4 years	> 4 years
Other interest-bearing liabilities	804	849	11	21	817	–
Accounts payable	443	443	443	–	–	–
Other current liabilities	13	13	13	–	–	–
Net-settled derivatives <sup>1)</sup> – aluminium derivatives	4	–	–	–	–	–
Inflow	–	–13	–13	–	–	–
Outflow	–	17	17	–	–	–
Gross-settled derivatives <sup>1)</sup> – currency derivatives	2	–	–	–	–	–
Inflow	–	–2,979	–2,815	–164	–	–
Outflow	–	2,977	2,813	164	–	–
<b>Total</b>	<b>1,266</b>	<b>1,307</b>	<b>469</b>	<b>21</b>	<b>817</b>	<b>–</b>

1) Including derivatives recognised as assets.

**CREDIT RISK**

The management of credit risks related to accounts receivable and other current assets is handled as part of the commercial risk and monitored continuously by the operating units. Gränges customers are also spread over various countries and geographic markets. Credit losses have historically been low due to the relatively strong financial position of Gränges' customers as well as strict credit procedures. Gränges' credit risks related to other financial instruments are managed by choosing counterparties with a good credit rating and by minimising the risk per counterparty. Gränges also enters into customary agreements with financial counterparties, as for example ISDA-agreements.

**SENSITIVITY ANALYSIS**

Financial instruments in the Gränges Group are exposed to different types of market risk which can affect the income statement or equity. Financial instruments, especially derivatives, are used as a means of hedging financial and operational exposures.

The table below shows a partial analysis of the sensitivity of financial instruments, where the isolated effect of each type of risk on the income statement and other comprehensive income is calculated. This is done on the basis of a chosen hypothetical change in market prices or prices in the balance sheet at 31 December. In accordance with IFRS, the analysis only covers financial instruments and is not intended to provide a full overview of the Group's market risk, for example:

- For currency hedges of concluded contracts changes in the fair value of the hedging instrument will affect the income statement while changes in the fair value of the underlying hedged contract that is offset by the hedging instrument will not be shown, as this is not a financial instrument.
- If one of the parameters changes the analysis will not take account of any correlations with other parameters.
- Financial instruments issued in the functional currency of individual units do not create a currency risk and are therefore not included in this analysis. For the same reason the currency exposure is not included upon translation of such financial instruments into the presentation currency.

Generally, the effect on the income statement and other comprehensive income of financial instruments shown in the table below is expected to offset the effects of the hedged items in cases where the financial instruments are included in a hedging relationship.

Accounting effects of changes in market risk are classified to the income statement and other comprehensive income depending on where the effect of changes in fair value should be recognised initially. Effects which are accounted for in the income statement also affect other comprehensive income in addition to the figures presented in the table.

SEK million	Accounting before tax effects on			
	Income statement		Other comprehensive income	
	2016	2015	2016	2015
Interest rate risk: 100 bp parallel shift in yield curves, all currencies	-/+25	-/+2	-	-
Currency risk: +/- 10 % change in FX rate, USD/SEK	-/+2	-/+2	-/+28	-/+21
Currency risk: +/- 10 % change in FX rate, EUR/SEK	-/+3	-/+6	-/+60	-/+60
Currency risk: +/- 10 % change in FX rate, CNY/USD	0	0	-/+47	-/+52
Price risk: +/- 20 % change in LME prices	-/+81	-/+76	+/-9	+/-13

## 26 DERIVATIVES AND HEDGING

The table below shows the fair value of all outstanding derivatives grouped by their treatment in the financial statements.

### Derivatives and hedging

SEK million	2016		2015	
	Assets (+)	Liabilities (-)	Assets (+)	Liabilities (-)
<b>Cash flow hedges</b>				
Currency forwards, currency swaps	4	-43	16	-18
Aluminium futures	1	0	0	-4
<b>Total</b>	<b>5</b>	<b>-43</b>	<b>16</b>	<b>-21</b>
<b>Fair value hedges</b>				
Currency forwards, currency swaps	4	-17	5	-4
Aluminium futures	12	-14	13	-12
<b>Total</b>	<b>15</b>	<b>-31</b>	<b>17</b>	<b>-16</b>
<b>Other derivatives – changes in fair value recognised in income statement</b>				
Currency forwards, currency swaps	11	-24	13	-13
Aluminium futures	1	0	-	-1
<b>Total</b>	<b>12</b>	<b>-24</b>	<b>13</b>	<b>-14</b>
<b>Total derivatives</b>	<b>32</b>	<b>-99</b>	<b>47</b>	<b>-52</b>

### CASH FLOW HEDGES

Gränges' purchases of futures contracts for aluminium on LME as well as currency forwards are identified as hedging instruments in cash flow hedges. All derivatives are classified as hedging instruments in cash flow hedges accounted for at fair value in the balance sheet. Changes in fair value are recognised in other comprehensive income and accumulated in the hedging reserve in equity and reclassified to the income statement when the hedged cash flows are recognised in the income statement.

No gain or loss has been recognised in the income statement as a result of ineffective hedging in 2016 and 2015. All expected cash flows that were hedged in 2016 still qualify for hedge accounting.

### Change in hedging reserve

SEK million	2016	2015
<b>Opening hedging reserve before tax</b>	<b>-5</b>	<b>-32</b>
Reclassified to income statement	8	32
Change in value during the year	-41	-5
<b>Closing hedging reserve before tax</b>	<b>-38</b>	<b>-5</b>
Deferred tax, hedging reserve	9	1
<b>Closing hedging reserve after tax</b>	<b>-29</b>	<b>-3</b>

A negative hedging reserve will result in negative figures in the income statement in the future. Accumulated hedging gains and losses from cash flow hedges which were recognised in the hedging reserve as at 31 December 2016 and are expected to be recognised in the income statement (before tax) are SEK -31 million for 2017 and SEK -7 million after 2017.

### FAIR VALUE HEDGING

Gränges sells aluminium futures contracts to hedge the value of inventory. Where there is also a currency risk exposure related currency derivatives are entered into. Metal and currency derivatives are then together designated as hedging instrument in fair value hedges. Gains and losses on hedged items as well as the hedging instrument are accounted for as currency gains and losses in the income statement and the value of inventory is adjusted by changes in the fair value of the hedged risk. Losses on the hedging instrument amounted to SEK -17 million in 2016 (-7) and gains on the hedged item attributable to the hedged risk amounted to SEK 17 million in 2016 (7).

### OFFSETTING

Financial assets and liabilities subject to an enforceable master netting arrangement or similar agreement relate only to the Group's derivatives. Gränges has entered into ISDA-agreements with relevant financial counterparties.

SEK million	Gross amounts	Offset	Net amounts in balance sheet	Derivatives not intended to be settled net	Collaterals received/pledged	Net amounts
<b>2016</b>						
Derivative assets	32	-	32	26	-	6
Derivative liabilities	-99	-	-99	-26	-	-72
<b>2015</b>						
Derivative assets	47	-	47	30	-	17
Derivative liabilities	-52	-	-52	-30	-	-23

## 27 SHARE CAPITAL

SEK million	Event	No. of shares	Share capital	Other contributed capital	Total
<b>31 December 2014</b>	–	<b>74,639,386</b>	<b>100</b>	–	<b>100</b>
<b>31 December 2015</b>	–	<b>74,639,386</b>	<b>100</b>	–	<b>100</b>
18 November 2016	Rights issue	516,000	1	33	34
<b>31 December 2016</b>	–	<b>75,155,386</b>	<b>101</b>	<b>33</b>	<b>134</b>

The articles of association for Gränges AB state that the share capital shall be not less than SEK 80,000,000 and not more than SEK 320,000,000. The number of shares shall be not less than 32,000,000 and not more than 128,000,000.

Due to the exercise of 516,000 options within the group's incentive program LTI 2014 (see note 8 for more information) new shares have been issued during the year. Equity has in total increased by

SEK 34 million and number of shares with 516,000 due to the rights issued.

The share capital in Gränges at 31 December 2016 amounts to SEK 101 million, divided into 75,155,386 shares, each with a quota value of SEK 1.339775. The share capital comprises a single class of share.

For earnings per share and dilutive effect see Note 15 Earnings per share.

## 28 LEASING

The reported expenses relating to operating leases reflect the minimum lease payment during the period of notice. Gränges has no significant financial leases.

### Operating leases – lessees

Leased property, plant and equipment

SEK million	Land and buildings		Machinery and equipment		Fixtures and vehicles		Other assets		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Costs, current year	–6	–2	–2	–	–17	–16	–	–	–26	–18
Costs, next year	–6	–2	–7	–	–14	–10	–	–	–27	–12
Total costs, 2–5 years	–19	–6	–19	–	–26	–5	–	–	–64	–11
Total costs after 5 years	–9	–6	–5	–	–4	–	–	–	–17	–6
<b>Total future lease costs</b>	<b>–34</b>	<b>–14</b>	<b>–31</b>	<b>–</b>	<b>–44</b>	<b>–15</b>	<b>–</b>	<b>–</b>	<b>–108</b>	<b>–29</b>

### Operating leases – lessor

Leased property, plant and equipment

SEK million	Land and buildings		Machinery and equipment		Fixtures and vehicles		Other assets		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Income, current year	29	20	–	–	–	–	–	–	29	20
Income, next year	29	21	–	–	–	–	–	–	29	21
Total income, 2–5 years	62	55	–	–	–	–	–	–	62	55
Total income after 5 years	0	0	–	–	–	–	–	–	0	0
<b>Total future lease income</b>	<b>91</b>	<b>75</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>91</b>	<b>75</b>

Gränges lets industrial premises in Finspång, Sweden.

## 29 ACQUISITION

On August 22, 2016 Gränges successfully completed the acquisition of Noranda Aluminum Holding Corporation's downstream aluminium rolling business in the US. The acquisition is in line with Gränges goal to be a global supplier with a more balanced footprint by firmly establishing the company in North America and as US market leader in the strategic stationary heat exchanger market. In addition, the acquisition expands Gränges' offering into attractive adjacent aluminium rolled product areas. Through the transaction, Gränges more than doubled the sales volume and the significantly strengthened business is a very good basis for continued profitable growth.

The transaction is an asset deal conducted by Gränges Americas Inc, a wholly owned subsidiary to Gränges AB. The acquired business is consolidated from 22 August, 2016. The preliminary acquisition balance is presented below.

### Preliminary purchase price allocation

	USD million	SEK million
Property, plant and equipment	197	1,673
Intangible assets	23	196
Other non-current receivables	2	14
Inventories	52	437
Receivables	40	337
Provision and other liabilities	-18	-155
Other liabilities	-30	-253
<b>Net identifiable assets and liabilities</b>	<b>265</b>	<b>2,250</b>
Goodwill	39	331
<b>Cash consideration</b>	<b>305</b>	<b>2,581</b>
<b>Cash consideration paid for acquisition</b>	<b>-305</b>	<b>-2,581</b>
Cash and Cash equivalents in acquired operation	-	-
<b>Effect on the Group's cash and cash equivalents</b>	<b>-305</b>	<b>-2,581</b>

The purchase price allocation is preliminary and can be subject for change if additional information of fair value is obtained.

Gross amounts for acquired receivables do not significantly deviate from the book value.

Goodwill is mainly justified by market access into Americas and synergies from shared distribution in North America for the Gränges group companies. The goodwill is tax deductible in the acquiring legal entity.

Contingent liabilities of SEK 7 million related to a guarantee for worker's compensation have been added in connection with the acquisition.

The effect of the acquisition on the Group's consolidated income statement for 22 August to 31 December 2016 is presented below.

SEK million	22 Aug- 31 Dec 2016
<b>Net Sales</b>	<b>1 577</b>
Cost of materials	-1 032
Payroll and other operating expenses	-394
Depreciation and amortisation	-63
Items affecting comparability	-89
<b>Operating profit</b>	<b>-2</b>

Items affecting comparability consists of realisation of step-up value on the inventories due to fair value measurement of SEK -48 MSEK and M&A costs of SEK -41 million.

Transaction costs for the acquisition has affected the Group's consolidated income statement for 2016 with SEK -58 million.

If the acquisition had been consolidated as from 1 January 2016, it is assessed that the Group's consolidated income statement for the full year would have been presented as below.

SEK million	2016
<b>Net sales</b>	<b>9 965</b>
Cost of materials	-6 053
Payroll and other operating expenses	-2 669
Depreciation and amortisation	-398
Items affecting comparability	-128
<b>Operating profit</b>	<b>718</b>
Profit from joint ventures	2
Finance income and costs	-117
<b>Profit before taxes</b>	<b>603</b>
Income Tax	-38
<b>Profit for the period</b>	<b>565</b>

In the consolidated income statement above, the acquired business in the US has been included based on the assessed cost structure of the operations as a part of the Gränges Group. Finance income and costs includes estimated financing costs for the period calculated based on the Group's interest rate levels and financing structure as per 30 September 2016.

## 30 PLEDGED ASSETS, GUARANTEES AND CONTINGENT LIABILITIES

### Pledged assets

SEK million	2016	2015
Property mortgages	15	15
Own liabilities covered by property mortgages	1	1

### Contingent liabilities

SEK million	2016	2015
Guarantee commitment PRI Pensionsgaranti	2	2
Guarantee for worker's compensation	7	-

Gränges has, in connection with signing the credit facilities described in Note 24, has entered into a customary undertaking to not pledge assets or in a similar manner use its property to give creditors a better right than the banks that are providing the credit facilities.

### Disputes

From time to time disputes with counterparties arise in the ongoing operations. The Group regularly makes assessments and provisions if necessary in the accounts. Currently, the Group is not involved in any major litigation that is expected to substantially affect the accounts negatively.

### Environmental issues

The Group has conducted industrial production for a long time at facilities in Finspång, Västerås and Upplands Väsby. In light of the public review of potentially polluted areas in Sweden that is being conducted by the Swedish Environmental Protection Agency and country administrative boards, Gränges may be involved in reviews and investigations relating to facilities where industrial production has historically taken place. For instance, industrial production has been conducted by various operators at Gränges' facility in Finspång since the 16th century. There are currently no ongoing cases relating to responsibility in this respect.

### Joint venture Norca

Gränges has a contractual undertaking to the jointly-owned US company Norca Heat Transfer LLC to compensate Norca in the event of inventory obsolescence. In addition, Gränges has an obligation to bear any bad debt losses in Norca that are not covered by credit insurance. Historically, Gränges has not incurred significant costs for these undertakings. In 2016, Gränges had costs amounting to SEK -5 million (-7) for inventory obsolescence at Norca.

## 31 RELATED PARTY TRANSACTIONS

Orkla ASA (through Industriinvesteringer AS and Orkla Industriinvesteringar AB) owned up until the 18 March 2016, 16 per cent of the shares in Gränges AB (publ). Orkla then sold all its shares in Gränges and transactions with Orkla group (including Sapa group) are after the 18 March 2016 no longer considered to be related party transactions.

Gränges has a share of 50 per cent in two joint ventures, Norca Heat Transfer LLC and Shanghai Gränges Moriyasu Aluminium Co Ltd. Gränges reports these two joint ventures based on the equity method (see Note 6) and transactions with them are specified in the table below.

SEK million	2016	2015
<b>Transactions with joint ventures</b>		
Sales	961	801
Costs	-53	-47
Interest-bearing receivables (non current)	36	34
Accounts receivable	179	110
Non-interest-bearing liabilities	4	7

Internal trades in the Group are executed in accordance with specific arrangements at arm's length and shared costs in Gränges are allocated among the companies in the Group using allocation formulas depending on the types of expenditure. There are no other transactions with related parties. For information on remuneration and benefits to key individuals in senior positions, see Note 8.

## 32 EVENTS AFTER THE BALANCE SHEET DATE

From 1 January 2017 Torbjörn Sternsjö, Senior Vice President Technology & Business Development, replace Paul Neutjens in Gränges' group management. Furthermore, CFO Oskar Hellström has been appointed Deputy CEO of Gränges

Due to exercise of 20,000 warrants within Gränges employee stock option program (LTI 2014), the Board of Directors have decided to issue 20,000 new shares during March 2017.

## ALTERNATIVE PERFORMANCE MEASURES

Gränges makes use of the alternative performance measures Return on capital employed, Net debt and Equity to assets ratio. Gränges believes that these performance measures are useful for readers of the financial reports as a complement to other performance measures when assessing the possibility of dividends, the implementation of strategic investments, and the Group's ability to meet financial commitments. Further, Gränges uses the alternative performance measures Adjusted operating profit and Adjusted EBITDA, which are measures that Gränges considers to be relevant for investors who want to understand the profit generation excluding items affecting comparability. For definitions of the measures see page 111.

SEK million	2016	2015
<b>Adjusted operating profit</b>		
Operating profit	559	538
Items affecting comparability	128	3
<b>Adjusted operating profit</b>	<b>687</b>	<b>541</b>
<b>Adjusted EBITDA</b>		
Adjusted operating profit	687	541
Depreciation and amortisation	265	208
<b>Adjusted EBITDA</b>	<b>952</b>	<b>749</b>
<b>Adjusted EBITDA including estimated adjusted EBITDA for the acquired business in the US as if part of the Gränges group for the full year</b>		
Adjusted EBITDA	952	749
Estimated adjusted EBITDA for the acquired business in the US as if part of the Gränges group 1 January–21 August 2016	322	–
<b>Adjusted EBITDA including estimated adjusted EBITDA for the acquired business in the US as if part of the Gränges group for the full year</b>	<b>1,274</b>	<b>749</b>
<b>Return on capital employed</b>		
Total assets less cash and cash equivalents and interest-bearing receivables	5,054	3,957
Non-interest bearing liabilities, excluding pensions	–1,123	–976
<b>Capital employed</b>	<b>3,930</b>	<b>2,982</b>
Adjusted operating profit	687	541
<b>Return on capital employed, %</b>	<b>17.5</b>	<b>18.1</b>
<b>Net debt/Adjusted EBITDA</b>		
Cash and cash equivalents and interest-bearing receivables	–889	–667
Interest bearing liabilities, including pensions	3,611	942
<b>Net debt</b>	<b>2,722</b>	<b>275</b>
Adjusted EBITDA including estimated adjusted EBITDA for the acquired business in the US as if part of the Gränges group for the full year	1,274	749
<b>Net debt/Adjusted EBITDA</b>	<b>2.1</b>	<b>0.4</b>
<b>Equity to assets</b>		
Equity	2,942	2,499
Total assets	7,950	4,402
<b>Equity to assets, %</b>	<b>37.0</b>	<b>56.8</b>

# PARENT COMPANY INCOME STATEMENT

SEK million	Note	2016	2015
<b>Net sales</b>	3	<b>119</b>	<b>128</b>
Payroll expenses	7	-63	-60
Other operating expenses	4, 5, 6	-115	-99
Depreciation, amortisation and impairment charges	11, 12	-18	-15
<b>Operating loss</b>		<b>-77</b>	<b>-47</b>
<b>Profit/loss from financial items</b>			
Dividends from subsidiaries		757	306
Financial income	8	54	6
Financial costs	9	-59	-16
<b>Financial items</b>		<b>751</b>	<b>296</b>
<b>Profit after financial items</b>		<b>674</b>	<b>249</b>
<b>Appropriations</b>			
Change in accelerated depreciation		-46	1
Group contributions		132	15
Tax on profit for the year	10	-42	-10
<b>Profit for the year</b>		<b>718</b>	<b>254</b>

The parent company has no items which are accounted for as other comprehensive income. Total comprehensive income is therefore the same as profit for the year.

# PARENT COMPANY BALANCE SHEET

SEK million	Note	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	214	223
Intangible assets	12	170	–
Participations in Group companies	13	1,093	426
Receivables from Group companies		2,204	303
Interest-bearing receivables		36	34
Other non-current receivables	10	11	14
<b>Total non-current assets</b>		<b>3,728</b>	<b>999</b>
<b>Current receivables</b>			
Accounts receivable		4	3
Receivables from Group companies		573	187
Other receivables		65	70
Prepaid expenses and accrued income		4	5
<b>Total</b>		<b>647</b>	<b>265</b>
<b>Cash and cash equivalents</b>			
Cash and bank balances		182	106
<b>Total current assets</b>		<b>828</b>	<b>371</b>
<b>TOTAL ASSETS</b>		<b>4,557</b>	<b>1,371</b>

SEK million	Note	2016	2015
<b>EQUITY AND LIABILITIES</b>			
<b>Restricted equity</b>			
Share capital		101	100
Statutory reserve		6	–
<b>Total</b>		<b>106</b>	<b>100</b>
<b>Non-restricted equity</b>			
Share premium reserve		33	–
Retained earnings		195	95
Profit for the year		718	254
<b>Total</b>		<b>946</b>	<b>349</b>
<b>Total equity</b>		<b>1,052</b>	<b>449</b>
<b>Untaxed reserves</b>			
Accelerated depreciation		55	9
<b>Provisions</b>			
Provisions for pensions	14	22	22
<b>Total</b>		<b>22</b>	<b>22</b>
<b>Non-current liabilities</b>			
Bank loans	15	2,888	804
Other non-current liabilities		5	1
<b>Total</b>		<b>2,893</b>	<b>805</b>
<b>Current liabilities</b>			
Bank loans	15	372	–
Accounts payable		13	14
Other liabilities		86	49
Accrued expenses and deferred income	16	64	23
<b>Total</b>		<b>536</b>	<b>86</b>
<b>Total liabilities</b>		<b>3,505</b>	<b>921</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,557</b>	<b>1,371</b>

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK million	Share capital	Statutory reserve	Share premium reserve	Other non-restricted equity	Total equity
<b>Opening balance, 1 January 2015</b>	<b>100</b>	–	–	<b>205</b>	<b>305</b>
Profit for the year	–	–	–	254	254
Employee stock options	–	–	–	1	1
Dividend	–	–	–	–112	–112
<b>Closing balance, 31 December 2015</b>	<b>100</b>	–	–	<b>349</b>	<b>449</b>
<b>Opening balance, 1 January 2016</b>	<b>100</b>	–	–	<b>349</b>	<b>449</b>
Profit for the year	–	–	–	718	718
Employee stock options	–	–	–	1	1
Dividend	–	–	–	–149	–149
Statutory reserve for internally generated intangible assets	–	6	–	–6	–
Rights issue	1	–	33	–	34
<b>Closing balance, 31 December 2016</b>	<b>101</b>	<b>6</b>	<b>33</b>	<b>913</b>	<b>1,052</b>

The articles of association for Gränges AB state that the share capital shall be not less than SEK 80,000,000 and not more than SEK 320,000,000. The number of shares shall be not less than 32,000,000 and not more than 128,000,000.

Due to the exercise of 516,000 warrants within the group's incentive program LTI 2014 (see note 8 for more information) new shares have been issued during the year. Equity has in total increased by SEK 34 million and number of shares with 516,000 due to the rights issued.

The share capital in Gränges at 31 December 2016 amounts to SEK 101 million, divided into 75,155,386 shares, each with a quota value of SEK 1.339775.

The share capital comprises a single class of share.

Dividend per share amounted to SEK 2.00 (1.50) during 2016.

# PARENT COMPANY CASH FLOW STATEMENT

SEK million	Note	2016	2015
Operating loss		-77	-47
Depreciation and impairment charges		18	15
Items without cash flow effect		-	4
Change in net working capital etc.		2	-27
Taxes paid		-5	-27
<b>Cash flow from operating activities</b>		<b>-63</b>	<b>-82</b>
Investments in property, plant and equipment and intangible assets	11, 12	-179	-10
Sale of property, plant and equipment		-	4
Investments in subsidiaries	13	-671	-
<b>Cash flow from investing activities</b>		<b>-850</b>	<b>-6</b>
Dividend paid to shareholders		-149	-112
Rights issue		34	-
Dividend received from subsidiary		719	291
Interest paid/received		2	-10
Loans		3,277	-
Amortisation		-1,224	-520
Financial intra-group transactions		-1,670	524
<b>Cash flow from financing activities</b>		<b>989</b>	<b>173</b>
<b>Cash flow for the year</b>		<b>75</b>	<b>85</b>
<b>Cash and cash equivalents at 1 January</b>		<b>106</b>	<b>21</b>
Cash flow for the year		75	85
<b>Cash and cash equivalents at 31 December</b>		<b>182</b>	<b>106</b>

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## 1 ACCOUNTING PRINCIPLES

The Parent Company financial statements have been prepared in accordance to the Annual Accounts Act and RFR 2 Reporting for Legal Entities. Application of RFR 2 entails that the Parent Company is to apply all IFRS and interpretations approved by the EU as far as possible within the framework of the Swedish Annual Accounts Act, the Pension Obligation Vesting Act and in regard to the connection between accounting and taxation. The changes in RFR 2 applicable for financial years beginning on 1 January 2016 has not had a material impact on the financial reports of the parent company.

An account of the Gränges Group's accounting policies are described in Note 4 Accounting standards in the consolidated financial statements. The main deviations between the accounting policies applied by the Gränges Group and the parent company are described below.

Gränges Group applies IAS 19 Employee Benefits in the consolidated financial statements. The Parent Company applies the principles of the Pension Obligations Vesting Act. Consequently there are differences between the Gränges Group and the Parent Company in the accounting of defined benefit pension plans.

Regarding machinery and equipment, the Parent Company recognises the difference between depreciation according to plan and tax depreciation as accumulated additional depreciation, included in untaxed reserves.

Group contributions received from subsidiaries are recognised as financial revenues.

Gränges Group applies IAS 39 *Financial instruments: Recognition and measurement* and measure derivatives at fair value. During 2016 the Parent Company has changed its accounting principle to also apply IAS 39, which has resulted in the derivatives being measured at fair value instead of at cost. The change in accounting policy to fair value is deemed to provide more relevant information. The change in accounting policy is applied retrospectively in the Parent company. The change in measuring derivatives from cost to fair value has resulted in an effect on derivative assets of SEK 25 million at 31 December 2016 (SEK 40 million at 31 December 2015) and on derivative liabilities of SEK 71 million at 31 December 2016 (SEK 27 million at 31 December 2015). The Parent Company has a hedging strategy where group internal and group external derivatives are entered into back to back. The change in accounting policy has therefore had a gross up effect on the balance sheet but the effect on profit or loss has been zero and the effect on the opening balance of equity as of 1 January 2016 amounts to zero.

The change in accounting principle for the Parent Company has no impact on Gränges Group's financial statements.

## 2 FINANCIAL RISK MANAGEMENT

Gränges' financial risks are monitored centrally in the Group, see the notes to the consolidated financial statements, Note 25 Financial risk.

The Parent Company applies hedge accounting for the risk exposure arising from the derivative transactions with Gränges Sweden AB by entering into offsetting derivatives. As hedge accounting is applied and the relationships are expected to be highly effective no unrealised gains or losses are recognised on the derivatives.

In addition, the Parent Company holds a few derivatives to an insignificant value at the closing date.

## 3 BREAKDOWN OF NET SALES BY AREA OF OPERATION

SEK million	2016	2015
Intra-group service charges	73	66
Rental income	30	30
Research and development	16	27
Other	1	5
<b>Total breakdown of net sales by area of operation</b>	<b>119</b>	<b>128</b>

## 4 OTHER OPERATING EXPENSES

SEK million	2016	2015
M&A costs	-22	-
Restructuring costs	-	-4
<b>Total other operating revenue and operating expenses</b>	<b>-22</b>	<b>-4</b>

## 5 OPERATING LEASE PAYMENTS

### Distribution of lease payments

SEK million	Machinery and equipment		Buildings and land	
	2016	2015	2016	2015
Payments made during the year	0	0	2	4
Contractual payments to be made				
- next year	0	0	2	2
- between two and five years	0	1	3	5
- later than five years	-	-	-	-
<b>Total future lease costs</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>7</b>

### Distribution of lease income

SEK million	Machinery and equipment		Buildings and land	
	2016	2015	2016	2015
Payments received during the year	-	-	29	30
Contractual payments to be received				
- next year	-	-	29	31
- between two and five years	-	-	62	82
- later than five years	-	-	0	4
<b>Total future lease income</b>	<b>-</b>	<b>-</b>	<b>91</b>	<b>117</b>

## 6 REMUNERATION TO AUDITORS

SEK million	2016	2015
Ernst & Young AB		
– Audit engagement	1.3	1.3
– Audit services in addition to audit engagement	0.4	0.1
– Tax advisory services	0.5	0.9
– Other services	8.2	2.9
<b>Total remuneration to auditors</b>	<b>10.4</b>	<b>5.2</b>

Audit engagement refers to the review of the annual report and accounting records and of the Board of Directors and CEO's management of the company, other tasks incumbent on the company's auditor as well as advice and other assistance occasioned by observations made in the course of such examinations or the performance of such other tasks. Audit services in addition to audit engagement consisted in 2016 and in 2015 primarily of review of interim reports. Tax advisory services include advice on tax, including transfer pricing issues, as well as value-added tax. Other services refer to advice that is not attributable to any of the aforementioned categories of services. In 2016 other services consisted mainly of services related to acquisition activities.

## 7 PAYROLL EXPENSES

Salaries and remuneration totalled 39.5 (40.0), and social security contributions were 16.1 (14.3), and 7.8 (4.8) refers to pension costs. Pension costs of 1.6 (1.4) refer to the CEO. The company's outstanding pension obligations for the CEO are kSEK 53 (44).

Read more about the average number of employees, salaries and remuneration, including incentive schemes, in Note 8 to the consolidated financial statements.

## 8 FINANCIAL INCOME

SEK million	2016	2015
Interest income from Group companies	52	6
External interest income	1	1
Foreign exchange differences	–	–1
<b>Total financial income</b>	<b>54</b>	<b>6</b>

## 9 FINANCIAL COSTS

SEK million	2016	2015
External interest expense	–56	–15
Estimated financial expense related to pension liability	–1	–1
Foreign exchange differences	–1	–
<b>Total financial costs</b>	<b>–59</b>	<b>–16</b>

## 10 TAXES

### Tax expense for the year

SEK million	2016	2015
Current tax	–42	–20
<i>Deferred tax attributable to</i>		
Changes in temporary differences for the year	0	11
<b>Total tax</b>	<b>–42</b>	<b>–10</b>

### Reconciliation of effective tax

SEK million	2016	%	2015	%
Profit before tax	760	–	264	–
Tax at applicable tax rate	–167	–22.0	–58	–22.0
Tax effects of:				
Non-deductible expenses	–1	–0.1	0	–0.2
Non-taxable income	167	22.0	69	26.2
Correction/Change of previous year's taxation	0	0.0	–1	–0.4
Foreign taxes	–42	5.5	–19	–7.4
<b>Total tax</b>	<b>–42</b>	<b>–5.5</b>	<b>–10</b>	<b>–3.7</b>

The company's effective tax rate of 5.5 per cent (3.7) in 2016 differs from the nominal tax rate in Sweden, which is primarily an effect of a dividends received from Gränges Aluminium (Shanghai) Ltd. This income is also included in the basis for non-taxable income. Foreign taxes mainly relates to paid tax in China on the received dividend.

### Deferred tax

SEK million	2016	2015
Buildings and land improvements	–1	0
Tax loss carry forwards	10	11
<b>Total deferred tax asset (+) / liability (–)</b>	<b>10</b>	<b>11</b>

The company assesses that the tax loss carry forwards of SEK 10 million will be utilised during 2017.

## 11 PROPERTY, PLANT AND EQUIPMENT

SEK million	Land, land improvements and buildings	Machinery and equipment	Fixtures, vehicles, etc.	Assets under construction	Total property, plant and equipment
<b>Carrying amount, 1 January 2016</b>	<b>204</b>	<b>3</b>	<b>10</b>	<b>7</b>	<b>223</b>
Acquisitions	–	–	–	5	5
Sales	–	–	–	–	–
Transferred assets, fixed assets under construction	5	2	–	–7	–
Depreciations and impairment charges	–12	–1	–2	–	–15
<b>Carrying amount, 31 December 2016</b>	<b>197</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>214</b>
<b>Cost, 31 December 2016</b>	<b>417</b>	<b>116</b>	<b>19</b>	<b>5</b>	<b>558</b>
Accumulated depreciation and impairment charges	–220	–113	–11	–	–344
<b>Carrying amount, 31 December 2016</b>	<b>197</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>214</b>
<b>Carrying amount, 1 January 2015</b>	<b>212</b>	<b>8</b>	<b>10</b>	<b>2</b>	<b>234</b>
Acquisitions	0	1	1	5	7
Sales	–	–5	–	–	–5
Transferred assets, fixed assets under construction	4	–	–	–	4
Depreciations and impairment charges	–12	–1	–2	0	–15
<b>Carrying amount, 31 December 2015</b>	<b>203</b>	<b>3</b>	<b>10</b>	<b>7</b>	<b>223</b>
<b>Cost, 31 December 2015</b>	<b>412</b>	<b>114</b>	<b>19</b>	<b>7</b>	<b>552</b>
Accumulated depreciation and impairment charges	–208	–112	–9	0	–329
<b>Carrying amount, 31 December 2015</b>	<b>204</b>	<b>3</b>	<b>10</b>	<b>7</b>	<b>223</b>

## 12 INTANGIBLE ASSETS

SEK million	Intellectual property	IT	Total intangible assets
<b>Carrying amount, 1 January 2016</b>	<b>–</b>	<b>–</b>	<b>–</b>
Acquisitions	168	6	174
Amortisation	–4	–	–4
<b>Carrying amount, 31 December 2016</b>	<b>164</b>	<b>6</b>	<b>170</b>
<b>Cost, 31 December 2016</b>	<b>168</b>	<b>6</b>	<b>174</b>
Accumulated amortisation and impairment charges	–4	–	–4
<b>Carrying amount, 31 December 2016</b>	<b>164</b>	<b>6</b>	<b>170</b>

During the year the company has acquired intellectual property related to production technic used in Gränges Americas Inc. IT mainly relates to capital development expenses for an ongoing ERP implementation.

## 13 PARTICIPATIONS IN GROUP COMPANIES

SEK million	Reg. no	Registered office	No. of shares	Share of capital and votes, %	Carrying amount, SEK million
<i>Swedish Group companies</i>					
Gränges Sweden AB	556002-6113	Finspång	300,000	100/100	164
Gränges Skultuna AB	556913-7358	Skultuna	50,000	100/100	0
<b>Total</b>					<b>164</b>
<i>Foreign Group companies</i>					
Gränges Americas Inc.		Delaware, USA	–	100/100	671
Gränges Aluminium (Shanghai) Ltd		Shanghai, China	–	100/100	256
Gränges Japan Ltd		Tokyo, Japan	–	100/100	3
<b>Total</b>					<b>930</b>
<b>Total participations in Group companies</b>					<b>1,093</b>

When cash and cash equivalents in China shall be made available for the parent company, this is done through dividend payments which today is being taxed with 5 per cent. Cash and cash equivalents per 31 December 2016 for the Chinese subsidiary amounts to SEK 475 million.

## 14 PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

### Defined benefit pensions

SEK million	2016	2015
Provision under Pension Obligations Vesting Act		
– FPG/PRI pensions	21	21
Pension obligation secured through transfer of funds to pension trust	1	1
<b>Total provision for pensions and similar obligations</b>	<b>22</b>	<b>22</b>

Specification of change in pension liability recognised in the balance sheet.

SEK million	2016	2015
Liability at beginning of year related to pension obligations	22	22
Cost recognised in income statement	1	2
Pension payments	–1	–2
<b>Liability at the end of year related to pension obligations</b>	<b>22</b>	<b>22</b>

Actuarial bases for calculating the capital value pursuant to the Pension Obligations Vesting Act are defined by the Swedish Financial Regulatory Authority. Application of the Pension Obligations Vesting Act is a condition for the right to make tax deductions. Excluding cost for pension premiums, fees paid to PRI and premiums paid to FPG, the pension cost for the year is distributed as follows:

SEK million	2016	2015
Pensions paid during the year	–1	–2
Increase/decrease in capital value	0	0
Less interest portion in PRI	1	1
Total operating expense	0	–1
Interest expense	–1	–1
<b>Total</b>	<b>–1</b>	<b>–2</b>

## 15 BANK LOANS

Gränges' interest bearing debt consists mainly of a USD term loan of USD 210 million and SEK term loans of SEK 900 million. The duration of the interest bearing debt portfolio was approximately two months at 31 December 2016. Gränges also have a revolving credit facility of SEK 1,200 million, available in several currencies. Gränges has the right to choose among maturities and fixed interest terms of one, two, three or six months. At 31 December 2016 SEK 470 million (810) had been drawn with an average fixed interest term of two months. The loan facilities are subject to covenants and they were fulfilled at 31 December 2016.

## 16 ACCRUED EXPENSES AND DEFERRED INCOME

SEK million	2016	2015
Accrued salaries, holiday pay and social-security contributions	27	19
Other accrued expenses and deferred income	37	5
<b>Total accrued expenses and deferred income</b>	<b>64</b>	<b>23</b>

## 17 PLEDGED ASSETS

SEK million	2016	2015
For own liabilities and provisions:		
Related to provisions for pensions and similar obligations		
– Property mortgages	15	15
<b>Total pledged assets</b>	<b>15</b>	<b>15</b>

Gränges has, in connection with signing the new credit facility described in Note 15, entered into a customary undertaking to not pledge assets or in a similar manner use its property to give creditors a better right than the banks that are providing the credit facility

## 18 CONTINGENT LIABILITIES

SEK million	2016	2015
Other contingent liabilities	105	93
– of which, for subsidiaries	102	92

### DISPUTES

The company is not a party to any dispute. As long as the company does not have any legal or formal obligation as a result of a past event, and it is uncertain whether an outflow of economic resources will be required to settle a future obligation, nothing is recognised in the income statement or balance sheet.

## 19 RELATED PARTY TRANSACTIONS

Related-party transactions are specified in the table below. Gränges AB has a controlling influence over its subsidiaries, see Note 13 Participations in Group companies.

No board member or senior executive of Gränges AB or its subsidiaries has independently or through a company or related party had

any direct involvement in a business transaction concluded by Gränges AB that was or is of an unusual character or subject to unusual terms and conditions and that occurred in 2016. For information on remuneration to senior executives see Note 7.

SEK million	Year	Sales to related parties	Purchases from related parties	Receivable from related parties at 31 December	Liability to related parties at 31 December
Subsidiaries	2016	141	7	36	0
Subsidiaries	2015	90	5	37	0
Associates	2016	0	0	0	0
Associates	2015	1	0	0	0

## 20 PROPOSED APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes that the retained earnings of SEK 945,806,794 be appropriated as follows:

SEK	2016
Dividend to shareholders	180,372,926
Carried forward	765,433,868
<b>Total</b>	<b>945,806,794</b>

The proposed dividend amount to SEK 180 million, or SEK 2.40 per share. In preparing its dividend proposal the Board of Directors has taken account of the company's financial position, cash flow and outlook.

# DEFINITIONS

## Adjusted EBITDA

Adjusted operating profit before depreciation and impairment.

## Adjusted operating profit

Operating excluding items affecting comparability.

## Average number of employees

The average number of employees converted to full-time positions.

## Capital employed

Total assets less cash and cash equivalents and interest-bearing receivables, minus non-interest bearing liabilities.

## Earnings per share

Profit for the period divided by the total number of shares.

## Equity to Assets

Equity divided by total assets.

## Items affecting comparability

Non-recurring income and expenses.

## ktonnes

Volume expressed in thousands of metric tonnes.

## Net cash flow before financing activities

Cash flow from operating activities plus cash flow from investing activities.

## Net debt

Cash and cash equivalents and interest-bearing receivables minus interest-bearing liabilities, including pensions.

## Operating profit

Profit before net financial items and tax.

## Return on capital employed

Adjusted operating profit divided by average capital employed during the past 12-month period.

## Return on equity

Profit for the period divided by average equity during the past 12-month period.

## Sales volume

Volumes sold in metric tonnes.

## SEK

Swedish kronor.

# GLOSSARY

## Alloy

Material consisting of several metals.

## Aluminium strip

Rolled aluminium in coils.

## Brazing

Joining of metals through melting.

## Cladding

Surface layer.

## Heat exchanger

A device for transferring heat from one medium to another.

## HVAC

Heating, Ventilation, Air Conditioning and Refrigeration.

## LME

London Metal Exchange.

## Rolled aluminium

Aluminium that has been down gauged, passing through two or more rollers.

## Scrap

Residual aluminium that can be re-melted.

## SHFE

Shanghai Futures Exchange.

# FIVE-YEAR SUMMARY

SEK million	2016	2015	2014	2013	2012
Sales volume, ktonnes	239.1	163.9	160.0	158.6	151.7
<b>Income statement</b>					
Net sales	7,207	5,494	4,748	4,642	4,946
Adjusted EBITDA <sup>1)</sup>	952	749	664	558	526
Adjusted operating profit <sup>1)</sup>	687	541	463	371	362
Operating profit	559	538	422	456	392
Profit for the year	498	379	319	309	316
Adjusted EBITDA margin	13.2	13.6	14.0	12.0	10.6
Adjusted operating margin	9.5	9.8	9.7	8.0	7.3
Operating margin	7.8	9.8	8.9	9.8	7.9
Net margin	6.9	6.9	6.7	6.7	6.4
<b>Balance sheet</b>					
Non-current assets	4,071	1,800	1,829	1,759	1,776
Current assets	3,878	2,601	2,631	2,867	2,520
Equity	2,942	2,499	2,137	3,098	2,208
Non-current liabilities	3,209	989	1,071	400	959
Current liabilities	1,799	914	1,253	1,128	1,129
<b>Cash flow</b>					
Operating activities	686	725	678	601	649
Investing activities	-2,732	-125	-81	-151	-248
Cash flow before financing activities	-2,046	600	597	450	401
Financing activities	2,245	-647	-941	-88	-301
Cash flow for the year	198	-47	-344	362	100

1) Adjusted for items affecting comparability (see Note 12 in the notes to the consolidated accounts).

## Capital structure, return indicators and employees

Capital employed	5,664	2,775	2,901	2,972	3,075
Net debt	2,722	275	765	-126	867
Equity/assets ratio, %	37.0	56.8	47.9	67.0	51.4
Net debt/Adjusted EBITDA, multiple	2.1x <sup>2)</sup>	0.4x	1.2x	-0.2x	1.6x
Capital employed (rolling 12 month average)	3,930	2,982	2,837	3,082	3,163
Return on capital employed, %	17.5	18.1	16.3	12.0	11.4
Equity (rolling 12 month average)	2,636	2,385	2,755	2,685	2,243
Return on equity, %	18.9	15.9	11.6	11.5	-
Average number of employees	1,154	964	952	964	947

2) Calculated on a rolling 12-month basis, including estimated adjusted EBITDA on a stand alone basis for the acquired business in the US.

	2016	2015	2014	2013	2012
<b>Data per share, SEK</b>					
Earnings per share, basic	6.66	5.07	4.27	4.14	4.24
Earnings per share, diluted	6.64	5.07	4.27	4.14	4.24
Equity <sup>1)</sup>	39.27	33.45	28.63	41.51	29.58
Cash flow from operating activities <sup>1)</sup>	9.15	9.70	9.08	8.05	8.69
Dividend <sup>2)</sup>	2.40	2.00	1.50	–	–
Dividend yield, %	2.79	2.86	2.94	–	–
Share price at year-end	86.00	70.00	51.00	–	–
Weighted outstanding ordinary shares, basic in thousands	74,703.9	74,639.4	74,639.4	74,639.4	74,639.4
Weighted outstanding ordinary shares, diluted in thousands	74,913.9	74,719.4	74,639.4	74,639.4	74,639.4
<b>Sales volume by region, ktonnes</b>					
Asia	80.8	75.5	78.3	75.0	70.4
Europe	63.7	62.7	58.6	59.5	55.9
Americas	94.6	25.8	23.1	24.0	25.3
<b>Total</b>	<b>239.1</b>	<b>163.9</b>	<b>160.0</b>	<b>158.6</b>	<b>151.7</b>
<b>Net sales by region, SEK million</b>					
Asia	2,623	2,637	2,378	2,271	2,416
Europe	1,933	1,978	1,679	1,673	1,757
Americas	2,651	880	691	698	772
<b>Total</b>	<b>7,207</b>	<b>5,494</b>	<b>4,748</b>	<b>4,642</b>	<b>4,946</b>

1) Calculated on weighted outstanding ordinary shares, diluted.

2) Cash dividend for 2017 as proposed.

# PROPOSED APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes that the retained earnings of SEK 945,806,794 be appropriated as follows:

SEK	2016
Dividend to shareholders	180,372,926
Carried forward	765,433,868
<b>Total</b>	<b>945,806,794</b>

The proposed dividend of SEK 180 million, or SEK 2.40 per share, represents 36 per cent of the profit for 2016. In preparing its dividend proposal the Board of Directors has taken account of the company's financial position, cash flow and outlook.

The undersigned certify that the consolidated accounts and the annual report have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as adopted for use in the European Union, and generally accepted accounting principles respectively, and give a true and fair view of the financial positions and results of the Group and the Company and describes substantial risks and uncertainties that the Group companies faces.

Stockholm 8 March 2017  
The Board of Directors of Gränges AB (publ)

Anders G. Carlberg  
*Chairman of the Board*

Carina Andersson  
*Member of the Board*

Terje Andersen  
*Member of the Board*

Ragnhild Wiborg  
*Member of the Board*

Katarina Lindström  
*Member of the Board*

Øystein Larsen  
*Employee representative*

Konny Svensson  
*Employee representative*

Peter Carlsson  
*Member of the Board*

Johan Menckel  
*Chief Executive Officer*

Hans Porat  
*Member of the Board*

We submitted our audit report on 10 March 2017  
Ernst & Young AB

Erik Sandström  
*Authorised Public Accountant*

This information is such that Gränges must disclose pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication on Tuesday, 14 March 2017.

# AUDITOR'S REPORT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF GRÅNGES AB (PUBL),  
CORPORATE IDENTITY NUMBER 556001-6122

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Gränges AB (publ) except for the corporate governance statement on pages 61–71 for the year 2016. The annual accounts and consolidated accounts of the company are prepared on pages 58–114 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 61–71. 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.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Acquisition in the United States

During the financial year 2016 the company made a significant acquisition in the USA. The acquisition was an asset deal performed by Gränges Americas Inc, a wholly-owned subsidiary to Gränges AB. The total purchase price was 2,581 MSEK. In connection with the acquisition the company allocated values based on the purchase price to acquired assets and liabilities for the purpose of the consolidated financial statements. The identification and valuation of acquired assets and liabilities requires assumptions regarding future financial developments and valuation-technical parameters. Since a change in an assumption affects the allocated values we have determined that this is a key audit matter. A description of the acquisition and the allocated values on acquired assets is included in Note 29 under the notes to the consolidated financial statements. Significant estimates and judgments are presented in Note 5.

In our audit we have assessed the company's process for allocating the purchase price to acquired assets and liabilities. We have, with the assistance of valuation specialists, assessed the utilized valuation methods and calculation models, and have assessed the reasonableness of assumptions made. We have also reviewed the disclosures provided in the annual report.

### Valuation of finished goods and work-in-process products

As described in Note 18 for the consolidated financial statements, inventories of finished goods and work-in-process products are recorded at 1,020 MSEK in the consolidated balance sheet per the 31st of December 2016. Inventories are valued at acquisition cost less obsolescence write-downs, if applicable. The valuation at production cost is performed using inventory valuation models where direct and indirect production-related costs are allocated to products. Incorrect assumptions and calculations related to direct and indirect production costs affect the valuation of goods produced which affects recorded inventory and the cost of goods sold. For this reason we have determined that this is a key audit matter. A description of the Company's inventory valuation method for finished goods and work-in-process products is presented in the accounting principles in Note 4 under the notes to the consolidated financial statements.

In our audit we have assessed whether the company's accounting principles for inventory is compliant with applicable standards. We have also performed procedures to verify calculation models and assessed the reasonableness of applied prices, consumption rates and assumptions regarding the allocation of indirect production costs. We have also reviewed the disclosures provided in the annual report.

### Property, plant and equipment

The Company's property, plant and equipment is recorded at 3,347 MSEK in the consolidated balance sheet, equivalent to 42 per cent of the Company's total assets. Property, plant and equipment is recorded at acquisition cost net of accumulated depreciation and write-downs, if applicable. Depreciation is recorded over the estimated useful life of components. Accounting principles for property, plant and equipment is presented in Note 4, significant estimates and judgments are presented in Note 5 and disclosures regarding property, plant and equipment is presented in Note 17. The valuation and accounting treatment of property, plant and equipment is a key audit matter due to the significance of the recorded amounts in relation to the total assets in the consolidated balance sheet.

### Depreciation

Depreciation is recorded over the estimated useful life of components. A change in the estimated useful life of components would result in different recorded values. In our audit we have assessed the reasonableness of assumptions made regarding the estimated useful life of components through comparisons to historical actuals, business plans and the estimated useful lives used by other comparable companies. We have also reviewed the disclosures provided in the annual report.

### Impairment

In case an indicator of impairment is identified, the recorded value is tested through comparison to the estimated recoverable amount for the asset. Based on current and expected future financial development the Company has determined that there was no indication of impairment for the financial year 2016. In our audit we have analyzed and assessed the assumptions and estimates made by the Company

regarding potential indicators of impairment compared to current and expected future cash flows from affected assets.

We have also reviewed the disclosures provided in the annual report.

#### **Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–57. The Board of Directors and the Managing Director are responsible for this other information.

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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

#### **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.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are there-

fore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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 Gränges AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

### Basis for Opinions

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

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

### Responsibilities of the Board of Directors and the Managing Director

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

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

### Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 61–71 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement 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.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 10 March 2017

Ernst & Young AB

Erik Sandström  
Authorized Public Accountant

# ANNUAL GENERAL MEETING 2017

Gränges' Annual General Meeting 2017 will be held on Thursday, 4 May, 2017, at 4 p.m. CET at Näringslivets Hus in Stockholm. Registration begins at 3 p.m. CET.

## Participation

Shareholders wishing to attend the Annual General Meeting must be registered as shareholders in the share register maintained by Euroclear Sweden as of Thursday, 27 April 2017, and notify the company of their intention to attend no later than Thursday, 27 April, 2017.

Registration of participation must be provided in writing to Gränges AB, Juridik, Box 5505, 114 85 Stockholm, Sweden, or by telephone at +46 732 07 42 52 on weekdays between 9 a.m and 4 p.m. CET or at the company's website, [www.granges.com](http://www.granges.com). When registering, shareholders must state their name, personal ID or company registration

number, address and daytime telephone number. The registration procedure also applies to registration for any advisors.

## Nominee-registered shares

Shareholders whose shares are registered with a nominee must, to have the right to attend the Annual General Meeting, have their shares temporarily reregistered with Euroclear Sweden AB. A request for reregistration should be submitted to the nominee well in advance of the Annual General Meeting.

## Notice convening the Annual General Meeting

Gränges' notice convening the Annual General Meeting for 2017 will be published on or about 28 March 2017 by a press release and on the company's website. Information about other decision points will be available

on the company's website. Printed information can be ordered via [info@granges.com](mailto:info@granges.com).

## Dividend

The Board of Directors proposes a dividend of SEK 2.40 (2.00) per share for the 2016 fiscal year, in total SEK 180 million (149) million. The proposed record date for the dividend is Monday, 8 May 2017. If the Annual General Meeting resolves in accordance with the proposal, the dividend is expected to be distributed through Euroclear Sweden AB on Thursday, 11 May 2017.

## For further information, please contact:

Pernilla Grennfelt,  
SVP Communications and Investor Relations  
[pernilla.grennfelt@granges.com](mailto:pernilla.grennfelt@granges.com),  
tel: +46 702 90 99 55.

## GRÄNGES ANNUAL REPORT

Gränges' annual report is available on the company's website, [www.granges.com](http://www.granges.com), in Swedish and English. The annual report is also available in printed format and can be ordered at [reports@granges.com](mailto:reports@granges.com).

## GRÄNGES FINANCIAL CALENDAR 2017

Interim report, January–March 2017	27 April 2017
Annual General Meeting 2017	04 May 2017
Half-year report, January–June 2017	20 July 2017
Interim report, January–September 2017	26 October 2017

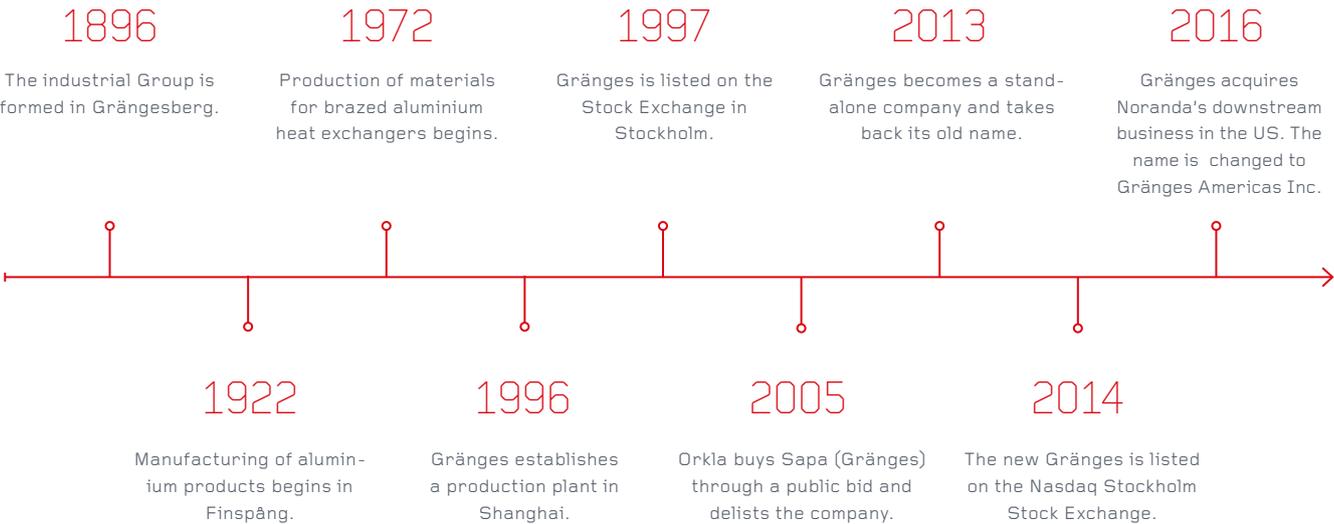
# HISTORY

The foundation for today's Gränges was laid in 1896 in Grängesberg. Thereafter, several different industrial enterprises became part of the Group, including Grängesberg mines, the TGOJ rail business, Oxelösund ironworks and a shipping business. In 1969 the Group acquired Svenska Metallverken, which included an aluminium products business, an operation that would later evolve into Gränges and Sapa. In 1972 work began on the development and production of aluminium heat exchanger strips in Finspång.

After the Gränges Group was acquired by Electrolux in 1980 a number of structural changes were implemented, resulting in the sale of most of Gränges' businesses. What remained was the production of aluminium products.

A key milestone came in 1996, when Gränges established a global presence by opening a production plant in Shanghai. In 1997 Gränges was listed on the Stock Exchange in Stockholm and in 2000 Gränges changed name to Sapa.

In 2005 Sapa was acquired and delisted after Orkla of Norway made a bid for the company. At that time Sapa had two lines of business: rolled aluminium products and extruded aluminium profiles. In 2013 the rolled products business took back the name of Gränges and in 2014 Orkla decided to list Gränges on the Nasdaq Stockholm Stock Exchange.



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MANUFACTURING AND INNOVATION