Gränges AB (publ)

AUDITED CONSOLIDATED ANNUAL ACCOUNTS FOR 2011–2013

GRÄNGES

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million	Note	2013	2012	2011
Sales revenues		4 566	4 826	4 696
Sales revenues, group	30	62	80	106
Other operating revenues		14	40	38
Net sales	7	**4 642**	**4 946**	**4 840**
Cost of materials		–2 806	–3 126	–3 186
Payroll expenses	8,9	–418	–405	–399
Other operating expenses	10	–860	–889	–898
Depreciation and impairment charges	17	–187	–164	–148
Other income and expenses	11	85	30	–91
Operating profit		**456**	**392**	**118**
Profit from joint ventures	6	5	3	3
Finance income	12	5	2	3
Finance costs	12	–48	–66	–60
Profit/loss before taxes		**418**	**331**	**64**
Taxes	13	–109	–15	2
Profit/loss for the year		**309**	**316**	**66**
Profit/loss attributable to non-controlling interests		–	–	–
Profit/loss attributable to owners of the parent		309	316	66
Adjusted operating profit[1]		371	362	209

1) Operating profit before other income and expenses.

EARNINGS PER SHARE

	Note	2013	2012	2011
Earnings per share (SEK), basic and diluted	14	8.28	8.47	1.77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK million	Note	2013	2012	2011
Profit/loss for the year		309	316	66
Items not to be reclassified to profit/loss in subsequent periods				
Actuarial gains and losses pensions before tax	9	10	1	–2
Tax on above		–2	0	0
Items to be reclassified to profit/loss in subsequent periods				
Change in hedging reserve before tax	26	–20	–13	–73
Tax on above		4	4	18
Items charged to equity in joint ventures	6	–	–2	–1
Translation effects		25	–70	115
Comprehensive income		**327**	**236**	**123**
Profit/loss attributable to non-controlling interests		–	–	–
Profit/loss attributable to owners of the parent		327	236	123

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	2013	2012	2011
ASSETS				
Property, plant and equipment	17	1 661	1 713	1 646
Intangible assets	16	13	17	10
Deferred tax assets	13	34	19	38
Investments in joint ventures	6	25	27	26
Interest-bearing receivables	19,24,30	26	–	–
Non-current assets		**1 759**	**1 776**	**1 720**
Inventories	18	680	800	838
Receivables	20	1 291	1 193	1 380
Cash and cash equivalents	21	896	527	452
Current assets		**2 867**	**2 520**	**2 670**
TOTAL ASSETS		**4 626**	**4 296**	**4 390**
EQUITY AND LIABILITIES				
Paid-in equity	27	1 195	1 195	1 195
Retained earnings		1 903	1 013	1 065
Equity		**3 098**	**2 208**	**2 260**
Deferred tax	13	16	22	8
Pension liabilities	9	119	128	126
Interest-bearing liabilities	19, 24	265	809	575
Non-current liabilities		**400**	**959**	**709**
Interest-bearing liabilities	19, 24	412	457	679
Income tax payable	13	94	1	44
Other liabilities	22	622	671	698
Current liabilities		**1 128**	**1 129**	**1 421**
TOTAL EQUITY AND LIABILITIES		**4 626**	**4 296**	**4 390**

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK million	Note	2013	2012	2011
Operating profit		456	392	118
Depreciation and impairment charges		194	164	148
Items without cash flow effect	11	–136	–55	–
Change in net working capital etc.		118	215	–106
Taxes paid		–31	–67	–35
Cash flow from operating activities		**601**	**649**	**125**
Investments property, plant and equipment and intangible assets	16, 17	–125	–293	–323
Sale of property, plant and equipment		5	2	12
Investment in joint ventures	6	–5	–	–
Other capital transactions		–26	43	–20
Cash flow from investing activities		**–151**	**–248**	**–331**
Shareholder and group contributions (net paid to/received from shareholders)		567	–252	–6
Interest paid/received (net)	12	–43	–59	–52
Change in interest-bearing liabilities		–586	10	376
Change in interest-bearing receivables		–26	–	–
Change in net interest-bearing liabilities		–612	10	376
Cash flow from financing activities		**–88**	**–301**	**318**
Change in cash and cash equivalents		**362**	**100**	**112**
Cash and cash equivalents as of 1 January		**527**	**452**	**319**
Change in cash and cash equivalents		362	100	112
Currency effect of cash and cash equivalents		7	–25	21
Cash and cash equivalents as of 31 December	**21**	**896**	**527**	**452**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Share-capital	Statutory reserve	Total paid-in equity	Hedging reserve	Translation effects	Other equity	Total Equity
Equity 1.1.2011	**933**	**262**	**1 195**	**74**	**78**	**811**	**2 158**
Profit/loss for the year			–			66	66
Items in comprehensive income			–	–55	114	–2	57
Group comprehensive income	–	–	–	–55	114	64	123
Group contributions			–	–	–	–21	–21
Equity 31.12.2011	**933**	**262**	**1 195**	**19**	**192**	**854**	**2 260**
Profit/loss for the year			–			316	316
Items in comprehensive income			–	–9	–72	1	–80
Group comprehensive income	–	–	–	–9	–72	317	236
Group contributions			–	–	–	–288	–288
Equity 31.12.2012	**933**	**262**	**1 195**	**10**	**120**	**883**	**2 208**
Profit/loss for the year			–			309	309
Items in comprehensive income			–	–15	25	8	18
Group comprehensive income	–	–	–	–15	25	317	327
Group contributions and shareholder contributions			–	–	–	563	563
Equity 31.12.2013	**933**	**262**	**1 195**	**–5**	**145**	**1 763**	**3 098**

CONTENTS – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: General Information

Gränges AB (the parent company) and its subsidiaries (together called the Group) develop, produce, and distribute rolled aluminium material for heat exchanger applications. The Group has R&D and production facilities in Finspång, Sweden, and Shanghai, China, and serves the global market through sales companies in the USA, India, Korea, and Japan. The parent company is registered in Sweden with offices located on Humlegårdsgatan in Stockholm. Up until 2013 Gränges was a part of the Sapa Group and operated under the name 'Sapa Heat Transfer'.

The Board of Directors of Gränges AB has on 29 August, 2014, approved this document for publication.

Note 2: Basis for preparation of the consolidated financial statements

BACKGROUND

In connection with the potential initial public offering of Gränges AB historical consolidated financial statements for the periods 2011, 2012 and 2013 have been prepared.

BASIS FOR PREPARATION

The consolidated Gränges Group includes, in addition to the parent company Gränges AB, direct and indirect held subsidiaries of Gränges AB based on the legal structure that existed on 31 December 2013. Gränges AB is owned by Orkla Industriinvesteringar AB, ultimately owned by Orkla ASA in Norway.

The legal Gränges Group was established through a demerger of the former Sapa Group into Sapa (today a joint venture with Hydro active within aluminium extrusions) and Gränges (active within aluminium rolling) which was finalized in March 2013. This was a common control transaction for Orkla resulting in no shift in control but merely a restructuring of legal structures.

A legal demerger of the parent company of the former Sapa Group, Sapa AB, (now name changed to Gränges AB and parent company of the Gränges Group) was finalized in March 2013. The demerger resulted in two separate legal entities (Gränges AB and New Sapa AB) that already, prior to the demerger, was managed and operated separately. In other words, economically the two new entities are continuations of their respective businesses, and none of them are continuations of the business of the former entity.

There is currently no guidance regarding common control transactions in the International Financial Reporting Standards (IFRS). Based on the structure of the demerger, Gränges has chosen to prepare the consolidated financial statements as described below which Gränges believes is in line with current practice.

The legal demerger has meant that the parent company Gränges AB's accounts in the preparation of the consolidated financial statements for the financial years 2011–2013 has been adjusted for the parts pertaining to the Sapa operations for the period January-March 2013 and the full years 2011 and 2012. The activities of the parent company during the period 2011–2013 mainly comprised parent company functions.

The subsidiaries of the Gränges Group already reported as separate entities in the old Sapa structure and the previously reported financial statements for those subsidiaries have been consolidated by Orkla. This means that the demerger has neither affected the operations nor the accounting of the subsidiaries included in the Gränges Group for the period 2011–2013.

The consolidated financial statements are general-purpose financial statements and have been prepared and presented in full compliance with the International Financial Reporting Standards (IFRS), as adopted by the EU. The Gränges Group is using the same presentation and accounting principles for all three years. The valuation and recognition of the items in the financial statements have been carried out in accordance with current IFRS standards. The most important principles are described below.

The financial statements are primarily based on the historical cost principle. Cash flow hedges that satisfy the criteria for hedge accounting are reported at fair value in the balance sheet and changes in value are recognised in comprehensive income.

Assets that no longer justify their value are written down to the recoverable amount, which is the higher of value in use and fair value minus selling costs.

The accrual accounting principle and the going concern assumption are underlying assumptions for preparing the financial statements.

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the balance sheet date. Other items are non-current. A dividend does not become a liability until it has been formally approved by the general meeting.

All amounts are in million SEK unless otherwise stated. Negative figures are either expenses or disbursements (cash flow). The functional currency of the parent company is SEK and the Group's reporting currency is SEK.

OTHER INCOME AND EXPENSES

Other income and expenses are presented on a separate line. The main purpose of this line is to present material non-recurring items and items substantially relating to other periods separately to ensure that the changes in and comparability of the lines presented in Adjusted operating profit are more relevant to the company.

CONSOLIDATION PRINCIPLES

The financial statements show the overall financial results and the overall financial position when the parent company Gränges AB and its controlling interests in other companies are presented as a single economic entity. All the companies have applied consistent principles and all intercompany matters have been eliminated.

Interests in companies in which the Group alone has controlling interest (subsidiaries) have been fully consolidated, line by line, in the consolidated financial statements from the date the Group has control and are consolidated until the date that such control ends. The determining factor for whether an enterprise is to be consolidated is whether the Group is deemed to have control. If the Group has control, but owns less than 100% of the subsidiaries, the non-controlling interests' share of profit or loss after tax and their share of equity are presented on separate lines. Gränges has no non-controlling interests.

Interests in companies in which the Group together with others has controlling interest (joint ventures, see Note 6) are accounted for using the equity method. This applies to companies where the Group has entered into an agreement with another party to operate and develop a joint company in which neither of the parties alone has control. The Group's share of profit or loss after tax and equity in the joint venture is presented on one line in the income statement and the balance sheet, respectively, on the line "Profit/loss from joint ventures" in the income statement and the line "Investments in joint ventures" in the balance sheet. The main company in this category is Norca Heat Transfer, in which Gränges owns 50%, and the remaining 50% is owned by Kirchain Inc. (see Note 6).

Interests in companies over which the Group has significant influence (associates) are also valued using the equity method. This applies to companies in which the Group owns an interest of between 20% and 50%. Gränges does not have any interests in associates.

THE BASIS FOR ALLOCATION OF INCOME, EXPENSES AND ASSETS AND LIABILITIES

Gränges Group is mainly reported the same way as the segment Gränges in Orkla's annual report, except from goodwill on Orkla level. Some assumptions were taken when the total Sapa business was divided into Sapa (part of future JV) and the Gränges business in 2012.

Regarding allocation of general and overhead costs between the two businesses, the assumptions made in establishing Sapa JV are also valid for the establishing of Gränges in the years 2011 and 2012. In 2013 the Gränges Group has been reported on its own from April, but as a part of the Orkla Group the Gränges Group has not established own functions for finance, tax and some other Corporate functions. The Gränges Group has been charged for management fee to compensate for the lack of own functions. Operating as a listed company Gränges has to build its own functions for these areas.

The Orkla Group uses a centralised approach to financing of its operations. As a result, the Gränges business has not had separate external financing. There has been no allocation of Orkla's external debt to the Gränges business. Intercompany loans held by legal entities transferred to the Gränges Group are included in the consolidated balance sheet of the Group.

When the demerger in Sapa AB took place in 2013, intercompany borrowings were converted to equity. The equity in 2011 and 2012 consist of equity in the legal entities in the new Gränges Group and interest free borrowings and receivables from or to the Orkla Group have been allocated to equity.

Orkla ASA has historically used a centralized approach to cash management that operates as an internal banking system (cash pool). Balances owed to, or owing from, Gränges Group entities under the Orkla ASA centralised cash management have been presented gross in the balance sheet and included in "Cash and cash equivalents" (see Note 21) and "Interest-bearing liabilities" (see Note 24) respectively. The level of "Cash, cash equivalents and deposit in Group cash pool" may not be indicative of the future level of cash in the new Gränges Group.

Note 3: New accounting standards

New and amended IASB accounting standards that have been endorsed by the EU may affect the preparation and presentation of financial statements to varying degrees. As from the 2013 financial year, Gränges has adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. In addition, IFRS 13 Fair Value Measurement and amendments to IAS 19 Employee Benefits were adopted as from 1 January 2013. The introduction of the new standards has also entailed changes in IAS 27 Revised, Separate Financial Statements, IAS 28 Revised, Investments in Associates and Joint Ventures. A minor change has also been made in IAS 32 Amendment, Offsetting Financial Assets and Financial Liabilities. The effects of the changes with regard to pensions (IAS 19) and for joint ventures (IFRS 11) are restated for all three years. The other standards have no material effect on Gränges consolidated financial statements. A limited number of amended standards and interpretations shall be applied as from 2014 but none of them are expected to have any impact on Gränges' accounting.

FUTURE CHANGES IN STANDARDS

The consolidated financial statements will be affected by IFRS amendments in the future. In May 2014, IASB issued a new standard on revenue and in July they issued the remaining parts of the new standard on financial instruments. IASB is also working on new standards for leasing and insurance contracts and a number of amendments to existing standards. Gränges has thus far not analyzed any potential effects from future IFRS amendments.

Note 4: Key accounting principles

PROFIT/LOSS

Revenue is recognised when it is probable that transactions will generate future economic benefit that will flow to the company and the amount of the revenue can be measured with reliability. Sales revenues are presented after deducting discounts, value added tax and other government charges and taxes.

Sales of goods. The Gränges Group sells goods on many different markets, and revenues from the sale of goods are recognised in the income statement when the risk and rewards of ownership of the goods are passed to the buyer.

Sales of services. Revenues from sales of services for the Gränges Group are limited and primarily refer to rental income from premises owned by Gränges AB. Rental income from rent of premises is recognised on a straight line basis over the lease term.

Gains on the sale of property, plant and equipment are presented as “Other income” and are included in the income statement.

Interest revenues are recognised when they are earned and are presented under “Finance income”.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income presents items that are recognised in equity, but are not included in ordinary profit or loss for the period. The items in the statement are actuarial gains and losses on pensions, changes in hedging reserves in hedging transactions and currency translation effects. Actuarial gains and losses on pensions are recognised in equity with permanent effect, while the other items are recognised in equity temporarily and reversed when the related assets/items are sold or settled.

ASSETS

Property, plant and equipment are tangible items intended for production, delivery of goods or administrative purposes and have a lasting useful life. They are recognised in the balance sheet at cost minus any accumulated depreciation and write-downs. Direct maintenance of assets is expensed under operating expenses as and when the maintenance is carried out, while major periodical maintenance and expenditure on replacements or improvements are added to the cost price of the assets. Property, plant and equipment are depreciated on a straight line basis over their useful life. Residual value is taken into account and the depreciation plan is reviewed annually. If there is any indication that an asset may be impaired, the asset will be written down to the recoverable amount if the recoverable amount is lower than the carrying value.

Borrowing costs related to the production of the Group’s own property, plant and equipment are capitalised as a part of the cost of the asset.

Intangible assets. Research and development (R&D) expenditure is the expenses incurred by the Group in conducting research and development, studies of existing or new products, production processes, etc. in order to secure future earnings. Expenditure on research will always be expensed directly, while expenditure on development will be recognised in the balance sheet if the underlying economic factors are identifiable and represent probable future economic benefits of which the Group has control. The Group has a large number of projects under consideration at all times, but for the time being no projects that end in capitalisation, apart from the IT development described below. This is due to the considerable uncertainty throughout the decision-making process and the fact that only a small percentage of all projects culminate in commercial products. Furthermore, the expenses that qualify for recognition in the balance sheet are relatively small, as it is only from the time the decision to develop the product is made that development expenses can be capitalised, and that decision-making point comes at a late stage of the process (see Note 16).

Capitalised expenditure on internally generated or specially adapted computer programmes is presented as intangible assets. The reinvestment need of specially adapted computer programmes and the like is similar to that of other tangible assets, and the amortisation of this type of intangible asset is presented together with the Group’s other depreciation.

Expenditures related to internal generated intangible assets are expensed directly since the future economic benefits to the company cannot be identified and shown to be probable with any degree of certainty at the time the intangible assets are being developed. The fair value of intangible assets acquired by the company through business combinations is capitalised. Intangible assets with indefinite life will not be amortised while other intangible assets will be amortised over their useful life. Gränges has at present no such capitalised intangible assets.

Goodwill is the residual value consisting of the difference between the purchase price and the capitalised value of an acquired company after a purchase price allocation has been carried out. The concept of goodwill comprises payment for expectations of synergy gains, assets related to employees, other intangible assets that do not qualify for capitalisation as a separate item and the fact that deferred tax may not be discounted. Capitalised goodwill derives solely from acquisitions. Goodwill is not amortised, but is tested at least once a year for impairment prior to preparing and presenting the financial statements for the third quarter. Gränges has only recognised a minor goodwill in the balance sheet.

Inventories are valued at the lower of cost and net realisable value. Purchased goods are valued at cost according to the FIFO principle, while internally manufactured finished goods and work in progress are valued at production cost. Deductions are made for obsolescence. Net realisable value is the estimated selling price minus selling costs. Inventory items which qualify as hedging objects in fair value hedges are carried at fair value (see “Fair value hedging” below).

Accounts receivable are recognised and presented at the original invoice amount and written down if events causing a loss have occurred that can be measured reliably and that will affect payment of the receivable. Trade receivables are thus valued at amortised cost using the effective interest rate method. The interest rate element is disregarded if it is immaterial, which is the case for the vast majority of the Group’s trade receivables.

Cash and cash equivalents (including deposits in Group cash pool) are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. Cash and cash equivalents consist of cash, bank deposits and current deposits with a maturity of three months or less. As far as possible, excess liquidity is placed with Orkla's cash pool or as deposits with Orkla, see Note 21. In some countries e.g. China, it may not be possible to participate in cash pools.

EQUITY, DEBT AND LIABILITIES

Pensions. Gränges has pension schemes in Sweden, mainly defined contribution plans but also some unfunded defined benefit plans.

In the defined contribution pension plans, the company is responsible for making an agreed contribution to the employee's pension assets. The future pension will be determined by the amount of the contributions and the return on the pension savings. Once the contributions have been paid, there are no further payment obligations attached to the defined contribution pension, i.e. there is no liability to record in the balance sheet. The pension costs related to defined contribution plans will be equal to the contributions to employees' pension savings in the reporting period and is reported as payroll expenses.

Defined benefit pension plans are based on a promise by the company to the employees that they will receive a certain level of pension upon retirement, normally defined as a percentage of final pay. The company is responsible for the amount of the future pension benefit and the financial value of this obligation must be reported in the income statement and balance sheet. The current service cost is reported as payroll expenses, while interests on pension obligations are reported as finance cost.

The accrued liability is calculated on a straight-line accruals basis, and is measured as the present value of the estimated future pension payments that are vested on the balance sheet date. The capitalised net liability is the sum of the accrued pension liability.

Changes in the liability for defined benefit plans due to changes in pension plans are reported in their entirety in the income statement in the case of changes that give rise to an immediate paid-up policy entitlement. Actuarial gains and losses are recognised in equity through the statement of comprehensive income.

Provisions are recognised in the financial statements in the case of potential loss making contracts and restructuring measures that have been adopted. The provisions will not cover possible future operating losses. In the case of restructuring provisions, there must be a detailed plan that identifies which parts of the business are to be restructured, and a valid expectation must have been created among those concerned that the restructuring will be carried out. In addition, it must be possible to provide a reliable estimate of the amount of the liability. The provision is calculated on the basis of the best estimate of anticipated expenses. If the effect is material, anticipated future cash flows will be discounted, using a current pre-tax interest rate that reflects the risks specific to the provision.

Contingent liabilities and contingent assets. A contingent liability or asset is a possible obligation or a possible asset whose existence is uncertain and will be confirmed by the occurrence or non-occurrence of a future special event, such as the outcome of legal proceedings or the final settlement of an insurance claim. If there is a more than 50% probability that a liability has arisen, a provision is recognised in the balance sheet. If the probability is lower, a contingent liability is disclosed in notes to the financial statements unless the probability of disbursement is very small. An asset will only be recognised in the balance sheet if it is highly probable (95%) that the Group will receive the asset. The disclosure requirement applies to contingent assets where an inflow of economic benefits is probable.

Taxes. Income tax expense consists of the total of current taxes and changes in deferred tax. Current taxes are recognised in the financial statements at the amount that is expected to be paid to the tax authorities on the basis of taxable income reported for entities included in consolidated financial statements. Current taxes and changes in deferred tax are taken to other comprehensive income to the extent that they relate to items that are included in other comprehensive income.

Deferred tax in the balance sheet has been calculated at the nominal tax rate based on temporary differences between accounting and tax basis of assets and liabilities on the balance sheet date. Deferred tax liability relating to goodwill has not been recognised in the balance sheet.

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

Deferred tax assets are continuously assessed and are only recognised in the balance sheet to the extent it is probable that future taxable profit will be large enough for the asset to be utilised. Deferred tax liability and deferred tax assets are offset as far as this is possible under taxation legislation and regulations.

FINANCIAL MATTERS

Foreign currency. Transactions in foreign currencies are presented at the exchange rate on the date of the transaction. Financial receivables and liabilities in foreign currencies are presented at the exchange rate on the balance sheet date, and any gain or loss is reported in the income statement as financial items. Other monetary items in a foreign currency are presented at the exchange rate on the balance sheet date, and any gain or loss is reported in the income statement as operating items. Revenues and expenses in subsidiaries with a different functional currency from that of the parent company are translated monthly at the average exchange rate for the month and accumulated. Balance sheet items in subsidiaries with a different functional currency are translated at the exchange rate on the balance sheet date. Translation differences are reported in comprehensive income. Upon disposal of foreign subsidiaries, accumulated translation differences reported in comprehensive income will be reclassified to the income statement.

Derivatives are valued at fair value on the balance sheet date and reported as receivables or liabilities. Gains and losses due to realisation or changes in fair value are reported in the income statement in cases where the derivative is not part of a hedge relationship that satisfies the criteria for hedge accounting. Embedded derivatives in contracts are identified and valued separately. Gränges currently has no embedded derivatives. Purchases and sales of derivatives are recognised at trade date.

Loans and receivables are carried at amortised cost. Thus changes in value resulting from changes in interest rate during the interest rate period are not reported in the income statement.

Hedging. The Group uses the following criteria for classifying a derivative or another financial instrument as a hedging instrument: (1) the hedging instrument is expected to be highly effective in offsetting changes in fair value or cash flows to an identified object – the hedging effectiveness is expected to be between 80–125%, (2) the hedging effectiveness can be measured reliably, (3) satisfactory documentation is established before entering into the hedging instrument, showing among other things that the hedging relationship is effective, (4) in the case of cash flow hedges, that the future transaction is considered to be probable, and (5) the hedging relationship is evaluated regularly and has proved to be effective.

Fair value hedging. Changes in the fair value of derivatives designated as hedging instruments are immediately recognised in income. Changes in the fair value of the hedged item are recognised in income in the same way. Hedge accounting is discontinued if: (a) the hedging instrument has matured, or is terminated, exercised or sold, (b) the hedge no longer satisfies the above mentioned requirements for hedging, or (c) the Group for some reason decides not to continue the fair value hedge. In the case of a discontinued hedge relationship, the changes in the fair value of the hedged item recognised in the balance sheet will be amortised over the remaining life of the item, using the effective interest rate method, in the same way as for the hedging instrument.

Cash flow hedges. DThe efficient part of changes in the fair value of a hedging instrument is recognised in comprehensive income and reclassified to the income statement when the hedged transaction is carried out, and presented on the same line as the hedged transaction. The inefficient part of the hedging instrument is immediately reported in the income statement. When a hedging instrument has matured, or is sold, exercised or terminated, or the Group discontinues the hedging relationship, even though the hedged transaction is still expected to occur, the accumulated gains or losses at this point will remain in comprehensive income, and will be recognised in the income statement when the transaction occurs. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument will be recognised in income immediately.

Measurement of financial instruments. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments, by valuation technique (see Note 19):

Level 1: Quoted, unadjusted prices in active markets for identical assets and liabilities.
Level 2: Other techniques for which all inputs which have significant effect on the recorded fair value, are observable, either directly or indirectly.
Level 3: Other techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

The Gränges Group do not have either listed nor unlisted shares that would have been considered to be at level 1 or 3.

Derivatives are considered to be at level 2. The foreign exchange element in currency forward contracts is measured at observable market prices. Different maturity dates add an interest-rate element resulting in an estimated fair value of the currency forward contracts. Aluminium futures are measured at observable quoted future prices on the LME (London Metal Exchange) and the SHFE (Shanghai Future Exchange).

SEGMENTS

Gränges develops, produces, and distributes rolled aluminium material for heat exchanger applications. The heat exchanger industry is global and relatively consolidated with a small number of large global customers accounting for more than 50% of Gränges' sales. A key account organization is responsible for Gränges' global key customers. The business is governed through a matrix reporting structure combining key accounts with regional markets and production entities.

Historically, as part of the Sapa Group, Gränges reporting structure was based on regional or local operating entities. This was in line with how Sapa's main business, the aluminium extrusions, was followed up. This is a business that is largely exposed to local or regional markets as opposed to Gränges large share of global customers. Following the separation from Sapa, Gränges has chosen to align its modus operandi and reporting structure with the more global nature of its business. As a consequence, Gränges reports one global segment, in line with IFRS 8 requirements.

For figures of the geographical distribution of non-current assets, net sales and average number of employees, see Note 7.

OTHER MATTERS

Business combinations are accounted for using the acquisition method. When a subsidiary is acquired, a purchase price allocation is carried out. The acquisition is reported in the financial statements from the date the Group has control. The date of control is normally the date on which the acquisition agreement takes effect and has been approved by all the relevant authorities, and will normally be after the contract date. Assets and liabilities are valued at fair value at the time of acquisition. The residual value of the acquisition is classified as goodwill. If there are non-controlling interests in the acquired company, these will receive their share of allocated assets and liabilities. Transactions with the non-controlling interests will be recognised in equity. In companies where the Group already owned interests prior to the business combination, any change in the value of earlier interests will be recognised in the income statement. The Group's equity will therefore be affected by the fact that the assets are repriced as if the entire acquisition had been made at this time. The same procedure will in principle be carried out in connection with the establishment of a joint venture and with the acquisition of an associate. These are, however, not considered to be business combinations because the Group does not obtain control.

Cash flow. The cash flow statement has been prepared using the indirect method and shows cash flows from operating, investing and financing activities and explains changes in "Cash and cash equivalents" in the reporting period. Balances being part of the Orkla ASA centralised cash pool are included in "Cash and cash equivalents", while balances owed from Gränges Group entities to Orkla ASA are included in "Interest-bearing liabilities" and reported within cash flow from financing activities.

Leasing. Leases are classified according to the extent to which the risks and rewards associated with ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance lease if it substantially transfers all risks and rewards incidental to ownership of an asset. Finance leases are capitalised and depreciated over the lease period. Other leases are operating leases. Expenses related to such leases are reported as current operating expenses.

Share-based remuneration. The Gränges Group has participated in Orkla ASA's share savings programmes, long-term incentive agreements and share options. The sale of shares to employees at a price lower than the market value is accounted for by recognising the difference between the market value of the shares and the purchase price as a payroll expense. In 2013, a 30% discount was again offered in connection with the sale of shares to employees. The option programme for executive management was valued on the basis of the fair value of the option at the time the option programme was adopted (the award date), using the Black-Scholes model. The cost of the option programme was invoiced from Orkla ASA to Gränges AB and accrued over the period during which the employee earned the right to receive it (the vesting period). The option costs are recognised as payroll expenses. No new options have been awarded since 2012. The option programme for executive management was replaced in 2012 by a long-term incentive (LTI) agreement. An amount equivalent to what was paid out in annual variable compensation is provided for in a bonus bank for LTI recipients. The amount falls due for payment in three equal instalments; one, two and three years after the LTI is awarded. In order to be eligible for the LTI payout, the recipient must remain employed at the time the LTI is paid out.

Government grants are recognised in the financial statements when it is highly probable that they will be received. The grants are presented either as revenue or as a reduction in costs and, in the latter case, matched with the costs for which they are intended to compensate. Government grants that relate to assets are recognised as a reduction in the acquisition cost of the asset. The grant reduces the depreciation of the asset.

Note 5: Use of estimates in preparing the consolidated financial statements

The management has made use of estimates and assumptions in preparing the consolidated financial statements. This applies to assets, liabilities, revenues, expenses and supplementary information related to contingent liabilities. Areas where estimates have considerable significance are:

Amounts in SEK million	Note	Estimate/assumptions	Carrying value
Accounting item			
Property, plant and equipment	17	Recoverable amount and estimation of correct remaining useful life	1 661
Inventories / Metal exposure	18	Recoverable amount and use of metal hedging	680
Pension liabilities	9	Economic and demographic assumptions	119

Property, plant and equipment are largely based on a directly paid cost price and depreciated over estimated useful life. In the case of several of Gränges tangible assets, changes in assumptions may lead to substantial changes in value.

Inventories are valued at the lower of cost and net realisable value. Purchased goods are valued at cost according to the first in first out (FIFO) principle, while internally manufactured finished goods and work in progress are valued at production cost. Deductions are made for obsolescence. Net realisable value is the estimated selling price minus selling costs. Inventory-items which qualify as hedging-objects in fair value hedges are carried at fair value (see "Fair value hedging" above).

Gränges has some defined benefit plans, all classified as unfunded. The pension plans are "net plans" that do not link the reported liabilities to changes in Swedish social security. The plans are largely determined by collective agreements.

Future events and changes in operating parameters may make it necessary to change estimates and assumptions. New interpretations of standards may result in changes in the principles chosen and presentation. Such changes will be recognised in the financial statements when new estimates are prepared and whenever new requirements with regard to presentation are introduced. These matters are discussed in both the section on principles and other notes.

EXERCISE OF JUDGEMENT

The financial statements may also be affected by the choice of accounting principles and the judgement exercised in applying them. This applies, for instance, that certain items are presented as "Other income and expenses" on a separate line. Gränges has also chosen to present profit or loss from joint ventures after operating profit. It is important to note that use of a different set of assumptions for the presentation of the financial statements could have resulted in significant changes in the lines presented.

Note 6: Investments accounted for under the equity method

Gränges is accounting for two joint ventures, both in which Gränges holds a 50% share, using the equity method.

Norca Heat Transfer LLC is a sales and distribution company acting as a distributor of Gränges' products in the North American market. Gränges have a contractual obligation to compensate Norca for any losses in relation to obsolete inventory held by Norca. Furthermore Gränges have obliged to cover any losses that Norca experiences in relation to bad debts not subject to credit insurance. Gränges has historically not experienced any significant cost under these commitments. Sales to Norca amounted to SEK 644 million in 2013, and to SEK 722 million and SEK 628 million in 2012 and 2011 respectively.

Shanghai Gränges Moriyasu Aluminium Co. Ltd. is currently establishing a stamping operation that will provide Gränges' customers with stamping capacity in China.

No significant capital contributions are required in joint ventures in which Gränges is a participant.

INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Amounts in SEK million	Norca Heat Transfer	Shanghai Gränges Moriyasu Aluminium	Total
Cost price 31 December 2013	–	5	5
Book value 1 January 2011	24	–	24
Additions/disposals 2011	–	–	–
Additions/disposals 2012	–	–	–
Additions/disposals 2013	–	5	5
Share of profit 2011	3	–	3
Share of profit 2012	3	–	3
Share of profit 2013	5	–	5
Dividends 2011	–	–	–
Dividends 2012	–	–	–
Dividends 2013	–12	–	–12
Items charged to equity 2011	–1	–	–1
Items charged to equity 2012	–2	–	–2
Items charged to equity 2013	–	–	–
Book value 31 December 2011	26	–	26
Book value 31 December 2012	27	–	27
Book value 31 December 2013	20	5	25
Ownership interest 31 December 2013	50.0 %	50.0 %	

NORCA HEAT TRANSFER (100% FIGURES):

Items in the income statement and statement of financial position (100 % figures)

	Norca Heat Transfer		
Amounts in USD million	2013	2012	2011
Operating revenues	99	98	90
Operating profit	3	2	2
Profit/loss after tax and non-controlling interests	2	2	2
Current assets	43	48	42
Non-current assets	–	–	–
Total assets	**43**	**48**	**42**
Current liabilities	15	13	14
Non-current liabilities	20	24	19
Total liabilities	**35**	**37**	**33**

Note 7: Geographical breakdowns of net sales, non-current assets and average number of employees

Net sales are broken down by region based on the customers' location. The breakdown of non-current assets and average number of employees is based on the location of the companies.

	Net sales			Non-current assets[1]			Average nr of employees		
Amounts in SEK million	2013	2012	2011	2013	2012	2011	2013	2012	2011
Asia	2 271	2 416	2 243	988	975	932	519	492	490
Sweden	210	284	241	691	755	724	445	455	498
Rest of Europe	1 463	1 473	1 673	–	–	–	–	–	–
Americas	698	772	683	20	27	26	–	–	–
Total	**4 642**	**4 946**	**4 840**	**1 699**	**1 757**	**1 682**	**964**	**947**	**988**

1) Excluding deferred tax assets and interest-bearing receivables.

The six largest customers represent 50% of sales with two customers each representing more than 10% of total sales. Customer A represents 10.3% or SEK 479 million in 2013 (9.5% or SEK 466 million in 2012 and 9.6% or SEK 460 million in 2011) and Customer B represents 10.2% or SEK 471 million in 2013 (8.3% or SEK 409 million in 2012 and 3.3% or SEK 157 million in 2011).

Note 8: Payroll expenses

PAYROLL EXPENSES

Amounts in SEK million	2013	2012	2011
Wages	–291	–290	–289
Employer's national insurance contribution	–101	–92	–90
Pension costs	–24	–21	–19
Other payments etc.	–2	–2	–1
Payroll expenses	**–418**	**–405**	**–399**
Average number of employees	964	947	988

REMUNERATION OF THE EXECUTIVE MANAGEMENT

	2013			2012			2011		
Amounts in SEK Thousand	Salary incl. bonus	Share based payments	Pensions costs	Salary incl. bonus	Share based payments	Pensions costs	Salary incl. bonus	Share based payments	Pensions costs
Remuneration to CEO	3 230	–	339	2 804	–	329	2 565	1 014	666
Remuneration to other members of the Group Executive Board	6 739	–	1 086	7 018	–	1 124	9 961	947	1 185
Number of options to CEO 31 December		–			–			70 000	
Number of options to other members of the Group Executive Board 31 December		–			–			65 000	

During 2011 and 2012 Gränges did not have a formal Board of Directors but was managed as a business area within the Sapa Group. From 2013 a formal Board of Directors was established comprising four Directors and four employee representatives. One of the Directors is independent and obtained a remuneration of 250 kSEK for 2013. The Gränges Executive Management consisted of four members in addition to the CEO in 2013 and 2012, and five members in addition to the CEO in 2011.

The current CEO, Johan Menckel, held a position as Business Area President Asia and Middle East within the Sapa Group during 2011. In that position he received 50,000 options for a shared based payment of 724 kSEK in 2011. Johan Menckel had a total of 100,000 options at year end 2013.

Gränges Executive Management has, in line with executive management in other Orkla subsidiaries, been eligible for certain long term incentives for 2012 and 2013. Such Orkla related incentive structures will be discontinued.

Note 9: Pensions

Gränges has pension schemes in Sweden. About 83% of the employees are covered by defined contribution pension plans and the rest are covered by defined benefit pension plans.

DEFINED CONTRIBUTION PLANS

Employees in Gränges are mainly covered by pension plans classified as defined contribution plans. Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employees' pension plans, and where the future pension is determined by the amount of the contributions and the return on the pension plan assets. In Sweden the blue collar employees are covered by defined contribution pension plans and also the white collar employees born after 1979 in accordance with the ITP1 pension scheme.

DEFINED BENEFIT PLANS

The defined benefit pension plan in Sweden consists of white collar employees who are covered by the ITP2 pension scheme, based on collective agreements between the Swedish Employer Confederation and the trade unions for salaried employees within the private sector. The pension plan is a net plan that does not link the reported liabilities to changes in Swedish social security. All white collar employees born in 1979 or later are, according to collective agreements, covered by the ITP1-scheme, a defined contribution plan. This means that the scope of the defined benefit plan will gradually be reduced. The defined benefit plan is based on final salary and ensures the beneficiary lifelong pension payments. The plan exposes Gränges for different risks, including the risk for increased longevity and salaries, and sensitivity to interest rate changes.

The defined benefit plan in Gränges is unfunded and recognised by provisions in the balance sheet. To secure unfunded accrued pension rights, companies must take out credit insurance, supplied by the PRI Pensionsgaranti insurance company. PRI Pensionsgaranti also records and calculates the Group's unfunded pension liabilities. The pensions are regulated by the Swedish Law on the Safeguarding of Pensions.

Account has been taken of payroll tax on the pension liabilities.

ASSUMPTIONS RELATING TO DEFINED BENEFIT PLANS

The assumptions are decided after consultation with actuarial expertise. Future salary adjustment and turnover are Group specific assumptions. The discount rate is determined with reference to high quality corporate bonds traded in a deep market, reflecting the duration of the pension obligation. In Sweden the discount rate is based on covered mortgage bonds.

The mortality estimate is based on updated mortality tables at 30 June 2011, included in the calculations on 31 December 2011.

ASSUMPTIONS DEFINED BENEFIT PLANS

	Sweden		
	2013	2012	2011
Discount rate	4.0 %	3.5 %	3.5 %
Future salary adjustment	3.0 %	3.0 %	3.0 %
Income base amount	3.0 %	3.0 %	3.0 %
Adjustment of benefits	2.0 %	2.0 %	2.0 %
Turnover	4.0 %	4.0 %	4.0 %
Expected average remaining vesting period	17.1	18.2	19.1

BREAKDOWN OF NET PENSION COSTS

Amounts in SEK million	2013	2012	2011
Contribution plans	–20	–18	–17
Current service cost for defined benefit plans	–4	–3	–2
Pension cost defined as operating cost	**–24**	**–21**	**–19**
Interest on pension obligations defined as finance cost	–5	–3	–3
Net pension costs reported in income statement	**–29**	**–24**	**–22**
Actuarial gains and losses in statement of comprehensive income	10	1	–2
Total pension costs	**–19**	**–23**	**–24**

BREAKDOWN OF NET PENSION LIABILITIES AS OF 31 DECEMBER

Amounts in SEK million	2013	2012	2011
Present value of unfunded pension liabilities	**–119**	**–128**	**–126**
Capitalised pension liabilities	–119	–128	–126
Capitalised plan assets	–	–	–

CHANGES IN THE PRESENT VALUE OF PENSION OBLIGATIONS DURING THE YEAR

Amounts in SEK million	2013	2012	2011
Pension obligations 1 January	–128	–126	–122
Current service cost	–4	–3	–2
Interest on pension obligations	–5	–3	–3
Actuarial gains and losses reported in statement of comprehensive income:			
– due to changes in financial assumptions	8	1	–
– due to changes in demographic assumptions	2	–	–2
Benefits paid during the year	8	3	3
Pension obligations 31 December	**–119**	**–128**	**–126**

SENSITIVITY ANALYSIS

The sensitivity to the significant assumption discount rate, based on 4%, is estimated to be as follows:

- 3.5%: increased benefit obligation with 9%
- 4.5%: decreased benefit obligation with 8%

An increase or decrease of longevity with one year will increase or decrease the benefit obligation with 3%.

The sensitivity analysis is based on a change in one single actuarial assumption while the other assumptions remain unchanged. This method shows the obligation´s sensitivity to one single assumption. This is a simplified method as most often the actuarial assumptions are correlated.

The duration of the pension liability is 25.3 years.

CASH FLOW

Gränges pays the pensions for the unfunded defined benefit plans. Pensions expected to be paid for 2014 amount to SEK 5 million.

Note 10: Other operating expenses

Amounts in SEK million	2013	2012	2011
External freight costs	–127	–149	–152
Energy costs (production and heating)	–231	–218	–207
Repair and maintenance costs	–138	–136	–150
Consultants, legal advisors, temporary staff, etc.	–31	–30	–44
Operating expenses vehicles	–12	–11	–11
Rental/leasing	–17	–18	–16
Operating expenses, office equipment etc.	–11	–12	–11
Other	–293	–315	–307
Total other operating expenses	**–860**	**–889**	**–898**

Note 11: Other income and expenses

Amounts in SEK million	2013	2012	2011
M&A costs	−24	–	–
Finspång fire costs (net)	136	51	−54
Finspång restructuring costs	−13	−10	−12
Other costs	−14	−11	−25
Total other income and expenses	**85**	**30**	**−91**
Of this:			
Write-down property, plant and equipment	−7	–	–
Write-down intangible assets	–	–	–

In 2013, Gränges was separated from Sapa through a demerger and Orkla started a process to divest Gränges, a process that was later cancelled. The total negative impact of the demerger and divestment processes on Gränges operating profit was SEK 24 million mainly related to consultant fees and legal fees. In 2014 a process was initiated to prepare Gränges for an IPO.

In February 2010 there was a fire in one of the cold rolling bays in the operation in Finspång. Although the rebuild and ramp up of the affected production assets was completed by mid 2010 express freight to customers was required to fulfil delivery commitments in 2011 at a total cost of SEK 54 million. In 2012 a provision from 2010 for potential customer claims related to the fire was released. Net of legal fees this had a positive impact of SEK 51 million on the operating profit. In December 2013 an arbitral award was issued in the process between Gränges and the insurance company. The settlement entitled Gränges to an additional net compensation of SEK 325 million in addition to the SEK 120 million paid in 2010. As Gränges at the time of the settlement had a booked net claim of SEK 165 million the claim was increased by SEK 160 million to SEK 325 million in December 2013. Net of legal fees, arbitration costs, and compensation to Sapa for a damaged building, this had a positive impact of SEK 136 million on the operating profit in 2013.

Investments in combination with efficiency improvements have allowed for a gradual reduction of the work force in Finspång. In total the manning has been reduced with approximately 100 employees from 2010 to 2013. The cost associated with the downsizing of the organization amount to SEK 12 million, SEK 10 million, and SEK 13 million for 2011, 2012 and 2013 respectively. In 2012 the local management team in Finspång was replaced. The figure for 2012 includes the cost for severance payments to the previous management team.

In 2011 Gränges made a decision to optimise across the production footprint and transfer the production of a part of the Americas business from the plant in Finspång to the plant in Shanghai. At the time of the decision a provision of SEK 25 million was made in order to cover for additional costs related to the production transfer. Of the SEK 14 million in other costs in 2013, SEK 7 million was related to a write down of real estate in Finspång.

Note 12: Finance income and finance costs

Amounts in SEK million	2013	2012	2011
Interest income	4	2	2
Other finance income	1	–	1
Total finance income	**5**	**2**	**3**
Interest costs from Orkla Group	–12	–28	–21
Interest costs	–31	–34	–33
Net foreign exchange loss	–	–	–3
Interest pensions	–5	–3	–3
Other finance costs	–	–1	–
Total finance costs	**–48**	**–66**	**–60**
Net finance costs (A)	**–43**	**–64**	**–57**
Reconciliation against cash flow:			
Change in accrued interest etc.	–5	2	2
Interest pensions, not cash flow effect	5	3	3
Total (B)	**–**	**5**	**5**
Paid financial items in cash flow (A+B)	**–43**	**–59**	**–52**

Financial income mainly consists of interest income related to bank deposits in China with relatively low interest rates. Financial costs relate to interest rate for the loans from Orkla and the external loans in China, both with floating interest rates.

Note 13: Taxes

TAX EXPENSE

Amounts in SEK million	2013	2012	2011
Profit before tax	**418**	**331**	**64**
Current tax expense	–105	–13	–20
Deferred tax expense	–4	–2	22
Total tax expense	**–109**	**–15**	**2**
Tax as % of "Profit before taxes"	26 %	5 %	–3 %

RECONCILIATION OF THE GROUP'S TAX RATE

In the following table, reported taxes are reconciled with the tax expense based on the Swedish tax rates. The main tax components are specified below.

Amounts in SEK million	2013	2012	2011
Profit before tax multiplied with the nominal tax rate in Sweden	–92	–86	–17
Foreign operations with tax rate other than 22 % (26.3 % before 2013)	–12	32	30
Changes in tax law	14	5	–
Profit from joint ventures	1	1	1
Non-deductible expenses / non-taxable revenues (net)	2	–1	3
Witholding tax on dividend	–21	–	–13
Unrecognised deferred tax assets, this year	–	–	–2
Adjustment previous year's taxes	–1	34	–
The Group's total tax expense	**–109**	**–15**	**2**

The ordinary tax rate for companies domiciled in Sweden was 22% in 2013, a reduction from the previous level 26.3%.

The ordinary tax rate for companies domiciled in China is 25%. However, the Shanghai business qualified for the reduced tax rate of 15% applying to High Tech Enterprises for the period 2010–2012. The Chinese tax authority has given a preliminary acceptance for a 15% High Tech Enterprise taxation for Shanghai also for the period 2013–2015. Still, since the formal acceptance was not given during 2013, a tax rate of 25% has been applied in 2013.

If the 15% tax rate had been applied for 2013 the current tax had been SEK 35 million lower. If the 15% tax rate had been applied for temporary differences as of December 2013 the deferred tax expense had been SEK 11 million higher for 2013.

As dividend from the Chinese subsidiary currently is subject to a withholding of 5% a provision of SEK 21 million has been made in relation to this as of December 31,2013.

The change in the Swedish tax rate from 26.3 % to 22 % in 2013 resulted in reduced deferred tax liability of SEK 5 million in 2012. The decision to apply the ordinary tax rate in 2013 for the Shanghai business resulted in increased deferred tax assets of SEK 14 million in 2013.

Adjustment of previous year's taxes of SEK 34 million in 2012 is an adjustment of the tax rate in 2010 related to the approval of the Shanghai business as High Tech. The applied tax rate in 2010 was 25%.

Results from the joint venture Norca Heat Transfer LLC are recognised on an after-tax basis and thus do not impact the Group's tax expense.

DEFERRED TAX

Deferred tax liabilities consists of the Group's tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the temporary differences between the carrying amount of an asset or liability and its tax base. The table shows the composition of the Group's deferred tax, and indicates as such when deferred taxes are payable.

Amounts in SEK million	2013	2012	2011
Deferred tax on temporary differences			
Hedging reserve in equity	–1	3	7
Property, plant and equipment	45	45	56
Net pension liability	–7	–8	–8
Other non-current items	–1	1	–
Total non-current items	**36**	**41**	**55**
Current receivables	–13	–22	–35
Inventories	–1	–1	–7
Provisions	–12	–11	–7
Time lag group contributions	–28	–4	–36
Total current items	**–54**	**–38**	**–85**
Tax losses carried forward	–	–2	–2
Net deferred tax assets/deferred tax liabilities	**–18**	**1**	**–32**
Deferred tax assets not recognised	–	2	2
Net deferred tax assets/liabilites	**–18**	**3**	**–30**
Change in deferred tax	21	–33	60
Change in deferred tax hedging reserve taken to other comprehensive income	–4	–4	–18
Change in deferred tax actuarial gains and losses pensions taken to other comprehensive income	2	0	0
Change in deferred tax group contributions in equity	–24	32	–20
Translation effects taken to other comprehensive income	1	3	–
Change in deferred tax total comprehensive income	**–4**	**–2**	**22**

LOSSES CARRIED FORWARD BY EXPIRY DATE

With the exception of the business in India there is no tax losses carried forward in the group. The tax loss in India of SEK 7 million in 2012 is nearly absorbed by taxable income in 2013. The remaining tax loss of SEK 1 million per 31.12.2013 is expected to be used in 2014.

Note 14: Earnings per share

The basic earnings per share are calculated as the ratio of the profit for the year divided by the weighted average number of ordinary shares outstanding, 37,319,693 share for all years. No dilution effects exist for the years 2011 through 2013.

Earnings per share is calculated on basis of profit of the year after non-controlling interests.

	2013	2012	2011
Profit/loss for the year after non-controlling interests (SEK million)	309	316	66
Number of shares outstanding	37,319,693	37,319,693	37,319,693
Earnings per share (SEK), basic and diluted	**8.28**	**8.47**	**1.77**

Note 15: Impairment assessments

The Gränges Group has substantial non-current assets in the form of tangible (property, plant and equipment) and some minor intangible assets. An explanation of the details of and changes in these assets is presented separately in Note 16 and Note 17. The Group also has other non-current assets that mainly consist of investments in companies recognised using the equity method. These are disclosed in Note 6 and are not covered in the description below. Estimate uncertainty attaches to property, plant and equipment and intangible assets exists, and changes in underlying assumptions could have a sizable impact, however, the risk for material write-downs is viewed to be low. Both valuation and estimated useful life are based on future information that is always subject to a certain degree of uncertainty.

Tangible assets (property, plant and equipment) are basically capitalised at acquisition cost and, if they have a limited useful life, will be systematically depreciated over that period. Account is taken of residual value. Useful life and residual value are based on estimates of future development. The uncertainty and risk related to intangible assets are limited due to the small amounts. Booked goodwill is SEK 5 million and IT-systems SEK 8 million. The goodwill is linked to the Gränges Shanghai business and IT-systems consist of EDP programs.

The Gränges Group routinely monitors assets and if there are indications that the value of an asset is no longer recoverable, an impairment test will immediately be carried out to determine whether the asset can still justify its carrying value. If new estimates conclude that the value is no longer recoverable, the asset is written down to the recoverable amount, i.e. the greater of the net sales value and the value in use (discounted cash flow).

Goodwill are not amortised on a regular basis and are therefore tested at least annually for impairment. At Gränges, impairment testing is carried out in the third quarter. If there are special indications of a reduction in value, impairment testing is carried out more frequently (see above). Cash flows relating to the assets are identified and discounted. Future cash flow is based on specified assumptions and the plans adopted by the unit. If the discounted value of future cash flows is lower than the capitalised value of the unit's capital employed, the assets are written down to the recoverable amount.

DISCOUNT RATE

The discount rate applied is based on the Group's cost of capital, which is estimated to be 10.7% before tax, based on a weighted average of required rates of return for the Group's equity and debt (WACC). The required rate of return on the Group's equity is estimated by using the capital asset pricing model (CAPM). The required rate of return on debt is estimated on the basis of a long-term risk-free interest rate to which is added a credit margin derived from Gränges marginal long-term borrowing rate.

Note 16: Intangible assets

Amounts in SEK million	IT	Goodwill	Total
Book value 1 January 2013	**12**	**5**	**17**
Additions	–	–	–
Reclassification	–	–	–
Amortisation	–4	–	–4
Currency translations	–	–	–
Book value 31 December 2013	**8**	**5**	**13**
Initial cost 31 December 2013	26	5	31
Accumulated amortisation and write-downs	–18	–	–18
Book value 31 December 2013	**8**	**5**	**13**
Book value 1 January 2012	**5**	**5**	**10**
Additions	–	–	–
Transfered from assets under construction[1)]	11	–	11
Amortisation	–4	–	–4
Currency translations	–	–	–
Book value 31 December 2012	**12**	**5**	**17**
Initial cost 31 December 2012	26	5	31
Accumulated amortisation and write-downs	–14	–	–14
Book value 31 December 2012	**12**	**5**	**17**
Book value 1 January 2011	**5**	**5**	**10**
Additions	3	–	3
Reclassification	–	–	–
Amortisation	–3	–	–3
Currency translations	–	–	–
Book value 31 December 2011	**5**	**5**	**10**
Initial cost 31 December 2011	15	5	20
Accumulated amortisation and write-downs	–10	–	–10
Book value 31 December 2011	**5**	**5**	**10**

1) Net reclassifications relate to figures transferred from note 17.

IT-systems are amortised on a straight line basis at 20 to 33%. In addition, the Gränges Group expensed SEK 55 million in 2013 in research and development costs (SEK 65 million in 2012 and SEK 53 million in 2011).

Note 17: Property, plant and equipment

Amounts in SEK million	Land, buildings and other property[1]	Machinery and plants	Assets under construction	Fixtures, fittings, vehicles etc.	Total
Book value 1 January 2013	**479**	**901**	**282**	**51**	**1 713**
Additions	7	3	114	1	125
Disposals	–	–1	–	–	–1
Transferred assets under construction	2	291	–303	10	–
Write-downs	–7	–	–	–	–7
Depreciation	–26	–143	–	–14	–183
Currency translation	3	11	–	–	14
Book value 31 December 2013	**458**	**1 062**	**93**	**48**	**1 661**
Initial cost 31 December 2013	704	2 572	93	148	3 517
Accumulated depreciation and write-downs	–246	–1 510	–	–100	–1 856
Book value 31 December 2013	**458**	**1 062**	**93**	**48**	**1 661**
Book value 1 January 2012	**509**	**910**	**165**	**62**	**1 646**
Additions	–	–	289	4	293
Disposals	–	–12	–	–1	–13
Transferred assets under construction[2]	–	153	–165	1	–11
Depreciation	–19	–127	–	–14	–160
Currency translation	–11	–23	–7	–1	–42
Book value 31 December 2012	**479**	**901**	**282**	**51**	**1 713**
Initial cost 31 December 2012	697	2 287	282	134	3 400
Accumulated depreciation and write-downs	–218	–1 386	0	–83	–1 687
Book value 31 December 2012	**479**	**901**	**282**	**51**	**1 713**
Book value 1 January 2011	**506**	**860**	**1**	**59**	**1 426**
Additions	1	–	317	2	320
Disposals	–	–8	–5	–	–13
Transferred assets under construction	2	144	–154	8	–
Depreciation	–16	–120	–	–9	–145
Currency translation	16	34	6	2	58
Book value 31 December 2011	**509**	**910**	**165**	**62**	**1 646**
Initial cost 31 December 2011	703	2 180	165	134	3 182
Accumulated depreciation and write-downs	–194	–1 270	–	–72	–1 536
Book value 31 December 2011	**509**	**910**	**165**	**62**	**1 646**

1) Book value of land amounted to less than 1 MSEK in all periods presented above.
2) Net reclassifications relate to figures transferred to note 16.

Property, plant and equipment are depreciated on a straight line basis at the following rates: buildings and other property 2.5 to 10%, machinery and plants, 5 to 20%, fixtures, fittings and vehicles 5 to 20%and IT equipment 33%. The period of depreciation is reviewed each year and if there are changes in useful life, depreciation is adjusted.

The residual value is also calculated and if it is higher than the carrying value, depreciation is stopped. This applies in particular to buildings. The table above covers both directly acquired assets and assets acquired through the allocation of excess value in connection with the purchase of a business.

For disclosures of security and mortgages related to the Group's property, plant and equipment see Note 29.

Note 18: Inventories

Amounts in SEK million	2013	2012	2011
Raw materials	229	327	330
Work in progress	167	181	202
Finished goods and merchandise	287	296	311
Provision for obsolescence	–3	–4	–5
Total inventories	**680**	**800**	**838**

Inventories are valued at the lower of acquisition cost and net realisable value after deducting selling costs.

Note 19: Overview of financial instruments

There were no transfers from one level to another in the measurement hierarchy in 2013, 2012 and 2011. The measurement of the Group's derivatives is defined as level 2. A description of how the derivatives are measured is provided in Note 26.

Most of the financial assets and liabilities have a short duration and in addition the interest-bearing liabilities have variable interest rates. Management assesses that there are no material differences between fair values and the carrying amounts of financial instruments recognized at amortized costs.

2013

Amounts in SEK million	Note	Measurement level	Financial instruments at fair value through profit and loss	Financial instruments at fair value through comprehensive income	Financial liabilities measured at amortised cost	Deposits and receivables	Total	Of this interest bearing
Non-current assets								
Non-current financial receivables						26	26	26
Total							**26**	**26**
Current assets								
Accounts receivable	20					764	764	–
Other current receivables	20					90	90	–
Current derivatives	20, 26	2	18	7			25	–
Cash and cash equivalents	21					896	896	896
Total							**1 775**	**896**
Non-current liabilities								
Non-current financial liabilities	24				265		265	265
Total							**265**	**265**
Current liabilities								
Current financial liabilities	24				412		412	412
Accounts payable	22				375		375	–
Other current liabilities	22				6		6	–
Current derivatives	22, 26	2	15	14			29	–
Total							**822**	**412**
Total financial instruments			**3**	**–7**	**–1 058**	**1 776**	**714**	**245**
Total measurement level 2 - Other techniques for which all inputs which have significant effect on the recorded fair value are observable, directly or indirectly							**–4**	

2012

Amounts in SEK million	Note	Measure-ment level	Financial instru-ments at fair value through profit and loss	Financial instru-ments at fair value through compre-hensive income	Financial liabilities measured at amor-tised cost	Deposits and receiv-ables	Total	Of this interest bearing
Current assets								
Accounts receivable	20					790	790	
Other current receivables	20					109	109	
Current derivatives	20, 26	2	24	17			41	
Cash and cash equivalents	21					527	527	527
Total							**1 467**	**527**
Non-current liabilities								
Non-current financial liabilities	24				809		809	809
Total							**809**	**809**
Current liabilities								
Current financial liabilities	24				457		457	457
Accounts payable	22				458		458	–
Current derivatives	22, 26	2	24	4			28	–
Total							**943**	**457**
Total financial instruments			**0**	**13**	**–1 724**	**1 426**	**–285**	**–739**
Total measurement level 2 - Other techniques for which all inputs which have significant effect on the recorded fair value are observable, directly or indirectly							**13**	

2011

Amounts in SEK million	Note	Measurement level	Financial instruments at fair value through profit and loss	Financial instruments at fair value through comprehensive income	Financial liabilities measured at amortised cost	Deposits and receivables	Total	Of this interest bearing
Current assets								
Accounts receivable	20					814	814	
Other current receivables	20					224	224	
Current derivatives	20, 26	2	80	37			117	
Cash and cash equivalents	21					452	452	452
Total							**1 607**	**452**
Non-current liabilities								
Non-current financial liabilities	24				575		575	575
Total							**575**	**575**
Current liabilities								
Current financial liabilities	24				679		679	679
Accounts payable	22				463		463	–
Current derivatives	22, 26	2	33	10			43	–
Total							**1 185**	**679**
Total financial instruments			**47**	**27**	**–1 717**	**1 490**	**–153**	**–802**
Total measurement level 2 - Other techniques for which all inputs which have significant effect on the recorded fair value are observable, directly or indirectly							**74**	

Note 20: Receivables (current)

Amounts in SEK million	2013	2012	2011
Accounts receivable	764	790	814
Derivatives	25	41	117
Other current receivables	90	109	224
Total financial receivables non-interest bearing	**879**	**940**	**1 155**
Advance payment to suppliers/earned income[1)]	401	248	222
Tax receivables	11	5	3
Total current receivables	**1 291**	**1 193**	**1 380**

1) Includes the insurance claim related to the fire in Finspång, see Note 11.

Change in provisions for bad debts:

Amounts in SEK million	2013	2012	2011
Provisions for bad debts 1 January	32	30	21
Bad debts recognised as expense	34	11	7
Utilization during the year	–2	–8	–
Translation effects	–	–1	2
Provisions for bad debts 31 December	**64**	**32**	**30**

Accounts receivable have the following due dates:

Amounts in SEK million	2013	2012	2011
Accounts receivable not due	522	525	542
Overdue receivables 1–30 days	129	134	84
Overdue receivables 31–60 days	55	62	66
Overdue receivables 61–90 days	27	14	29
Overdue receivables over 90 days	95	87	123
Accounts receivable carrying amount 31 December	**828**	**822**	**844**

The ageing structure for overdue debt have been relatively stable over time and reflects the fact that Gränges operates in some regions and markets were payments from customer in general are somewhat slow. The overdue accounts receivable are spread across the customer base

Bad debt losses have historically been relatively low and stable. The increased bad debt in 2013 is mainly related to one customer who due to prolonged currency restrictions is unable to make payments to Gränges. Except for this the bad debt provision is spread across the customer base.

Five customers represent 22% of total outstanding accounts receivables at Dec 31,2013 (five customer 20% total outstanding 2012 and five customers 20% of total outstanding in 2011).

Gränges' customer base is further described in Note 4 (see section "Segments") and in Note 7.

Note 21: Cash and cash equivalents

Amounts in SEK million	2013	2012	2011
Cash at bank and in hand	616	440	391
Current deposits with Orkla	280	82	61
Restricted deposits	–	5	–
Total cash and cash equivalents	**896**	**527**	**452**

Liquidity planning for Gränges has historically been carried out at Orkla level optimizing liquidity across the whole Orkla group. As standalone company liquidity planning will be done at Gränges group level and as a consequence the Cash at bank and in hand that are predominantly related to the Shanghai operation will be transferred to Gränges AB as dividend during the second half of 2014.

Note 22: Other liabilities (current)

Amounts in SEK million	2013	2012	2011
Accounts payable	375	458	463
Derivatives	29	28	43
Non interest-bearing liabilities	6	–	–
Total financial liabilities non interest-bearing	**410**	**486**	**506**
Value added tax, employee taxes etc.	33	20	17
Accrued expenses	78	111	59
Employee related liabilities	79	46	48
Other short term liabilities	22	8	68
Total current liabilities	**622**	**671**	**698**

Note 23: Capital management

Gränges capital management is governed by policies set out by its ultimate parent, Orkla ASA, which policy is to provide necessary capital through a combination of equity and loans. One of the main objectives is to maintain a financial structure that, through solidity and cash flows, secures Gränges credit worthiness. The capital structure is also adapted to legal and tax considerations. The short term liquidity of Gränges is deposited with Orkla ASA, through bank accounts which take part in Orkla's cash-pools. Long-term funding is in place for the Gränges Group from Orkla ASA. The loan agreements include "Change of control" clauses.

When the demerger in Sapa AB took place in 2013, intercompany borrowings were converted to equity. The equity in 2011 and 2012 consist of equity in the legal entities in the new Gränges group and interest free borrowings and receivables from and to the Orkla Group have been allocated to equity.

Gränges management of funding is further described in Note 24 and Note 25. Gränges has no official credit rating.

Orkla considers a disposal of its shares in Gränges. Upon such disposal, Gränges' loans from and deposits with Orkla ASA will be settled and replaced by other counterparties. Further, a disposal may bring about changes in Gränges' capital structure. Refer to Note 31 for further details.

The Group's capital consists of net interest-bearing liabilities and equity:

Amounts in SEK million	2013	2012	2011
Total interest-bearing liabilities Orkla	346	809	862
Total interest-bearing liabilities other	331	457	392
Total interest-bearing receivables	922	527	452
Net interest-bearing liabilities	**–245**	**739**	**802**
Group's equity[1]	3 098	2 208	2 260
Net gearing (net interest-bearing liabilities/equity)	–0.08	0.33	0.35

1) The Group's equity also includes the value of cash flow hedges taken to comprehensive income.

Note 24: Funding and interest-bearing liabilities

FUNDING

Gränges main source of financing has been loan facilities from its ultimate parent, Orkla ASA. In addition, some short-term working capital facilities from banks providing cash management services are in place. Gränges Group's long term funding is provided by the ultimate parent, Orkla ASA.

	Book value		
Amounts in SEK million	2013	2012	2011
Non-current interest-bearing liabilities			
Loans from Orkla	265	809	575
Total non-current interest-bearing liabilities	**265**	**809**	**575**
Current interest-bearing liabilities			
Bank loans, overdraft	–	24	9
Loans from Orkla	81	–	287
Other loans	331	433	383
Total current interest-bearing liabilities	**412**	**457**	**679**
Total interest-bearing liabilities	**677**	**1 266**	**1 254**
Interest bearing receivables			
Non-current interest-bearing receivables	26	–	–
Cash and cash equivalents	896	527	452
Total interest-bearing receivables	**922**	**527**	**452**
Net interest-bearing liabilities	**–245**	**739**	**802**

Note 25: Financial risk

ORGANISATION OF FINANCIAL RISK MANAGEMENT

Gränges operates internationally and is exposed to financial risks like currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Gränges uses derivatives and other financial instruments to reduce these risks in accordance with the Group's financial policy.

Gränges has a central Group Treasury. Its most important tasks are to ensure the Group's financial flexibility in the short and long term, and to monitor and manage financial risk in cooperation with individual operational entities. Gränges manages its currency and price risk in accordance with these principles, as well as cash collection and credit risk on due amounts from customers.

FINANCIAL RISKS

This section describes the most important risk factors within Gränges Group and the management of these. In this context, financial risk is defined as risk related to financial instruments. These may either be hedging instruments for underlying risk, or viewed as a source of risk themselves. Gränges manage the financial risks in a non-speculative manner, such that all transactions in financial instruments are matched to an underlying business requirement. Gränges initiates hedging-transactions directly with external counterparts.

CURRENCY RISK

Gränges has substantial export out of Sweden and China, and is therefore exposed to currency risk. This risk is being hedged according to policy. Currency exposure related to firm commitments from the customer, usually for periods of up to 12 months, is hedged. Currency exposure related to customer orders without firm commitments is hedged based on a rolling forecast where a certain portion of the forecasted currency need is hedged. Gränges applies hedge accounting for most hedges of future transactions, either cash flow hedges or fair value hedges of firm commitments. The different types of hedges are described in Note 26.

The Group's aggregated outstanding currency hedges of future transactions on the balance sheet date are shown in the table below.

Foreign exchange contracts linked to hedging of future revenues and costs[1]:

2013

Puchase currency Amounts in SEK million	Amount	Sale currency	Amount	Maturity
SEK	704	EUR	80	2014
SEK	100	EUR	11	2015
SEK	359	USD	55	2014
SEK	15	USD	2	2015
CNY	468	USD	76	2014

1) In currency pairs where the net total of hedges is more than SEK 20 million.

2012

Puchase currency Amounts in SEK million	Amount	Sale currency	Amount	Maturity
SEK	571	EUR	64	2013
SEK	36	EUR	4	2014
SEK	516	USD	76	2014
CNY	360	USD	57	2013

1) In currency pairs where the net total of hedges is more than SEK 20 million.

2011

Puchase currency Amounts in SEK million	Amount	Sale currency	Amount	Maturity
SEK	721	EUR	76	2012
SEK	83	EUR	9	2013
SEK	576	USD	86	2012
SEK	5	USD	1	2013
CNY	323	USD	51	2012

1) In currency pairs where the net total of hedges is more than SEK 20 million.

As SEK is the presentation currency for the Group, Gränges is exposed to currency translation risk for net investments in foreign operations. This is substantially only in CNY, where the translation exposure as of 31 December 2013 is SEK 2.0 billion. Gränges does not hedge this exposure.

COMMODITY PRICE RISK

Aluminium is traded primarily on the London Metal Exchange (LME) but also on the Shanghai Future Exchange (SHFE). For Gränges the prices of both products and metal purchases are affected by fluctuations in the market price of aluminium on the LME and the SHFE. The leading principle is that Gränges shall – to the extent possible – avoid being exposed to the changes in the LME price or any other reference price like the SHFE price. Gränges seeks to reduce this risk primarily by linking prices from metal suppliers to prices towards customers. Additionally, aluminium futures contracts on LME and SHFE are entered into, within defined limits, to mitigate price risk related to orders and the value of unsold metal in stock. Gränges normally has a certain stock level for which prices to customers have not been fixed. When the LME (London Metal Exchange) aluminium market price is increasing, this will have a positive effect on profit, and a decreasing price will affect profit negatively. As of 31 December 2013 Gränges had net sold 18,375 tonnes (2012: 26,375 metric ton) of aluminium for hedging at on the LME and a net sold 3,240 metric ton (2012: 3,000 metric ton) for hedging at on the SHFE (Shanghai Futures Exchange).

INTEREST RATE RISK

Gränges' interest-rate risk is mainly related to the Group's interest-bearing liabilities and assets. Gränges main source of financing has been loan facilities from its ultimate parent, Orkla ASA. Loans and deposits with Orkla ASA are mainly at floating interest rates. The interest-rate risk has not been hedged by Gränges.

LIQUIDITY RISK

Liquidity risk is the risk that Gränges is not able to meet its payment obligations. Gränges management initiates measures, together with its ultimate parent, deemed necessary to maintain a strong liquidity. As part of a potential public listing process (IPO) for the Gränges Group, new long-term financing will be arranged, and will be established prior to an IPO as described in Note 31.

Cash flow from operations, which among other factors is affected by changes in working capital, is managed operationally at Gränges Group level, and is relatively stable. Gränges monitors liquidity flows, short- and long-term, through reporting. Due to the above-mentioned measures, the Gränges Group has limited liquidity risk.

The table shows the maturity profile for the Gränges Group's contractual financial liabilities. The amounts represent undiscounted future cash flows, and may therefore deviate from recognised figures. Derivatives related to currency are presented with gross settlement. The table also includes derivatives recognised as assets on the balance sheet date, as derivatives may include both positive and negative cash flows, and the fair value fluctuates over time. The financial liabilities are serviced by cash flow from operations, liquid and interest-bearing assets, and, when necessary, drawings on unutilised credit facilities.

2013

Amounts in SEK million	Book value	Contractual cash flows	< 1 year	1–3 year	3–5 year	> 5 year
Interest-bearing liabilities to Orkla	346	346	81	265		
Interest-bearing liabilities, other	331	331	331			
Interest payable	–	32	13	13	6	
Accounts payable	375	375	375			
Other current liabilities	6	6	6			
Net settled derivatives[1]	–6					
Inflow		–11	–11			
Outflow		5	5			
Gross settled derivatives[1]	10					
Inflow		–1,714	–1,605	–109		
Outflow		1,707	1,601	106		
Total	**1,062**	**1,077**	**796**	**275**	**6**	**–**

1) Including derivatives recognised as assets.

2012

Amounts in SEK million	Book value	Contractual cash flows	< 1 year	1–3 year	3–5 year	> 5 year
Interest-bearing liabilities to Orkla	809	809	–	809		
Interest-bearing liabilities, other	457	457	457			
Interest payable	5	106	41	65		
Accounts payable	458	458	458			
Net settled derivatives[1]	15					
Inflow		–6	–6			
Outflow		19	19			
Gross settled derivatives[1]	–28					
Inflow		–1,580	–1,548	–32		
Outflow		1,541	1,510	31		
Total	**1,716**	**1,804**	**931**	**873**	**–**	**–**

1) Including derivatives recognised as assets.

2011

Amounts in SEK million	Book value	Contractual cash flows	< 1 year	1–3 year	3–5 year	> 5 year
Interest-bearing liabilities to Orkla	862	862	287	575		
Interest-bearing liabilities, other	392	392	392			
Interest payable	2	71	31	40		
Accounts payable	463	463	463			
Net settled derivatives[1]	–63					
Inflow		–73	–73			
Outflow		10	10			
Gross settled derivatives[1]	–11					
Inflow		–1,994	–1,907	–87		
Outflow		1,983	1,902	81		
Total	**1,645**	**1,714**	**1,105**	**609**	**–**	**–**

1) Including derivatives recognised as assets.

CREDIT RISK

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, and is continuously monitored by the operating entities. There is no significant concentration of credit risk in respect of single counterparts. Credit losses are historically modest due to a stable and financially healthy customer base as well as stringent monitoring of trade receivables. With these risk mitigation measures in place, the current credit risk is considered acceptable.

Gränges considers its credit risk related to other financial instruments to be low. Gränges seeks to minimise the liquid assets deposited outside the Group and for deposits of excess liquidity with other counterparts, Gränges has requirements relating to the bank's credit rating. Gränges has International Swap Dealers Association (ISDA) agreements in place with its counterparts for derivative transactions which provides for netting of settlement risk. Derivatives are, however, reported gross in the balance sheet.

Maximum credit risk

The maximum credit exposure for the Group related to financial instruments corresponds to total gross receivables. In the hypothetical and unlikely event that no receivables are redeemed, this amounts to:

Amounts in SEK million	2013	2012	2011
Cash and cash equivalents	896	527	452
Accounts receivable	764	790	814
Other current receivables	90	109	224
Non-current receivables	26	–	–
Derivatives	25	41	117
Total	**1,801**	**1,467**	**1,607**

Sensitivity analysis

The financial instruments of the Gränges Group are exposed to different types of market risk which can affect the income statement or equity. Financial instruments, in particular derivatives, are applied as means of hedging both financial and operational exposure.

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 on other comprehensive income is estimated. This is done on the basis of a selected hypothetical change in market prices or rates on the balance sheet as of 31 December. According to IFRS, the analysis covers only financial instruments and is not meant to give a complete overview of the Group's market risk, for instance:

- For currency hedges of contracts entered into, changes in fair value of the hedging instrument will affect the income statement, while changes in the fair value of the underlying hedged contract offset by the hedging instrument will not be shown, as it is not a financial instrument.
- If one of the parameters changes, the analysis will not take account of any correlation with other parameters.
- Financial instruments denominated in the entities' functional currencies do not constitute any currency risk and are therefore not included in this analysis. Nor is the currency exposure on translation of such financial instruments to the presentation currency of the Group included, for the same reason.

Generally, the effect on the income statement and other comprehensive income of financial instruments in the table below is expected to offset the effects of the hedged items where financial instruments are part of a hedging relationship.

Accounting effects of changes in market risk are classified to income statement and other comprehensive income according to where the effect of the changes in fair value will be recognised initially. Effects recognised in the income statement will also affect other comprehensive income beyond the figures presented in the table.

2013

Amounts in SEK million	Accounting effects on income statement of		Accounting effects on comprehensive income of	
	increase	decrease	increase	decrease
Interest rate risk: 100 bp parallel shift in interest curves all currencies	2	–2	–	–
Currency risk: 10% change in FX-rate USD/SEK	–43	43	–12	12
Currency risk: 10% change in FX-rate CNY/SEK	50	–50	–	–
Currency risk: 10% change in FX-rate EUR/SEK	–4	4	–54	54
Price risk: 20% change in LME-prices	–62	62	9	–9

2012

Amounts in SEK million	Accounting effects on income statement of		Accounting effects on comprehensive income of	
	increase	decrease	increase	decrease
Interest rate risk: 100 bp parallel shift in interest curves all currencies	–6	6	–	–
Currency risk: 10% change in FX-rate USD/SEK	–29	29	–12	12
Currency risk: 10% change in FX-rate CNY/SEK	38	–38	–	–
Currency risk: 10% change in FX-rate EUR/SEK	–28	28	–42	42
Price risk: 20% change in LME-prices	–88	88	7	–7

2011

Amounts in SEK million	Accounting effects on income statement of		Accounting effects on comprehensive income of	
	increase	decrease	increase	decrease
Interest rate risk: 100 bp parallel shift in interest curves all currencies	–7	7	–	–
Currency risk: 10% change in FX-rate USD/SEK	–35	35	–9	9
Currency risk: 10% change in FX-rate CNY/SEK	35	–35	–	–
Currency risk: 10% change in FX-rate EUR/SEK	–	–	–53	53
Price risk: 20% change in LME-prices	–90	90	12	–12

Note 26: Derivatives and hedging

The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements:

DERIVATIVES AND HEDGING

	2013		2012		2011	
Amounts in SEK million	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash flow hedges						
Currency forwards, currency swaps	7	–12	17	–4	37	–7
Aluminium futures	–	–2	–	–	–	–3
Total	**7**	**–14**	**17**	**–4**	**37**	**–10**
Fair value hedges						
Currency forwards, currency swaps	3	–2	17	–2	7	–26
Aluminium futures	12	–4	7	–22	73	–7
Total	**15**	**–6**	**24**	**–24**	**80**	**–33**
Other derivatives – Fair value changes recognised in income statement						
Currency forwards, currency swaps	3	–9	–	–	–	–
Total	**3**	**–9**	**–**	**–**	**–**	**–**
Total derivatives	**25**	**–29**	**41**	**–28**	**117**	**–43**

CALCULATION OF FAIR VALUE

Currency forwards and currency swaps are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the balance sheet date.

Aluminium futures are measured at fair value using the quoted futures price on the LME (London Metal Exchange)

These derivative financial instruments are designated in hedge relationships as follows:

CASH FLOW HEDGES

Gränges purchases of aluminium futures on the LME, as well as currency forwards are designated as hedging instruments in cash flow hedges. All derivatives designated as hedging instruments in cash flow hedges are carried at fair value in the balance sheet. Changes in fair value are provisionally recognized in the equity hedging reserve, and recycled to the income statement as the cash flows being hedged are recognised in the income statement.

No gain or loss has been recorded in the income statement as a result of hedging inefficiency during 2013 or 2012. All expected cash flows which have been hedged during 2013 still qualify for hedge accounting.

DEVELOPMENT OF THE EQUITY HEDGING RESERVE

Amounts in SEK million	2013	2012	2011
Opening balance hedging reserve before tax	13	26	99
Reclassified to P/L - Net sales	13	21	72
Fair value change during the year	–33	–34	–145
Closing balance hedging reserve before tax	**–7**	**13**	**26**
Deferred tax hedging reserve	2	–3	–7
Closing balance hedging reserve after tax	**–5**	**10**	**19**

A negative hedging reserve means a negative recognition in the income statement in the future. Accumulated hedging gains/losses from cash flow hedges recognized in the equity hedging reserve as of 31 December 2013 are expected to be recycled to the income statement (before tax) with SEK –8 million for 2014 and SEK 1 million after 2014.

FAIR VALUE HEDGES

Gränges has hedges of currency risk on firm commitments using forward currency contracts. Gains/losses on hedging objects and hedging instruments are recorded as currency gain or loss in the income statement.

Gränges sells aluminium futures contracts in order to hedge the value of stocks in fair value hedges. Gains/losses on hedging objects and hedging instruments are recorded as currency gain/loss in the income statement, and the value of the stocks is adjusted by the changes in fair value of the hedged risk.

DERIVATIVES NOT INCLUDED IN IFRS HEDGING RELATIONSHIPS

There are also derivatives not included in hedging relationships according to IFRS for the following reasons:

- Derivatives are not designated in formal hedging relationships when changes in the fair value of hedging instruments and hedging objects are naturally offset in the income statement, for example currency risk on loans and other monetary items.
- Meeting strict IFRS hedge accounting criteria is not always possible or practical. Some of the other currency hedges are in this category.

Changes in the fair value of derivative instruments which are not part of a hedging relationship are immediately recognised in the income statement.

Note 27: Share capital

The share capital in Gränges AB consists of 37,319,693 shares, each with nominal value of 25 SEK.

Orkla Industriinvesteringar AB owns 100% of the shares in Gränges AB. Orkla Industriinvesteringar AB are owned 100% by Industriinvesteringer AS which is 100% owned by Orkla ASA.

Note 28: Leasing

Reported costs related to operating leases reflect the minimum leasing cost during the period of notice. Gränges has no material financial leasing.

OPERATING LEASES - LEASEE

Rented/leased property, plant and equipment

	Land, building, property			Fixtures, vehicles			Other assets			Total		
Amounts in SEK million	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
Cost current year	**–1**	**–1**	**–**	**–15**	**–16**	**–15**	**–1**	**–1**	**–1**	**–17**	**–18**	**–16**
Cost next year	–	–	–	–11	–14	–13	–	–	–	–11	–14	–13
Total costs 2–5 years	–	–	–	–24	–37	–41	–	–	–	–24	–37	–41
Total costs after 5 years	–	–	–	–	–	–	–	–	–	–	–	–
Total future leasing costs	**–**	**–**	**–**	**–35**	**–51**	**–54**	**–**	**–**	**–**	**–35**	**–51**	**–54**

OPERATING LEASES - LESSOR

Rented/leased property, plant and equipment

	Land, building, property			Fixtures, vehicles			Other assets			Total		
Amounts in SEK million	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
Cost current year	**27**	**30**	**29**	**–**	**–**	**–**	**–**	**–**	**–**	**27**	**30**	**29**
Cost next year	23	21	21	–	–	–	–	–	–	23	21	21
Total costs 2–5 years	14	16	26	–	–	–	–	–	–	14	16	26
Total costs after 5 years	–	–	–	–	–	–	–	–	–	–	–	–
Total future leasing costs	**37**	**37**	**47**	**–**	**–**	**–**	**–**	**–**	**–**	**37**	**37**	**47**

Note 29: Pledges, guarantees and contingent liabilities

CONTINGENT LIABILITIES

Amounts in SEK million	2013	2012	2011
Guarantee commitment PRI Pensionsgaranti	2	2	2
Excise duty obligation (under excise duty suspension system)	2	1	3

PLEDGED ASSETS

Amounts in SEK million	2013	2012	2011
Property mortgage	15	15	15
Own liabilities covered by the property mortage	2	2	3

The Group is part of certain litigations and disputes but none of them are expected to have any major impact on Gränges' financial position.

Note 30: Related parties

Gränges has been owned 100 % from Orkla ASA (through Industriinvesteringer AS and Orkla Industriinvesteringar AB) and has therefore intercompany relations with the Orkla Group. Gränges has paid its share of joint expenses to Orkla ASA. Orkla ASA has provided necessary capital through equity and loans (see Note 23 Capital Management). Intercompany relations between Orkla ASA and Gränges are specified in the table below. Finance expenses are specified in Note 12.

INTERCOMPANY RELATIONS WITH GROUP COMPANIES

Amounts in SEK million	2013	2012	2011
Joint expenses from Orkla ASA and Sapa Group	–17	–36	–34
Sales to group companies	62	80	106
Accounts receivable	–	80	83
Interest-bearing receivables joint ventures (non-current)	27	–	–
Accounts payable	–	–9	–5
Interest-bearing liabilities (non-current)	265	809	575
Interest-bearing liabilities (current)	81	–	287
Other receivables/(liabilities)	–	6	74

Gränges also obtains minor services from Orkla Shared Services (IT and payroll) and Orkla Insurance Company Ltd (Insurance). Gränges have some minor sales and purchases to other companies within the Orkla Group.

Gränges has ownership interests in a joint venture, Norca Heat Transfer LLC in USA (see Note 6). This is presented using the equity method, one line consolidation.

Internal trading within the Group is carried out in accordance with special agreements on an arm's length basis, and joint expenses in Gränges are distributed among the Group companies in accordance with distribution formulas, depending on the various types of expense. There have been no other transactions with related parties. Information regarding the executive management is disclosed in Note 8.

Note 31: Subsequent events

After the 2013 year end closing the Board of Directors of Orkla ASA, the ultimate parent of Gränges AB, decided to explore the possibility of listing its wholly-owned subsidiary Gränges AB on NASDAQ OMX Stockholm.

On May 23, 2014, an extraordinary shareholders meeting of Gränges AB resolved to amend the company's articles of association and thereby changing company category to a public company and to register the shares with Euroclear. It was further decided to apply for a reduction of the restricted share capital and other restricted capital in Gränges AB to SEK 100 million in order to provide flexibility a possible future change in capital structure. On August 15, 2014 the Swedish Companies Registration Office registered a reduction of Gränges AB's share capital of SEK 833 million, as well as a reduction of restricted reserves of SEK 262 million (with the corresponding amount increasing retained earnings). Consequently, the share capital of Gränges AB thereafter amounted to SEK 100 million.

On August 12 Gränges AB's board of directors resolved to propose to the extraordinary shareholders' meeting to declare a dividend of SEK 1,650 million to Orkla. The record day for the profit distribution shall be the day after the shareholder's meeting which is planned to be held in September. The dividend will be funded by existing cash balances and a loan from Orkla which is to be refinanced through Gränges' new senior debt facility in connection with a potential IPO.

On August 20, 2014 Gränges entered into a SEK 1,800 million multicurrency revolving credit facility with Svenska Handelsbanken AB (publ) and Skandinaviska Enskilda Banken AB, with Svenska Handelsbanken AB (publ) acting as agent. The facility is for five years and will come into effect after a potential listing of Gränges AB (publ) on NASDAQ OMX Stockholm, after which loans from and deposits with Orkla will be settled. The loan agreement contains standard representations, undertakings and covenants for Gränges and its subsidiaries.

On July 1, 2014 Gränges divested an industrial property in Skultuna, Sweden. The book value of the asset was SEK 11 million and the sale generated a loss of SEK 4 million.

The CEO Johan Menckel exercised his outstanding Orkla options as of 3 July 2014.

Stockholm, August 29, 2014

The board of directors of Gränges AB (publ)

Anders Carlberg
Chairman of the board

Terje Andersen
Member of the board

Ragnhild Wiborg
Member of the board

Bertil Villard
Member of the board

Öystein Larsen
Employee representative

Conny Svensson
Employee representative

Johan Menckel
President & CEO

Our audit report was submitted August 29, 2014

Ernst & Young AB

Erik Sandström
Authorized public accountant