

INTERIM REPORT JANUARY-MARCH 2019

Stable operating profit in softening market conditions

First quarter 2019

- Sales volume decreased by 4.4 per cent to 90.8 ktonnes (95.0). Net sales rose to SEK 3,109 million (3,071).
- Adjusted operating profit was SEK 275 million (282), while adjusted operating profit per tonne amounted to 3.0 kSEK (3.0).
- Profit for the period increased to SEK 184 million (167).
- Basic and diluted earnings per share increased to SEK 2.44 (2.21).
- Cash flow before financing activities decreased to SEK -173 million (192) and includes capital expenditure of SEK -451 million (-123). Of the total capital expenditure SEK 339 million relates to the expansion of the US production facilities.
- Net debt increased to SEK 3,057 million at 31 March 2019 (SEK 2,494 million at 31 December 2018), corresponding to 2.2 times adjusted EBITDA¹ (1.8 times at 31 December 2018). Net debt at 31 March 2019 includes leasing liabilities of SEK 269 million due to IFRS 16 Leases².

Financial summary

SEK million	Q1		Δ	12 months rolling	Full year	
	2019	2018		Apr 2018- Mar 2019	2018	Δ
Sales volume, ktonnes	90.8	95.0	-4.4%	370.8	375.0	-1.1%
Net sales	3,109	3,071	1.2%	12,947	12,910	0.3%
Adjusted operating profit ¹	275	282	-2.5%	997	1,005	-0.7%
Adjusted operating margin, %	8.8	9.2	-0.3 ppt	7.7	7.8	-0.1 ppt
Adjusted operating profit per tonne, kSEK	3.0	3.0	0.1	2.7	2.7	0.0
Operating profit	275	217	26.3%	997	940	6.1%
Operating margin, %	8.8	7.1	1.8 ppt	7.7	7.3	0.4 ppt
Profit for the period	184	167	10.0%	705	688	2.4%
Earnings per share basic, SEK	2.44	2.21	0.22	9.33	9.11	0.22
Earnings per share diluted, SEK	2.44	2.21	0.22	9.33	9.11	0.22
Cash flow before financing activities	-173	192	n/a	166	531	-68.8%
Equity to assets, %	43.2	42.2	1.0 ppt	43.2 ³	44.2	-0.9 ppt
Net debt	3,057	2,353	704	3,057 ³	2,494	564
Return on capital employed, %	-	-	-	15.5	16.5	-1.0 ppt

¹ Adjusted for items affecting comparability, see Note 5 for further information.

² See Note 1 for further information on IFRS 16 Leases.

³ Closing balances at the end of the period.

COMMENTS BY THE CEO

Stable operating profit in softening market conditions

The softer market conditions that we experienced in the end of 2018 continued in the beginning of this year. The lower market demand resulted in a sales volume decline of 4 per cent to 90.8 ktonnes in the first quarter 2019. The adjusted operating profit remained fairly stable and amounted to SEK 275 million in the quarter. The result includes costs for the US expansion projects of SEK 17 million, whereas a refund of US 232 tariffs had a positive impact of SEK 9 million. Exchange rate fluctuations had a positive impact on adjusted operating profit of SEK 44 million during the quarter.

During the first quarter market conditions were especially challenging in Asia, where the sales volume to automotive customers declined by 13 per cent. This was driven by a significant slowdown of the light vehicle production in China in combination with destocking in the supply chain. In Europe and Americas, the automotive sales volume declined by 4 and 2 per cent respectively in the quarter. With regards to the HVAC & Other business, the market demand in Americas continued to be strong in the quarter. Sales volume however decreased by 1 per cent compared with 2018 due to production capacity limitations which are partly a result of the ongoing expansion projects.

ENSURING A SUSTAINABLE BUSINESS

How we plan and run our business today has a profound impact on the future and we believe that the demand for sustainable products will increase going forward. To secure Gränges' long-term competitiveness and growth, we recently launched a set of ambitious and clear long-term sustainability targets which demonstrate our commitment to sustainability and our strong focus on integrating sustainability into everything we do. Our products promote a circular approach and enable customers and end-users to achieve significant savings in energy consumption and greenhouse gas emissions. We are also convinced that sustainability measures can increase our financial top and bottom-line with an increased demand for sustainable offerings.

OUTLOOK

The global automotive market is expected to continue to slow down in the second quarter of 2019. The research firm IHS estimates that light vehicle production will decrease by 3 per cent globally in the second quarter but return to growth in the second half of the year, resulting in a stable outlook for the full year. For the second quarter Gränges expects a decline in sales volume by mid-single digits. For automotive materials we foresee a mid to high-single digit reduction driven by decreasing light vehicle production and continued destocking in the supply chain, primarily in Asia but also partly in Europe. In Americas we expect a stable development for the HVAC & Other business in the second quarter.

As we look further into the year, we will continue to work actively with innovation and a more sustainable customer offering, which includes an increased focus on product development for electric vehicles. Demand for advanced heat exchanger materials for electric vehicles is expected to increase significantly in the coming years, as more car manufacturers choose liquid cooling solutions for batteries. In the US the demand for HVAC and other products continues to be strong. The expansion of the facility in Huntingdon is expected to be finalized in mid-2019 and the capacity at the facility in Newport will gradually be resumed during the second half of the year. Altogether, we are determined to continue to grow with sustainable profitability in the coming years.

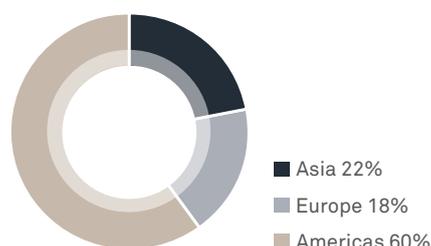
Johan Menckel
CEO



First quarter 2019

- Sales volume **90.8** ktonnes
- Net sales SEK **3,109** million
- Adjusted operating profit SEK **275** million

Sales volume per region



Sales volume decreased by 4.4 per cent in the first quarter driven by lower sales of Automotive heat exchanger material in Asia and Europe

MARKET DEVELOPMENT

Gränges is a leading global supplier of rolled aluminium products for heat exchanger applications and other niche markets. About half of the Group's sales volume refers to sales to the automotive industry, while HVAC and other niche markets account for about one quarter each.

Light vehicle production is an important macro driver of Gränges sales of heat exchanger materials to the automotive industry. An increasing share of hybrid vehicles, electric vehicles and advanced features such as autonomous driving is also positive for the demand of heat exchanger materials. According to the international research firm IHS¹, global light vehicle production decreased by 5.7 per cent in the first quarter of 2019, compared to the corresponding quarter 2018. In Asia, light vehicle production decreased by 6.5 per cent during the first quarter. This comprises a decrease of 12.1 per cent in China while production in other Asian markets remained stable. In the second quarter of 2019, a decrease of 1.5 per cent is expected in Asia. In Europe, light vehicle production declined by 5.4 per cent in the first quarter, and a decrease of 6.4 per cent is expected for the second quarter of 2019. Light vehicle production in the Americas decreased by 1.0 per cent in the first quarter, whereas an increase of 0.5 per cent is anticipated in the second quarter of 2019. For the full year 2019, IHS forecasts a decrease in global light vehicle production of 0.2 per cent.

For sales to the HVAC industry, the Americas is Gränges' most important market and US shipments of HVAC units is a key driver of Gränges sales. The growth in this market is partly driven by energy efficiency requirements and construction of new houses and buildings. According to the North American trade association AHRI², US shipments of HVAC units increased by 5 per cent in the first quarter of 2019 compared to the corresponding quarter 2018. For the full year 2019, JP Morgan forecasts a growth in US shipments of HVAC units of 5 per cent.

SALES DEVELOPMENT

Gränges' sales volume in the first quarter of 2019 decreased by 4.4 per cent to 90.8 ktonnes (95.0) compared to the same quarter previous year. Net sales increased to SEK 3,109 million (3,071). The negative effect from lower sales volume and a decreased aluminium price was more than offset by a net positive effect from changes in foreign exchange rates of SEK 293 million and a slightly higher average conversion price.

For the Automotive business, sales volume decreased to 45.0 ktonnes (48.9) and net sales decreased to SEK 1,615 million (1,756) during the first quarter 2019. For the HVAC & Other business, sales volume decreased to 45.9 ktonnes (46.2) while net sales increased to SEK 1,494 million (1,315).

ASIA

In the first quarter of 2019, sales volume in Asia decreased by 13.1 per cent to 20.0 ktonnes (23.0). The decline was primarily driven by lower sales to Chinese customers due to significantly lower automotive market demand and destocking in the supply chain.

EUROPE

In the first quarter of 2019, sales volume in Europe decreased by 4.1 per cent to 16.5 ktonnes (17.2). Sales of heat exchanger material decreased while sales of material for non-heat exchanger applications increased during the quarter.

AMERICAS

In the first quarter of 2019, sales volume in the Americas decreased by 0.9 per cent to 54.4 ktonnes (54.8). Of this, 45.9 ktonnes (46.2) relates to the HVAC & Other business while 8.5 ktonnes (8.7) relates to the Automotive business.

Light vehicle production¹

Year-on-year growth, %	Q1 2019	Q2 2019	Full year 2019
Region			
Asia	-6.5	-1.5	0.8
Europe	-5.4	-6.4	-1.5
Americas	-1.0	0.5	0.1
Global	-5.7	-2.8	-0.2

Gränges sales volume

Sales volume, ktonnes	Jan-Mar 2019	Jan-Mar 2018	Δ
Region			
Asia Automotive	20.0	23.0	-13.1%
Europe Automotive	16.5	17.2	-4.1%
Americas Automotive	8.5	8.7	-1.8%
Total Automotive	45.0	48.9	-7.9%
Americas HVAC & Other	45.9	46.2	-0.7%
Total	90.8	95.0	-4.4%

¹ Source: IHS, 15 March 2019.

² Source: AHRI, 5 April 2019.

OPERATING PROFIT

Adjusted operating profit for the first quarter of 2019 was SEK 275 million (282), corresponding to adjusted operating profit per tonne of 3.0 kSEK (3.0). Adjusted operating margin was 8.8 per cent (9.2). The negative impact from lower sales volume and slightly higher operating cost was partly offset by higher average conversion price. Costs related to the ramp-up of US expansion projects amounted to SEK 17 million in the quarter. The net effect from US import duties was positive in the quarter due to a refund of SEK 9 million following a decision by US Department of Commerce to grant exemptions from section 232 duties for the majority of Gränges products imported to the US. Net changes in foreign exchange rates had a positive impact of SEK 44 million in the quarter.

Operating profit for the first quarter of 2019 increased to SEK 275 million (217). No items affecting comparability were recorded in the first quarter of 2019 while items affecting comparability in the corresponding quarter last year amounted to SEK –64 million. For further information see Note 5.

PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

Profit before tax increased to SEK 239 million (214). Finance income and costs was SEK –36 million (–25) and includes interest expenses and financing costs of SEK 37 million and interest income of SEK 1 million. Interest expenses and financing cost in the first quarter of 2019 includes interest expenses of SEK 3 million (–) on lease liabilities due to the implementation of IFRS 16 (for further information see Note 1). Income tax for the first quarter of 2019 amounted to SEK –55 million (–47) which corresponds to an effective tax rate of 23 per cent (22). The profit for the period increased to SEK 184 million (167) during the first quarter of 2019 and diluted earnings per share was SEK 2.44 (2.21).

CASH FLOW

Cash flow from operating activities was SEK 278 million (294) in the first quarter of 2019 and was negatively impacted by a seasonal increase in working capital. US sanctions against Rusal, one of Gränges' aluminium slab suppliers, were lifted on 27 January 2019. This had a positive impact on working capital and cash flow of SEK 80 million in the first quarter. Cash flow from investing activities amounted to SEK –451 million (–102) in the quarter and relates to capital expenditure of SEK –451 million (–123). Of the total capital expenditure, SEK 112 million referred to investments to maintain and improve efficiency in current production facilities and SEK 339 million related to the expansion of the US production facilities. Cash flow before financing activities amounted to SEK –173 million (192) in the first quarter of 2019.

Cash flow from financing activities was SEK 185 million (–272) in the first quarter of 2019 and includes new loans of SEK 480 million and repayment of loans of SEK –263 million. Net financing from commercial papers was SEK 230 million in the quarter.

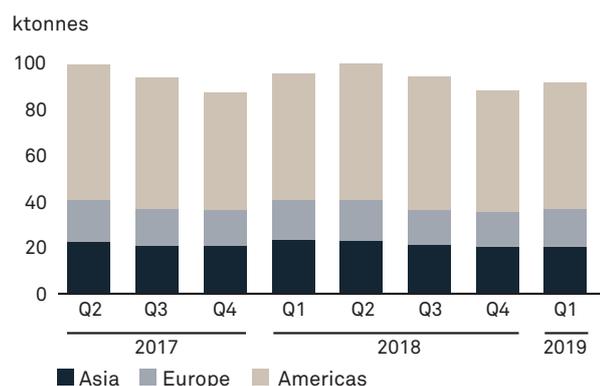
Cash and cash equivalents amounted to SEK 485 million at 31 March 2019 (SEK 457 million 31 December 2018).

FINANCIAL POSITION

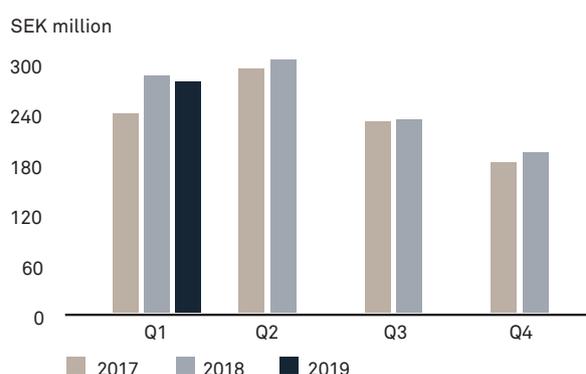
Gränges' total assets amounted to SEK 9,777 million at 31 March 2019 (SEK 8,773 million at 31 December 2018). The equity to assets ratio was 43.2 per cent at 31 March 2019 (44.2 per cent at 31 December 2018).

Consolidated net debt including pension and lease liabilities was SEK 3,057 million at 31 March 2019 (SEK 2,494 million at 31 December 2018). At 31 March 2019, the Group's net debt corresponds to 2.2 times adjusted EBITDA.

Quarterly sales volume per region



Quarterly adjusted operating profit



EMPLOYEES

The average number of employees was 1,810 (1,655) in the first quarter of 2019. The increase in number of employees is mainly related to the expansion of the US production facilities.

PARENT COMPANY

Gränges AB is the parent company of the Gränges Group. The operations include Group Management and administration of group functions. For the period January-March 2019, net sales in the parent company was SEK 49 million (56) and the result for the period was SEK -15 million (-12).

SIGNIFICANT EVENTS DURING THE PERIOD

Gränges new member of Aluminium Stewardship Initiative

In January 2019, Gränges became a new member of Aluminium Stewardship Initiative (ASI), which is a global, multi-stakeholder, non-profit standards setting and certification organization which works to maximize the contribution of aluminium to a sustainable society. ASI defines global standards for sustainability performance and material chain-of-custody for the aluminium value chain. ASI also works to promote measurable and continual improvements in key environmental, social and governance dimensions and to implement a credible assurance and certification system.

Launch of ambitious long-term sustainability targets

Gränges launched a set of ambitious and clear long-term sustainability targets to increase the company's contributions to global sustainable development and to secure the company's future competitiveness and growth. The targets demonstrate Gränges' efforts to further integrate sustainability across the company and the value chain, executed through the company's five sustainability pillars: Ethical business practices; Responsible and sustainable sourcing; Sustainable operations; Diverse and high-performing teams; and Sustainable offerings. Each of the five pillars is accompanied by a clear long-term commitment and measurable 2025 targets.

SIGNIFICANT EVENTS AFTER THE PERIOD

New credit facility agreement for Gränges

Gränges has refinanced the credit agreement that originally financed the acquisition of the US business in August 2016 and the new agreement came into force the first week of April 2019. The new credit facilities consist of a revolving credit facility available in several currencies of SEK 2,000 million with a term of 3 years and an option to prolong to 5 years, a term loan of USD 100 million with a term of 5 years and a revolving credit facility of USD 50 million

with a term of 3 years. Gränges also entered an additional term loan of USD 25 million with a term of 4 years with AB Svensk Exportkredit.

No other significant events have occurred after the period.

THE SHARE

The share capital in Gränges amounts to SEK 101 million split on 75,517,386 shares, each with a quota value of SEK 1.339775. Gränges has only one class of shares.

OWNERSHIP STRUCTURE

The number of shareholders in Gränges was 8,398 at 31 March 2019, according to Euroclear.

Largest shareholders in Gränges at 31 March 2019¹

Shareholder	Number of shares	Share of capital and votes %
Fjärde AP-fonden	7,191,207	9.5
AFA Försäkring	5,684,893	7.5
Swedbank Robur Fonder	4,375,682	5.8
Handelsbanken Fonder	3,163,041	4.2
Dimensional Fund Advisors	2,966,533	3.9
Allianz Global Investors	2,843,762	3.8
Fidelity Investments (FMR)	2,499,742	3.3
SEB Fonder	2,320,407	3.1
Paradice Investment Management	2,239,611	3.0
Unionen	1,850,000	2.4
Columbia Threadneedle	1,669,601	2.2
Franklin Templeton	1,585,445	2.1
BlackRock	965,092	1.3
Lazard Asset Management	896,065	1.2
Eric Sturdza Investment Funds	710,688	0.9
Total 15 largest shareholders	40,961,769	54.2
Other	34,555,617	45.8
Total	75,517,386	100.0

¹ Source: Modular Finance.

OTHER

Annual General Meeting 2019

The Annual General Meeting 2019 in Gränges AB (publ) will take place on Wednesday 8 May, 2019, at 4 p.m CEST at Näringslivets Hus, Storgatan 19, Stockholm. Registration begins at 3 p.m CEST and light refreshments are served.

The Nomination Committee's proposal

The Nomination Committee proposes the re-election of the current Board members Anders G. Carlberg, Carina Andersson, Peter Carlsson, Katarina Lindström, Hans Porat, Ragnhild Wiborg, and Mats Backman. It is furthermore proposed that Anders G. Carlberg is re-elected as Chairman of the Board.

The Nomination Committee's complete proposal is available on the company's website, www.granges.com.

Dividend

Gränges' Board of Directors proposes a dividend of SEK 242 million (227), equivalent to SEK 3.20 (3.00) per share, for the 2018 fiscal year. The proposed dividend represents 35 per cent (35) of the profit for 2018. In its proposal, the Board of Directors has taken into account the company's financial position, cash flow, and future outlook. The proposed record date for the dividend is Friday, 10 May 2019, which means that the dividend, assuming the AGM's approval, is expected to be distributed through Euroclear on Wednesday, 15 May 2019.

RISKS AND UNCERTAINTY FACTORS

As a global group with operations in many parts of the world, Gränges is exposed to various risks and uncertainties such as raw material price risk, market risk, operational and legal risk, as well as financial risk related to foreign exchange rates, interest rates, liquidity and refinancing. In its risk management, Gränges seeks to identify, evaluate, and reduce risks related to the Group's business and operations. More information about risk management is available on pages 44–47 in Gränges' 2018 annual report.

SEASONAL VARIATIONS

Gränges' end-customer markets consists primarily of the global automotive industry and the HVAC industry in North America. Gränges' sales of rolled aluminium products to the automotive industry is correlated with the production of light vehicles. Demand on the HVAC market is driven by factors such as construction investments, new regulations for energy efficiency and climate impact, and are usually higher during summer months as there is more demand for cooling systems then. Major annual maintenance work in Gränges' production facilities mainly occurs in the fourth quarter. Overall, seasonal factors mean that the fourth quarter usually is the weakest and the second quarter is the strongest.

Stockholm, 26 April, 2019

Johan Menckel
Chief Executive Officer

This interim report has not been reviewed by the auditors of the company.

For additional information, please contact:

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The information in this report is such that Gränges must disclose pursuant to the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication, through the agency of the contact person set out above, on Friday 26 April, 2019 at 07.30 CEST.

Webcasted telephone conference

CEO Johan Menckel and CFO Oskar Hellström will present Gränges' interim report for January–March 2019 at a webcasted conference call at 10.00 CEST, Friday 26 April, 2019.

The webcast is available on www.granges.com/investors. To participate in the conference call, please call +46 8 5199 9355 (Sweden), +44 203 194 0550 (UK) or +1 855 269 2605 (USA). Please call a few minutes before the conference call starts. The presentation will be in English.

Financial calendar

8 May 2019	Annual General Meeting 2019
18 July 2019	Half-year report 2019
24 October 2019	Interim report January–September 2019

CONSOLIDATED INCOME STATEMENT (CONDENSED)

SEK million	Note	Jan–Mar 2019	Jan–Mar 2018	Jan–Dec 2018
Net sales	2	3,109	3,071	12,910
Cost of materials	5	-1,957	-2,066 ¹	-8,601 ¹
Payroll and other operating expenses		-770	-706	-3,016
Depreciation, amortization and impairment charges		-108	-82	-353
Operating profit		275	217	940
Profit or loss from joint ventures		0	22	22
Finance income and costs		-36	-25	-113
Profit before tax		239	214	849
Income tax	6	-55	-47	-161
Profit for the period		184	167	688
Earnings per share				
Earnings per share basic, SEK		2.44	2.21	9.11
Earnings per share diluted, SEK		2.44	2.21	9.11

¹ Includes items affecting comparability of SEK -64 million.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONDENSED)

SEK million	Jan–Mar 2019	Jan–Mar 2018	Jan–Dec 2018
Profit for the period	184	167	688
Items not to be reclassified to profit/loss in subsequent periods			
Remeasurement of pensions after tax	-	2	-20
Items to be reclassified to profit/loss in subsequent periods			
Change in hedging reserve after tax	10	-26	-32
Translation effects	160	136	142
Comprehensive income for the period attributable to owners of the parent company	354	278	778

CONSOLIDATED BALANCE SHEET (CONDENSED)

SEK million	Note	31 Mar 2019	31 Mar 2018	31 Dec 2018
ASSETS				
Intangible assets		830	657	761
Property, plant and equipment		4,084	3,184	3,651
Right-of-use assets		269	-	-
Deferred tax assets		55	66	54
Investments in joint ventures		11	10	10
Interest-bearing receivables		2	-	2
Other non-current receivables	3	10	17	11
Non-current assets		5,260	3,934	4,489
Inventories		2,012	1,884	1,968
Receivables	3	2,020	2,045	1,859
Cash and cash equivalents		485	666	457
Current assets		4,516	4,596	4,285
TOTAL ASSETS		9,777	8,530	8,773
EQUITY AND LIABILITIES				
Share capital		101	101	101
Retained earnings		4,126	3,500	3,772
Equity		4,227	3,601	3,873
Interest-bearing liabilities	3	2,198	2,255	2,117
Lease liabilities	3	217	-	-
Provisions and other non-current liabilities	3	425	352	406
Non-current liabilities		2,840	2,608	2,522
Interest-bearing liabilities	3	749	485	515
Lease liabilities	3	52	-	-
Provisions and other current liabilities	3, 6	1,908	1,837	1,862
Current liabilities		2,709	2,321	2,378
TOTAL EQUITY AND LIABILITIES		9,777	8,530	8,773

CONSOLIDATED CHANGES IN EQUITY (CONDENSED)

SEK million	31 Mar 2019	31 Mar 2018	31 Dec 2018
Opening balance	3,873	3,322	3,322
Profit for the period	184	167	688
Other comprehensive income for the period	170	111	90
Total comprehensive income for the period	354	278	778
Dividend	-	-	-227
Total transactions with owners	-	-	-227
Closing balance	4,227	3,601	3,873

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK million	Note	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Operating profit		275	217	940
Depreciation, amortization and impairment charges		108	82	353
Other non-cash items	5	–	64	64
Change in working capital etc.		–88	–55	98
Income taxes paid		–17	–15	–105
Cash flow from operating activities		278	294	1,351
Acquisitions		–	24	24
Investments in property, plant, equipment and intangible assets		–451	–123	–843
Other capital transactions		–	–3	0
Cash flow from investing activities		–451	–102	–819
Cash flow before financing activities		–173	192	532
Dividend		–	–	–227
Interest paid and received		–31	–18	–98
New loans		480	261	3,078
Repayment of loans		–263	–515	–3,579
Cash flow from financing activities		185	–272	–825
Cash flow for the period		12	–80	–294
Cash and cash equivalents at beginning of period		457	742	742
Cash flow for the period		12	–80	–294
Exchange rate differences in cash and cash equivalents		15	4	9
Cash and cash equivalents at end of period		485	666	457

PARENT COMPANY INCOME STATEMENT (CONDENSED)

SEK million	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Net sales	49	56	203
Payroll and other operating expenses	–68	–71	–257
Depreciation, amortization and impairment charges	–4	–7	–26
Operating profit/loss	–23	–21	–80
Dividends from subsidiaries	–	–	517
Finance income and costs	5	6	18
Profit/loss after financial items	–18	–16	455
Appropriations	–	–	43
Group contributions	–	–	115
Income tax	3	4	–53
Profit/loss for the period	–15	–12	560

The Parent Company has no items which are accounted for as other comprehensive income. Total comprehensive income is therefore the same as profit/loss for the period.

PARENT COMPANY BALANCE SHEET (CONDENSED)

SEK million	31 Mar 2019	31 Mar 2018	31 Dec 2018
ASSETS			
Intangible assets	42	156	7
Property, plant and equipment	203	216	206
Investments related to Group companies	1,160	1,160	1,160
Receivables from Group companies	3,207	2,381	2,674
Other non-current receivables	11	15	8
Non-current assets	4,622	3,928	4,054
Receivables from Group companies	190	95	161
Other receivables	33	87	75
Cash and cash equivalents	19	207	120
Current assets	242	389	356
TOTAL ASSETS	4,865	4,317	4,411
EQUITY AND LIABILITIES			
Restricted equity	108	107	108
Non-restricted equity	1,483	1,155	1,498
Equity	1,591	1,261	1,606
Untaxed reserves	37	80	37
Provisions and other liabilities	28	22	27
Interest-bearing liabilities	2,198	2,255	2,117
Other non-current liabilities	1	9	0
Non-current liabilities	2,227	2,286	2,144
Liabilities to Group companies	200	81	29
Interest-bearing liabilities	680	442	450
Other liabilities	129	167	144
Current liabilities	1,009	689	622
TOTAL EQUITY AND LIABILITIES	4,865	4,317	4,411

NOTES

NOTE 1 ACCOUNTING PRINCIPLES

The Gränges Group applies International Financial Reporting Standards (IFRS) as endorsed by the EU. The accounting principles adopted are consistent with those described in the Annual Report for Gränges AB (publ) 2018, with exception for new and updated standards and interpretations described below. This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The Parent Company applies the Swedish Annual Accounts Act and RFR 2 Reporting for Legal Entities. From 2019 the parent company will apply RFR 2 IFRS 16 item 1 and continue to recognize leases in the income statement on a straight-line basis over the lease term.

The interim information on pages 2–13 is an integrated part of these financial statements.

IFRS 16 Leases

From the financial year beginning 1 January 2019, Gränges applies IFRS 16 Leases. The new standard is adopted based on the modified retrospective transition method and mainly impacts the reporting of equipment, vehicles, office premises, warehouses and land areas that are not owned by Gränges. As a consequence, the implementation of IFRS 16 positively impacts the operating margin due to the elimination of operation leasing expenses which are partly compensated by depreciation of the right-of-use assets. In addition, the finance costs will increase due to the recognition of interest expenses on the lease liabilities. At initial application as of 1 January 2019, opening balances for right-of-use assets and lease liabilities were recognized by SEK 270 million each.

The effects from the implementation of IFRS 16 Leases in the income statement, balance sheet and cash flow are presented below.

IFRS 16 effect

SEK million	Jan-Mar 2019
Consolidated income statement	
Payroll and other operating expenses	15
Depreciation, amortization and impairment charges	-14
Operating profit	2
Finance income and costs	-3
Profit before tax	-1
Income tax	0
Profit for the period	-1
Consolidated balance sheet	
Right-of-use assets	269
Non-current assets	269
Retained earnings	-1
Equity	-1
Lease liabilities	217
Non-current liabilities	217
Lease liabilities	52
Current liabilities	52
Consolidated statement of cash flows	
Operating profit	2
Depreciation, amortization and impairment charges	14
Cash flow from operating activities	15
Interest paid and received	-3
Repayments of loans	-12
Cash flow financing activities	-15
Cash flow for the period	-

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation is effective from 1 January 2019 and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation has not had an impact on the Group's financial statements.

NOTE 2 REVENUE FROM CONTRACTS WITH CUSTOMERS

Gränges mainly sells rolled products for heat exchangers and selected niche applications in different geographical regions. Gränges' customers are in the automotive industry, the HVAC industry and niche markets such as transformers and food packaging. Revenue is generated through sale of material that is produced for a certain customer and application. Revenue is recognized at the point in time when control is transferred to the customer. The transaction price for Gränges' products is based on the added value Gränges offers in terms of material properties and production complexity (fabrication price), and the price of the raw material, aluminium. The fabrication price is to a large extent fixed while the aluminium price is variable and based on metal price clauses connected to the market price. The tables below show Gränges' sales by geographical region and by market divided by type of revenue.

SEK million	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Sales by region			
Asia	687	765	3,004
Europe	584	609	2,403
Americas	1,832	1,692	7,482
Total revenue from contracts with customers	3,104	3,066	12,889
Other revenue	5	5	21
Net sales	3,109	3,071	12,910

SEK million	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Sales by market			
Automotive			
Fabrication revenue	771	783	3,117
Raw material and other revenue	838	968	3,754
Total	1,609	1,751	6,870
HVAC & Other			
Fabrication revenue	528	424	1,907
Raw material and other revenue	967	891	4,111
Total	1,494	1,315	6,019
Total revenue from contracts with customers	3,104	3,066	12,889
Other revenue	5	5	21
Net sales	3,109	3,071	12,910

NOTE 3 FINANCIAL INSTRUMENTS

The Group's financial assets consists of loans, accounts receivable, cash and cash equivalents as well as derivatives. The Group's financial liabilities consists of borrowings and accounts payable as well as derivatives. The table below shows the fair value of the derivatives (currency forwards and aluminium futures) included in the balance sheet.

SEK million	31 Mar 2019	31 Mar 2018	31 Dec 2018
Other non-current receivables	1	4	2
Receivables	31	100	76
Provisions and other non-current liabilities	33	9	5
Provisions and other current liabilities	61	97	71

All derivatives are measured at fair value and are classified according to level 2, i.e., all significant inputs required for measurement of the instruments are observable. 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 are measured at observable quoted prices on LME (London Metal Exchange) and SHFE (Shanghai Futures Exchange) for similar assets and liabilities.

Gränges' main interest-bearing debt consists of USD term loans amounting to USD 170 million and a SEK term loan of SEK 200 million. Interest bearing debt also includes corporate bonds of SEK 600 million, issued under the MTN program established in 2018. Outstanding commercial papers amounted to SEK 480 million as of 31 March 2019. Gränges had at 31 March 2019 a revolving credit facility of SEK 1,200 million, with a remaining maturity of two years. The existing revolving credit facility was unutilized as of 31 March 2019. The loan facilities are subject to covenants, which are Net Debt/EBITDA and Interest coverage ratio.

SEK million	Frame amount	Year			Total
		< 1	1–2	> 2	
Term loans					
SEK		200	–	–	200
USD		–	–	1,566	1,566
Bonds in MTN program	3,000	–	–	600	600
Commercial papers	1,500	480	–	–	480
Revolving Credit Facility	1,200	–	–	–	–
Other interest-bearing liabilities		69	–	32	101
Total interest bearing liabilities		749	–	2,198	2,947

Borrowings are measured at amortized cost and the carrying amount as of 31 March 2019 was SEK 2,947 million (SEK 2,632 million as of 31 December 2018). The fair value of borrowings amounted to SEK 2,955 million as of 31 March 2019 (SEK 2,641 million as of 31 December 2018). For other receivables and liabilities, which are short-term, the carrying amount is considered to reflect the fair value.

NOTE 4 RELATED PARTY TRANSACTIONS

No changes have been made to the group or parent company in relations or transactions with related parties, compared to what is described in the 2018 Annual Report. During the period there have been no significant transactions with related parties.

NOTE 5 ITEMS AFFECTING COMPARABILITY

SEK million	Financial statement line	Jan–Mar 2019	Jan–Mar 2018	Jan–Dec 2018
Inventory effect due to changed distribution model	Cost of materials	–	–64	–64
Items affecting comparability		–	–64	–64

During the first quarter 2019 no items affecting comparability were recorded. Items affecting comparability for 2018 relates to costs due to changed distribution model for import of heat exchanger materials to Gränges' customers in North America.

NOTE 6 TAX

Gränges' Chinese subsidiary obtained a pre-qualification as a High and New-Technology Enterprise for the three years period 2016 to 2018. The pre-qualification meant that the company preliminary paid 15 per cent in corporate income tax instead of the ordinary tax of 25 per cent for the period. However, in order to finally obtain the lower tax rate, the company must meet special requirements established by the authorities in China for each one of the three years. The tax returns for the financial years 2016 and 2017 have been approved and thereby also the special requirements to finally obtain the lower tax rate for the respective years. In view of the difficulties to currently estimate whether these special requirements will be met for the financial year 2018, corporate income tax for the Chinese operation has been based on the standard rate of 25 per cent for 2018. The liability for the higher tax rate applied on 2018 years profit for China amount to SEK 54 million per 31 March 2019.

The pre-qualification as a High and New-Technology Enterprise was valid for the three years period 2016 to 2018. Since the qualification is not valid for the financial year 2019 Gränges' Chinese subsidiary pays and applies the standard tax rate of 25 per cent for the first quarter 2019.

CONSOLIDATED QUARTERLY DATA

SEK million	2019	2018				2017			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Sales volume, ktonnes	90.8	87.4	93.4	99.1	95.0	86.5	93.0	98.7	
Income statement									
Net sales	3,109	3,074	3,322	3,443	3,071	2,734	2,728	3,081	
Adjusted EBITDA ¹	382	283	320	390	364	262	309	392	
Adjusted operating profit ¹	275	191	230	301	282	179	227	290	
Operating profit	275	191	230	301	217	163	227	290	
Profit for the period	184	149	158	214	167	152	151	192	
Adjusted EBITDA margin, %	12.3	9.2	9.6	11.3	11.8	9.6	11.3	12.7	
Adjusted operating margin, %	8.8	6.2	6.9	8.7	9.2	6.6	8.3	9.4	
Adjusted operating profit per tonne, kSEK	3.0	2.2	2.5	3.0	3.0	2.1	2.4	2.9	
Operating margin, %	8.8	6.2	6.9	8.7	7.1	6.0	8.3	9.4	
Net margin, %	5.9	4.8	4.7	6.2	5.4	5.6	5.5	6.2	
Balance sheet									
Non-current assets	5,260	4,489	4,243	4,176	3,934	3,827	3,674	3,769	
Current assets	4,516	4,285	4,639	4,823	4,596	4,179	4,040	3,957	
Equity	4,227	3,873	3,705	3,665	3,601	3,322	3,106	3,001	
Non-current liabilities	2,840	2,522	2,884	2,555	2,608	2,555	2,762	2,802	
Current liabilities	2,709	2,378	2,293	2,780	2,321	2,128	1,847	1,923	
Cash flow									
Operating activities	278	450	316	291	294	257	222	368	
Investing activities	-451	-316	-236	-166	-102	-216	-74	-61	
Before financing activities	-173	133	81	125	192	41	148	307	
Financing activities	185	-339	-41	-173	-272	-9	-133	-45	
Cash flow for the period	12	-206	40	-48	-80	32	16	263	
Capital structure									
Net debt	3,057	2,494	2,565	2,621	2,353	2,292	2,280	2,481	
Equity to assets, %	43.2	44.2	41.7	40.7	42.2	41.5	40.3	38.8	
Data per share, SEK									
Earnings per share basic	2.44	1.97	2.09	2.84	2.21	2.02	2.00	2.55	
Earnings per share diluted	2.44	1.97	2.09	2.84	2.21	2.02	2.00	2.55	
Equity ²	55.97	51.29	49.07	48.53	47.68	44.00	41.13	39.81	
Cash flow from operating activities ²	3.68	5.95	4.19	3.85	3.89	3.40	2.94	4.89	
Share price at the end of the period	95.70	80.50	106.00	117.30	97.95	84.25	93.25	77.50	
Weighted outstanding ordinary shares, basic in thousands	75,517.4	75,517.4	75,517.4	75,517.4	75,517.4	75,513.7	75,512.4	75,295.0	
Weighted outstanding ordinary shares, diluted in thousands	75,517.4	75,517.4	75,517.4	75,517.4	75,517.4	75,515.4	75,514.8	75,398.0	

¹ Adjusted for items affecting comparability, see Note 5 for further information.

² Calculated on weighted outstanding ordinary shares, diluted.

CONSOLIDATED QUARTERLY DATA

SEK million	2019		2018			2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales volume by region, ktonnes								
Asia	20.0	19.9	20.8	22.5	23.0	20.6	20.7	22.3
Europe	16.5	15.3	15.1	17.8	17.2	15.4	15.5	17.9
Americas	54.4	52.2	57.5	58.8	54.8	50.6	56.8	58.5
Total	90.8	87.4	93.4	99.1	95.0	86.5	93.0	98.7
Net sales by region								
Asia	687	694	732	813	765	709	676	759
Europe	589	582	579	649	615	557	516	612
Americas	1,832	1,799	2,011	1,981	1,692	1,468	1,536	1,710
Total	3,109	3,074	3,322	3,443	3,071	2,734	2,728	3,081
Employees								
Average number of employees	1,810	1,777	1,695	1,669	1,655	1,632	1,592	1,548

CONSOLIDATED 12-MONTHS ROLLING DATA

SEK million	Apr 2018 – Mar 2019	Jan 2018 – Dec 2018	Oct 2017 – Sep 2018	Jul 2017 – Jun 2018	Apr 2017 – Mar 2018	Jan 2017 – Dec 2017	Oct 2016 – Sep 2017	Jul 2016 – Jun 2017
Sales volume, ktonnes	370.8	375.0	374.0	373.7	373.2	373.0	371.2	341.0
Income statement								
Net sales	12,947	12,910	12,570	11,976	11,614	11,435	11,247	10,379
Adjusted EBITDA ¹	1,376	1,357	1,336	1,325	1,328	1,303	1,308	1,249
Adjusted operating profit ¹	997	1,005	992	989	977	933	925	879
Operating profit	997	940	912	909	897	917	916	777
Adjusted EBITDA margin, %	10.6	10.5	10.6	11.1	11.4	11.4	11.6	12.0
Adjusted operating margin, %	7.7	7.8	7.9	8.3	8.4	8.2	8.2	8.5
Adjusted operating profit per tonne, kSEK	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.6
Operating margin, %	7.7	7.3	7.3	7.6	7.7	8.0	8.1	7.5
Capital structure and return indicators								
Capital employed	6,432	6,098	5,902	5,744	5,639	5,581	5,565	5,053
Return on capital employed, %	15.5	16.5	16.8	17.2	17.3	16.7	16.6	17.4
Equity	3,814	3,633	3,480	3,339	3,225	3,093	2,971	2,848
Return on equity, %	18.5	18.9	19.9	20.5	20.5	21.1	20.2	22.4
Net debt / Adjusted EBITDA	2.2	1.8	1.9	2.0	1.8	1.8	1.7	1.9

¹ Adjusted for items affecting comparability, see Note 5 for further information.

Alternative Performance Measures

Gränges makes use of the alternative performance measures Return on capital employed, Net debt, Equity to assets ratio and Cash conversion. 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, Adjusted operating profit per tonne 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 17.

SEK million	Q1		12 months rolling	Full year
	2019	2018	Apr 2018– Mar 2019	2018
Adjusted operating profit				
Operating profit	275	217	997	940
Items affecting comparability	–	64	–	64
Adjusted operating profit	275	282	997	1,005
Adjusted operating profit per tonne				
Adjusted operating profit	275	282	997	1,005
Sales volume, ktonnes	90.8	95.0	370.8	375.0
Adjusted operating profit per tonne, kSEK	3.0	3.0	2.7	2.7
Adjusted EBITDA				
Adjusted operating profit	275	282	997	1,005
Depreciation and amortization	108	82	378	353
Adjusted EBITDA	382	364	1,376	1,357
Return on capital employed				
Total assets less cash and cash equivalents and interest-bearing receivables, rolling 12 months average	–	–	8,411	7,999
Non-interest-bearing liabilities, rolling 12 months average	–	–	–2,282	–2,194
Pensions, rolling 12 months average	–	–	304	293
Capital employed	–	–	6,432	6,098
Adjusted operating profit	–	–	997	1,005
Return on capital employed, %	–	–	15.5	16.5
Net debt				
Cash and cash equivalents and interest-bearing receivables	–487	–666	–487 ¹	–459
Interest bearing liabilities	2,947	2,740	2,947 ¹	2,632
Lease liabilities	269	–	269 ¹	–
Pensions	328	279	328 ¹	321
Net debt	3,057	2,353	3,057¹	2,494
Equity to assets				
Equity	4,227	3,601	4,227 ¹	3,873
Total assets	9,777	8,530	9,777 ¹	8,773
Equity to assets, %	43.2	42.2	43.2¹	44.2
Adjusted cash flow before financing activities				
Cash flow before financing activities	–173	192	166	532
Cash flow from expansion investments	339	62	748	470
Cash flow from acquisitions	–	–24	–	–24
Adjusted cash flow before financing activities	166	230	914	977
Cash conversion				
Adjusted cash flow before financing activities	166	230	914	977
Adjusted operating profit	275	282	997	1,005
Cash conversion, %	60.5	81.6	91.7	97.2

¹ Closing balance at the end of the period.

Definitions

Adjusted EBITDA

Adjusted operating profit before depreciation and impairment charges.

Adjusted cash flow before financing activities

Cash flow before financing activities excluding cash flow from expansion investments and acquisitions.

Adjusted operating profit

Operating profit excluding items affecting comparability.

Adjusted operating profit per tonne

Adjusted operating profit divided by sales volume.

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, excluding pensions.

Cash conversion

Adjusted cash flow before financing activities divided by adjusted operating profit.

Cash flow before financing activities

Cash flow from operating activities plus cash flow from investing activities.

Glossary

Alloy

Material composed of one metal with additions of other metals and/or elements.

Aluminium strip

Rolled aluminium in coil form.

Brazing

Joining of metals through melting and solidification.

Cladding

A layer of metal bonded to a dissimilar metal or alloy.

Heat exchanger

A device for transferring heat from one medium to another.

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 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-months period.

Return on equity

Profit for the period divided by average equity during the past 12-months period.

Sales volume

Volumes sold in metric tonnes.

SEK

Swedish Krona.

HVAC

Abbreviation for Heating, Ventilation and Air Conditioning systems including heat exchangers. Sometimes used to define the stationary heat exchanger market.

LME

London Metal Exchange.

Rolled aluminium

Aluminium that has been hot and/or cold rolled to desired gauge.

SHFE

Shanghai Futures Exchange.

Slab

Input material to the rolling process that is produced by casting.



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ABOUT GRÄNGES

Gränges is a leading global supplier of rolled aluminium products for heat exchanger applications and other niche markets. In materials for brazed heat exchangers Gränges is the global leader with a market share of approximately 20 per cent. The company develops, produces and markets advanced materials that enhance efficiency in the customer manufacturing process and the performance of the final products. The company's geographical markets are Europe, Asia and the Americas. Its production facilities are located in Sweden, China and the United States, and have a combined annual capacity of 420,000 metric tonnes. Gränges has around 1,800 employees and net sales of SEK 13 billion. The share is listed on Nasdaq Stockholm. More information on Gränges is available at www.granges.com.

VISION AND BUSINESS CONCEPT

Gränges vision is to transform the world through innovative aluminium engineering. We support our customers with research and innovation, product development, and technical support throughout the product's life-cycle. The performance of the customers' final product in terms of efficiency and environmental impact depends largely on material properties and design, which are Gränges' core competences.

BUSINESS MODEL

Gränges' business model is based on long-term customer relationships. Revenue is generated through sale of material that is produced for a certain customer and application. Prices are expressed in metric tonnes and based on the added value that Gränges offers in terms of material properties and production complexity, and the price of the raw material; aluminium. The cost for the material is passed on to the customer.

STRATEGY

Gränges has a clear strategy for the coming years. By offering customized products with a high technical content, Gränges aims to grow above market rate. The ambition is to be the market leader in all geographical regions within rolled aluminium heat exchanger materials in 2020. That goal is based on four strategic pillars: drive growth through innovations, create value from sustainability, increase efficiency through continuous improvements, and grow presence through structural expansion.