



**ACCOUNTANCY  
EUROPE.**

# **MODEL SIMPLIFIED SME PROSPECTUS**

**VIEWS.**

**FINANCE & INVESTMENT  
JUNE 2017**

## **HIGHLIGHTS**

This model prospectus is the result of applying the proposals in our briefing paper *Simplified prospectus for SMEs*<sup>1</sup> from May 2016 to the original prospectus of a Swedish company, Gränges. By putting our proposed principles into practice, we transformed the lengthy, legalistic document into a more concise, business focused and investor friendly product.

The outcome is less than 30% of the original prospectus' volume, more to-the-point and responds to the needs of investors and businesses. This demonstrates that our recommendations can help policy makers simplify SME prospectuses.

Accountancy Europe prepared this model in cooperation with and would like to thank two groupings of accountancy firms: the European Contact Group (ECG) and the European Group of International Accounting Networks and Associations (EGIAN).

---

<sup>1</sup> Accountancy Europe (previously FEE), (2016). *Simplified prospectus for SME*. [online] Available at: [https://www.accountancyeurope.eu/wp-content/uploads/Prospectus\\_paper.pdf](https://www.accountancyeurope.eu/wp-content/uploads/Prospectus_paper.pdf).

## ROLE OF GRÄNGES

Gränges has consented to the use of its corporate name and information for this publication. Nevertheless, the responsibility for the presentation of the information and the views set out in this publication lie with Accountancy Europe, ECG and EGIAN. This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decisions based on this model prospectus. We would like to thank Gränges for its kind cooperation.

## INTRODUCTION – A MODEL PROSPECTUS FOR SME DISCLOSURES

### BACKGROUND

In May 2016, Accountancy Europe published a paper on Simplified prospectus for SMEs<sup>2</sup>, prepared together with the European Contact Group (ECG)<sup>3</sup> and the European Group of International Accounting Networks and Associations (EGIAN)<sup>4</sup>. The paper puts forward principles and guidelines for a proportionate SME prospectus regime by rendering prospectuses shorter, simpler, and less costly to produce, whilst increasing their relevance for investors.

Accountancy Europe, ECG and EGIAN have now prepared this model prospectus on the basis of a recently listed Swedish company, Gränges<sup>5</sup>, which is a global leader in manufacturing of rolled aluminium for aluminium heat exchangers. Our model prospectus puts into practice the principles and guidelines outlined in our joint paper from last year.

This model prospectus demonstrates, in practical terms, the potential of our recommendations to lead to a genuinely lighter, shorter, investor-oriented and business-friendly prospectus regime tailored for the needs of SMEs and their prospective investors. We hope that it will inspire policy-makers in their approach to the level II technical details of the Prospectus Regulation.

The outcome is a model prospectus that is shorter, lighter, more to-the-point and user-friendly. The number of pages decreased from over 180 in the original company prospectus to barely 50 pages in our model prospectus. The number of pages as such says little, of course. However, it reflects the extent to which the application of our guidelines and approach could contribute to streamlining and simplifying current SME prospectus regimes.

---

<sup>2</sup> Accountancy Europe (previously FEE), (2016). *Simplified prospectus for SMEs*. [online] Available from: [https://www.accountancyeurope.eu/wp-content/uploads/Prospectus\\_paper.pdf](https://www.accountancyeurope.eu/wp-content/uploads/Prospectus_paper.pdf).

<sup>3</sup> An informal grouping of the six largest accounting networks in the EU

<sup>4</sup> An informal forum of 22 leading middle-sized accounting networks and associations

<sup>5</sup> Gränges. [online] Available at: <http://www.granges.com>.

## THREE CATEGORIES OF DISCLOSURES

In our prospectus paper Section 4, we proposed to divide the information currently included in prospectuses into three categories:

- Category 1 – **core information that should be included in the prospectus itself**. This information is company-specific, and is most relevant for investors making investment decisions. The model prospectus set out below is based on these Category 1 disclosures
- Category 2 – **core information that should be placed on the issuer’s website**. This information is also company-specific, but much of it is either ‘boiler plate’ or could be made available elsewhere
- Category 3 – **more generic information to be included on publicly available information platforms or third party websites**. This consists of standard information which applies to any company or offer, and as such can be made available elsewhere. The information could be set out on a website maintained by an external party such as the market operator, securities regulator, or an independent IPO platform

## STRUCTURE OF THE MODEL PROSPECTUS

The model prospectus below is divided into eight chapters that correspond to the core prospectus disclosures outlined in Category 1 of our paper, namely:

1. the company and its business model
2. insight into the key market features
3. explanation of the (business) strategy
4. identification of key risk factors specific to the company
5. outline of the governance and ownership structure
6. overview of performance
7. management’s view on market trends as well as the company’s forecasts
8. reasons for offering and use of proceeds

For each chapter, more specific disclosures are included in line with the guidance provided in our paper’s Annex. The chapters are based fully on the company’s own material, with certain exceptions. In some instances, within the prospectus, ‘fictional’ information is included in grey boxes to further demonstrate how a simplified prospectus could look like. The fictional/hypothetical information and comments in these boxes have been prepared by Accountancy Europe, ECG and EGIAN, and are not based on the information provided by the company. Finally, there are two additional chapters (9. and 10.) which are prepared by Accountancy Europe, ECG and EGIAN and do not, in any shape or form, derive from material provided by Gränges.

## WHAT HAS BEEN OMITTED

In line with our paper, we have excluded the following items from the model prospectus. These are the Category 2 disclosures that we recommend being placed on the issuer’s website:

- audited historical financial statements
- overview of the most significant transactions and relationships with related parties
- more extensive descriptions of the business, its markets and customers, and its strategy
- extended CVs and resumes of all management
- constitution(s) of the company
- extracts or summaries of key agreements
- lock up data, type of shares, voting rights and the likes
- any other risk factors

The following items, in turn, constitute the Category 3 disclosures. We would recommend them to be placed on a third-party website:

- generic risk factors – such as those relating to the offering
- investor’s taxation position across the EU member states and those of other countries where investors may reside
- known differences between a country’s accounting framework and the International Financial Reporting Standards (IFRS) to enable investors to achieve greater comparability in cases where IFRS financial statements are not available

## SOURCES FOR MODEL PROSPECTUS

Our model prospectus has been prepared using mainly the company’s original prospectus from 2014<sup>6</sup>. It also incorporates content, notably, from the company’s Capital Market Day presentation<sup>7</sup> and year-end report presentations 2015<sup>8</sup> and 2016<sup>9</sup>. This means that the model prospectus may not contain all the information on the company that may have become relevant in the years following 2014, such as new risk factors.

Using such a myriad of different sources is in line with our paper’s recommendations to put great emphasis on the presentation of the information, incorporate elements from management presentations, where relevant in pictorial form, and to make use of the potential of technology. For example, we have made great use of the company’s Capital Market Day presentation video in which the company’s key management makes a pitch to potential investors. We hope to demonstrate to what degree different technological solutions and sources could be employed in prospectuses, if this was permitted by legislation.

## ROLE OF GRÄNGES

Gränges has consented to the use of its corporate name and information for this publication. Nevertheless, the responsibility for the presentation of the information and the views set out in this publication lie with Accountancy Europe, ECG and EGIAN. This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decisions based on this model prospectus. We would like to thank Gränges for its kind cooperation.

DISCLAIMER: Accountancy Europe provides this document for information purposes only. We collect this content to our best endeavours, but cannot give any warranty that this information is accurate and complete. Therefore, we cannot accept any liability in relation to this document.

<sup>6</sup> Gränges (2014). *Prospectus*. [online] Available from: [http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2014/02.-prospekt-2014/granges\\_prospectus\\_2014.pdf](http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2014/02.-prospekt-2014/granges_prospectus_2014.pdf).

<sup>7</sup> Gränges (2016). *Capital Market Day Presentation*. [online] Available from: [http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2016/03.-kapitalmarknadsdag/160315\\_granges\\_cmd2016.pdf](http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2016/03.-kapitalmarknadsdag/160315_granges_cmd2016.pdf).

<sup>8</sup> Gränges (2016). *Year-in report 2015*. [online] Available from: <http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2016/01.-bokslutskommunike-2015/160204-granges-q4-presentation.pdf>.

<sup>9</sup> Gränges (2017). *Year-in report 2016*. [online] Available from: <http://www.granges.com/globalassets/05.-investerare/03.-rapporter-och-presentationer/2017/01.-bokslutskommunike-2016/170202-granges-q4-2016-presentation.pdf>.

# INVITATION TO ACQUIRE SHARES IN GRÄNGES AB (publ)

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS



JOINT BOOKRUNNERS

Danske Bank

Handelsbanken Capital Markets

## Invitation to acquire shares in Gränges

The Company and the Principal Owner have resolved to diversify the Company's ownership base. As a result, the board of directors of Gränges has applied for a listing of the Company's shares on NASDAQ OMX Stockholm. Pursuant to the terms and conditions set out in the Offering Circular, investors are hereby invited to acquire shares from the Principal Owner representing 44,783,600 shares, corresponding to approximately 60 percent of the total number of shares in the Company. The Principal Owner has reserved the right to increase the Offering and sell an additional maximum of 8,956,700 shares, corresponding to approximately 12 percent of the total number of shares in the Company. To cover possible over-allotment in connection with the Offering, the Principal Owner has undertaken to, at the request of the Joint Global Coordinators, sell additional shares representing not more than 15 percent of the number of shares comprised by the Offering (the "Over-allotment option"), equal to not more than 8,061,000 shares, representing approximately 11 percent of the total number of shares in the Company. Assuming that the Offering is increased in full by the Principal Owner and that the Over-allotment option is exercised in full, the total number of shares comprised by the Offering represents 61,801,300 shares, corresponding to approximately 83 percent of the total number of shares in the Company. The Offering price will be determined through a book-building procedure and will consequently be based on demand and overall market conditions. The Offering price will be established by the Principal Owner in consultation with the Managers, within a range of SEK 42–50 per share. The Offering price is expected to be published on or around October 10, 2014. The total value of the Offering amounts to approximately SEK 1,881–2,239 million based on the price range and approximately SEK 2,596–3,090 million assuming that the Offering is increased in full and that the Over-allotment option is exercised in full.

# Contents

- 1. The company and its business model .....5
  - 1.1 Description of the company’s business .....5
    - Introduction .....5
    - Vision .....7
    - Business model .....7
    - Financial objectives .....7
  - 1.2 The company’s situation in the value chain of its industry .....8
    - Rolled products for brazed aluminium heat exchangers .....8
    - Market segments .....9
  - 1.3 Past performance .....10
  - 1.4 Opportunities that may allow the company to meet or surpass market trends .....11
    - Geographic growth opportunities .....11
    - Product growth opportunities .....11
      - Expansion in China .....11
      - Expansion in North America .....12
      - Expansion within HVAC&R .....12
      - Heat exchangers for industrial applications .....12
      - TRILLIUM™ commercialization .....13
    - Attractive outlook for HVAC&R segment driven by conversion from copper to aluminium heat exchangers .....13
  - 1.5 The business case for seeking funds from investors .....13
    - Financial targets and dividend policy .....14
- 2. Insight into the key market features .....15
  - Market Overview .....15
    - Rolled products uses and end markets .....15
    - Market characteristics .....16
    - Market trends .....16
  - Improving efficiency and reducing emissions .....16
    - Drive to produce lighter vehicles .....16
    - Engine redesign and downsizing .....17
    - Reducing harmful emissions .....17
    - Increasingly energy efficient buildings and homes .....17
  - Evolving global landscape and increasing living standards .....17
    - Newly industrialised countries and economies of scale in the automotive industry .....17
    - Increasing living standards drive demand for human comfort applications .....17
    - Market size and growth .....18
      - Market size .....18
      - Automotive market segment .....19
      - Automotive industry vehicle production .....19
      - Growth within the automotive market segment .....19
      - HVAC&R market segment .....19

This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed these three organisations to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decision based on this model prospectus.

Efficiency gains realized by using brazed aluminium heat exchangers .....	19
Brazed aluminium heat exchangers' cost advantage .....	20
Growth within the HVAC&R market segment .....	20
Competitive landscape.....	21
3. Explanation of the strategy .....	22
2020 goal and strategy.....	22
3.1 A concise description of the company's long-term strategy.....	22
Current business strategy .....	22
Strengthen global leadership.....	22
Execute efficiency improvements.....	23
Sustainable development.....	23
3.2 How the company has met or exceeded its past strategic plans.....	24
Strong performance against targets in 2015 .....	24
Strong performance against targets in 2016 while completing a major acquisition in the US .....	24
4. Identification of key risk factors specific to the company.....	25
4.1 Explanatory comments on the key risks affecting the business model.....	25
4.2 Identification of key customers and suppliers.....	27
4.3 Description of barriers to entry .....	28
Global leadership on niche market.....	28
Market leading research and development capabilities.....	28
5. Outline of the governance and ownership structure.....	29
5.1 Key features of the existing or planned corporate governance structure and process.....	29
Corporate governance .....	29
Incentive program .....	29
Shareholders' meeting.....	30
Right to participate in shareholders' meetings.....	30
Shareholder initiatives .....	30
Audit committee .....	30
Remuneration committee.....	30
The CEO and other executive management .....	30
Remuneration to the members of the board of directors.....	31
5.2 Explain past and current experiences of those in charge of corporate governance .....	31
Board of directors .....	31
Overview of board members .....	31
Employee representatives .....	32
5.4 Track record of selected key management.....	33
5.5 Key drivers in the compensation packages.....	34
Guidelines for remuneration to the CEO and other executive management.....	34
Remuneration during the financial year 2013.....	34
Current employment agreements for the CEO and other executive management .....	34
6. Overview of performance.....	36
Financial definitions.....	36

6.1 Overview with key historical financial information.....	37
Basis of preparation of the consolidated financial statements .....	37
6.2 Trends noted both in historical financial information and KPIs .....	41
6.3 Quality of historical financial information and KPIs.....	43
Overview.....	43
Factors affecting Gränges' operating profit .....	43
Market and general economic conditions.....	43
6.4 Key elements of past historical performance .....	44
Liquidity and capital resources .....	44
Working capital.....	45
Financial arrangements .....	46
Liquidity arrangements.....	47
Investments .....	47
7. Management's view on market trends as well as the company's forecasts .....	49
Trends set to drive the company's development .....	49
Main forecasts .....	50
Market growth of 3% expected for full year 2016 .....	50
Global production of light vehicles is expected to grow by 3% annually from 2016 to 2020.....	50
8. Reasons for offering and use of proceeds.....	51
9. Conducted due diligence.....	52
10. Additional information.....	53



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the purpose of the section below is to provide a description of the company's business – including how and where it creates (or plans to create) value for investors; describe where the company is situated in the value chain of its industry, its product and geographical footprint; identify the company's competitors that operate partially or wholly in the same target market(s); provide a concise analysis of past performances focusing on the key drivers of prior periods and how such drivers may evolve in the upcoming periods; describe opportunities that may allow the company to meet or surpass market trends; and present the business case for seeking funding from investors, including how and where the expected proceeds will be used and how these will create an opportunity for investors.

The content of the section is based on the company's prospectus Chapters 6 (Market overview) and 7 (Business overview), as well as the company's Capital Market Day presentation.

Throughout the model prospectus, when references are made to the Capital Market Day presentation in grey boxes, the descriptive text is fictional. It derives from the three cooperating organisations and not from Gränges.

## 1. The company and its business model

### 1.1 Description of the company's business

#### Introduction

 This prospectus contains recurring references to our Capital Market Day presentation video. In this video, our company's key management provides additional insights and intriguing details that are of interest to prospective investors. The video complements the information contained in this prospectus.

The full agenda of the Capital Market Day presentation is as follows:

Introduction

Group strategy and outlook

Strong financial performance

Extending our lead in automotive

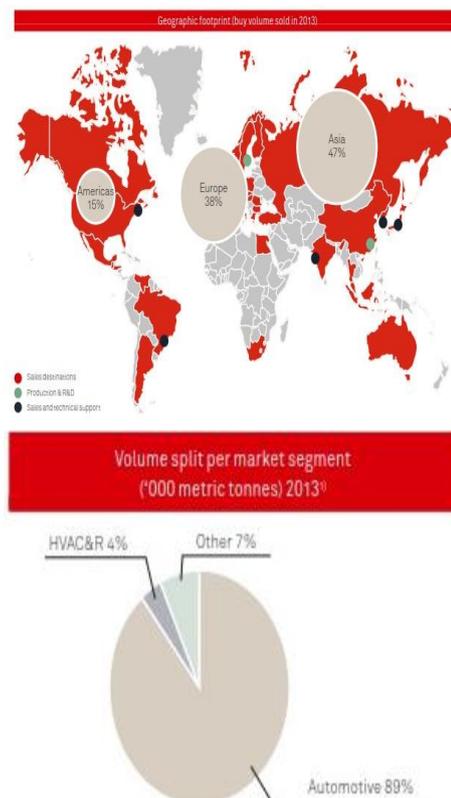
Growth opportunities in stationary HEX

Leveraging a strong presence in China

Customer case – TitanX

Conclusion

For an intriguing introduction to our company, please see the presentation video 00:08:00 – 00:10:45.<sup>1</sup>



Gränges is a leading global supplier of rolled products for the brazed aluminium heat exchanger industry. The Company develops, produces and markets advanced materials that enhance both production economy during the customer manufacturing process, as well as the performance of the final products, the brazed heat exchangers. Gränges'

<sup>1</sup> *Capital Market Day* (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

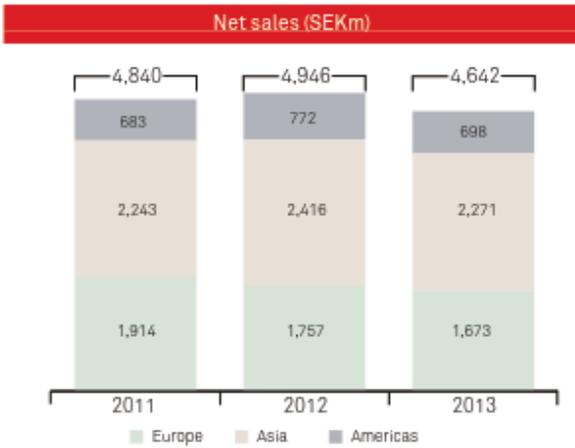
vision is to help create smaller, lighter and more designable heat exchangers, to increase economic efficiency and reduce environmental impact.

Gränges has its headquarters in Stockholm, Sweden and operates in three geographical regions: Europe, Asia and the Americas. The Company operates production, research and development facilities in Finspång and Shanghai with total annual capacity of approximately 210,000 metric tonnes. Through sales and technical support offices in the U.S., India, Japan, South Korea and an agent in Brazil, the Company serves customers worldwide.

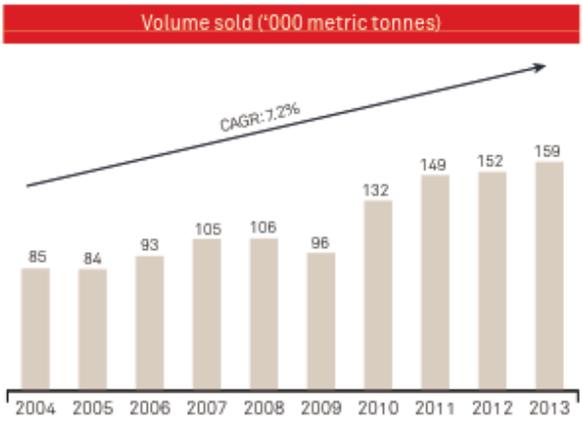
The Company was originally founded in 1896 and focused initially on mining. Later, operations within steel, shipping and railroad were started. Gränges' current operation was started in 1972 when the Company started to develop brazed heat exchanger material. As a part of the Sapa group, Gränges was listed on the Stockholm Stock Exchange from 1997 to 2005.

Gränges is the only global supplier with its sole focus on brazed aluminium heat exchangers. In 2013, it held a market-leading position with a global market share of approximately 20 percent and had net sales of SEK 4,642 million and an operating profit of SEK 456 million, corresponding to an operating margin of 9.8 percent. From January to June 2014, the average number of employees was 949.

In order to develop and produce aluminium brazing sheet, Gränges purchases different forms of aluminium (scrap, ingot and slabs) from the aluminium industry. Gränges processes and engineers the aluminium into brazing sheet, which is slit into widths from 10 to 1,400 mm, and sells it to heat exchanger producers. The Company is primarily engaged in products for the automotive industry, but also for the HVAC&R end-customer market. Gränges has long-standing relationships with leading global brazed heat exchanger manufacturers, and has developed a strong foothold in each of the three geographical regions. Global OEMs depend on stable and secure supply, irrespective of their geographical



location. Approximately 85 percent of customers



This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed these three organisations to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decision based on this model prospectus.

have been with the Company for more than ten years. The Company's strong customer relations support stable revenues.

### **Vision**

Gränges helps to create smaller, lighter and more designable heat exchangers to increase economic efficiency and reduce environmental impact.

 We elaborate further on our innovative business vision in the Capital Market Day presentation video 0:11:20 – 0:13:10.<sup>2</sup>

### **Business model**

 In the Capital Market Day presentation, we provide additional insights into our business model. See the video 0:13:10 – 0:15:45.<sup>3</sup>

Gränges is solely focused on rolled products for the brazed heat exchanger industry. Gränges develops, produces and markets advanced materials that enhance both the production economy during the customer manufacturing process as well as the performance of the final product, the brazed heat exchanger.

The sole focus allows Gränges to develop a deep knowledge of its customers' processes and applications. The Company dedicates its equipment, processes and capacity to the specific customer requirements. This leads to the ability to deliver the right products and services while consistently delivering high quality, security and flexibility of supply for its customers.

Gränges' business is based on long-term customer commitments where the Company supports the customers with product development, service and technical support during the entire life-cycle for a heat exchanger model. The Company is highly customer centric in order to support the needs of demanding customers: primarily the global sub-suppliers (Tier 1 suppliers) to the automotive industry. This customer group faces demanding product specifications from large automotive OEMs and requires help from Gränges' demonstrated research and development capacity, knowledge of customer business challenges and ability to tailor products and solutions to customer needs.

Gränges has strong competencies within development and production, which can be classified into four distinctive fields: (i) Alloy development, (ii) Cladding, (iii) Rolling and thermo-mechanical

Gränges has a strong track record of research and development achievements with a portfolio of new products and on-going projects, such as TRILLIUM™ and MULTICLAD™.

processing and (iv) Slitting. All of these competencies work together to deliver a high value-added product.

The Company operates a make-to-order (MTO) supply chain. Gränges provides tailor-made products fitted for specific customer applications and has a dynamic portfolio of approximately 1,500 active articles.

Gränges generates revenue through the sale of finished products, with prices expressed per metric tonne. Product prices are differentiated by Gränges' added value in terms of, inter alia, material properties and production complexity.

### **Financial objectives**

In relation to its strategy, Gränges has formulated certain financial targets presented below. All statements under this section are forward-looking statements.

<sup>2</sup> *Capital Market Day* (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

<sup>3</sup> *Capital Market Day* (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

Gränges' position in the value chain for brazed aluminium heat exchangers



**Growth**

Gränges aims to grow volumes sold at least in line with its existing end markets over time.

**Return metric**

Gränges aims to generate a 15 percent to 20 percent return on average capital employed over time.

**Capital structure**

The Net Interest Bearing Debt should normally be in the range of one to two times EBITDA over the last twelve months.

**Dividend policy**

Gränges aims to have an annual dividend corresponding to 30 to 50 percentage of the net profit for the period. The payout decision will be based on the Company's financial position, cash flow and future outlook.

**1.2 The company's situation in the value chain of its industry**

**Rolled products for brazed aluminium heat exchangers**

Heat exchangers are used in a variety of applications to transfer heat from one medium to another and can be used both for heating and cooling purposes. For example, in the automotive industry applications include radiators for engine cooling, oil coolers, condensers and evaporators for air conditioning systems, heaters, charge air coolers (CACs), exhaust

gas recirculation coolers (EGRs), fuel coolers and coolers for batteries and electrical systems in hybrid cars.

The term brazed heat exchanger refers to heat exchangers produced using brazing technology. Brazing is the joining of metals using a molten filler metal, which melts during heating and forms a joint when cooling. As a production process, brazing is a versatile joining method that produces a strong, leak-proof connection. High thermal conductivity, good corrosion resistance, formability and low weight make aluminium an ideal material for producing brazed heat exchangers.

Rolled product producers, such as Gränges, purchase slab, scrap and ingot from the upstream aluminium industry. The aluminium is combined with other materials to form an alloy which is then engineered and processed into an assortment of rolled products. This rolled aluminium is a highly engineered product consisting of one or several layers of material of varying complexity. Each layer either serves a specific purpose during the heat exchanger production process or is used to meet a heat exchanger functional requirement while in service. Rolled product producers sell products to "Tier 1 suppliers" who produce a variety of brazed aluminium heat exchanger applications that are then sold to end market OEMs, such as car manufacturers.

## Market segments

Gränges produces rolled products for brazed aluminium heat exchangers for two distinct market segments:

- 1. Automotive industry**, includes all types of vehicles from light to heavy duty as well as hybrid and electric vehicles. Automotive is the largest product area both by volume and value for rolled products used in brazed aluminium heat exchanger applications. In the automotive industry, brazing technology was industrialized in the 1980s and has become the primary manufacturing method since the 1990s, replacing copper based heat exchangers. Brazed aluminium heat exchangers in the automotive industry comprise a range of components and systems that are principally designed to promote more efficient operation of a vehicle's engine or to enhance the comfort of the occupants in the vehicle.
- 2. HVAC&R** consists of rolled products for stationary brazed aluminium heat exchangers. HVAC (Heat, Ventilation, Air Condition) entails systems for human comfort purposes. Heat exchanger applications in this end-customer market are used in systems for residential and commercial buildings. Refrigeration (R) entails systems for heating and cooling other than comfort purposes. Applications include systems

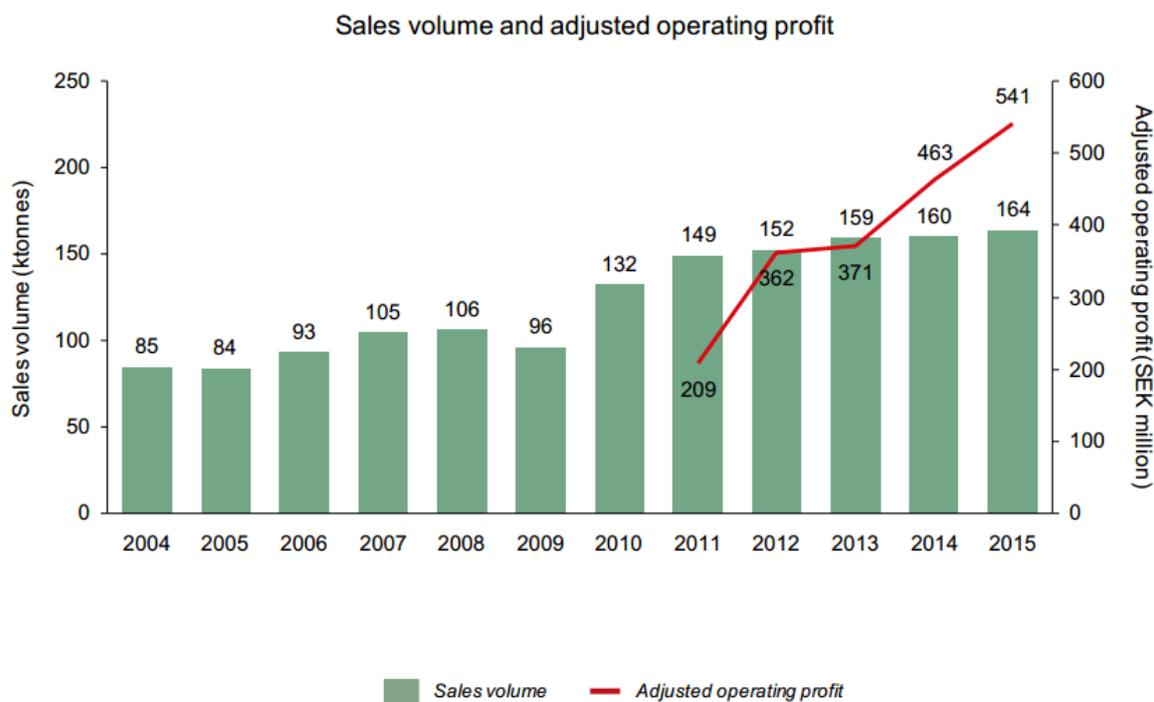
for residential, commercial, industrial property and transportation refrigeration.

The main geographical end-customer markets for rolled products for brazed aluminium heat exchangers are:

- 1. Asia:** China is the key end market; however, countries such as Japan, South Korea, India and Thailand are also important. The Asian market is the least concentrated of the three geographical end markets both in terms of suppliers and OEMs.
- 2. Europe:** key markets include the UK, Italy, Germany, the Czech Republic and Poland. The European market is developed; however, there are still a number of local as well as global suppliers. A majority of sales are derived from a handful of global Tier 1 automotive suppliers.
- 3. Americas:** consists of North America (US, Canada and Mexico) and South America where North America is the largest market. The market in the Americas has high Tier 1 automotive supplier concentration and relatively few rolled product suppliers.

## 1.3 Past performance

 We encourage investors to see our Capital Market Day presentation in which we explain further our company's past performance. The information below complements our presentation. Please see the video 0:36:30 – 0:50:40.<sup>4</sup>



The financial information below has been retrieved from the audited consolidated annual accounts for the period 2011–2013, prepared in accordance with IFRS, and the reviewed interim report for the period January 1 to June 30, 2014, prepared in accordance with IAS 34.

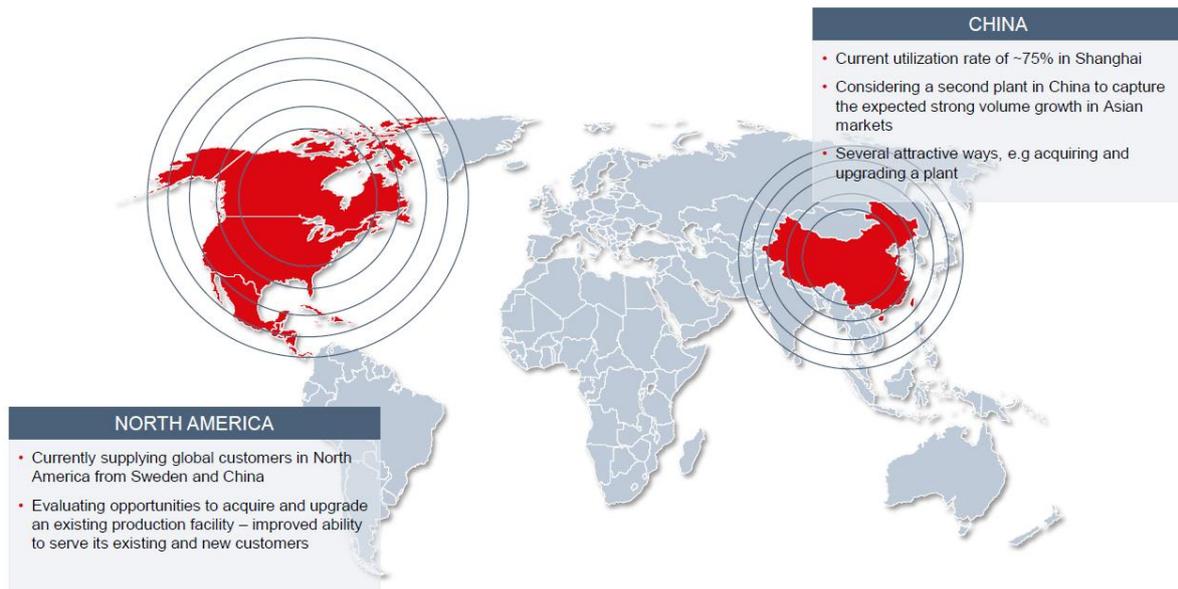
### Summary of consolidated income statement<sup>1)</sup>

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Net sales	4,840	4,946	4,642	2,473	2,333
Cost of materials	-3,186	-3,126	-2,806	-1,540	-1,359
Payroll and other operating expenses	-1,297	-1,294	-1,278	-652	-623
Depreciation and impairment charges	-148	-164	-187	-92	-97
Other income and expenses	-91	30	85	-22	-10
<b>Operating profit (EBIT)</b>	<b>118</b>	<b>392</b>	<b>456</b>	<b>167</b>	<b>244</b>
Profit from joint ventures	3	3	5	2	2
Finance income and costs	-57	-64	-43	-23	-14
<b>Profit before taxes</b>	<b>64</b>	<b>331</b>	<b>418</b>	<b>146</b>	<b>232</b>
Taxes	2	-15	-109	-38	-57
<b>Profit for the period</b>	<b>66</b>	<b>316</b>	<b>309</b>	<b>108</b>	<b>175</b>

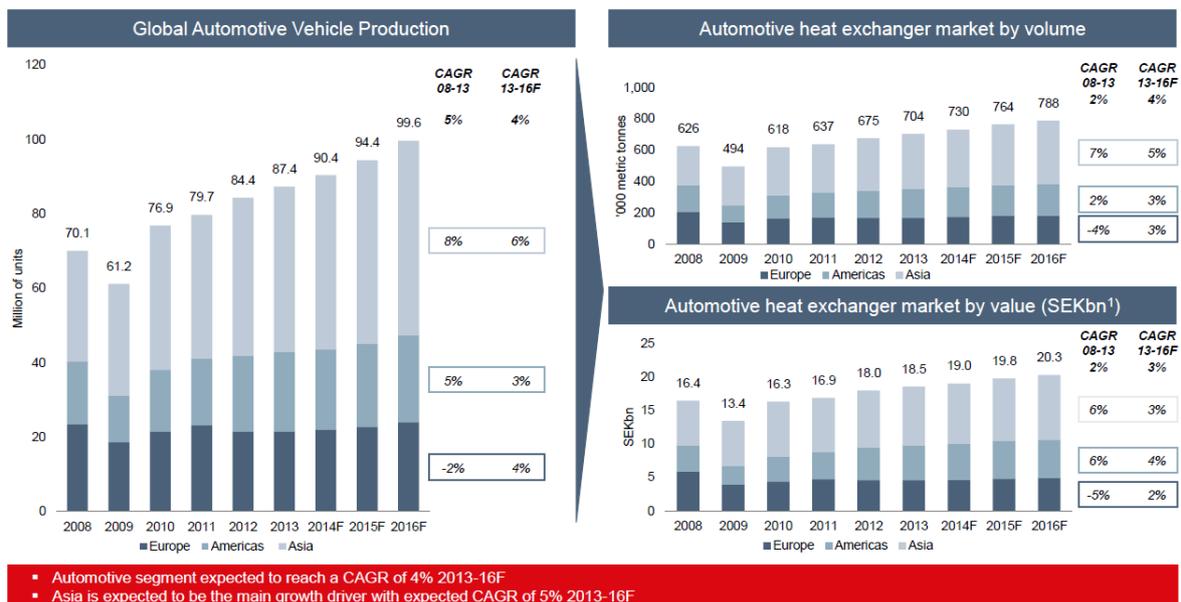
<sup>4</sup> Capital Market Day (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

## 1.4 Opportunities that may allow the company to meet or surpass market trends

### Geographic growth opportunities



### Product growth opportunities



Note: Europe includes Africa  
Source: LMC Automotive and Gränges estimates based on market intelligence



▶ We provide further insights and our expectations on the company's growth opportunities in our Capital Market Day presentation. Please see the video 0:50:40 – 2:35:50.<sup>5</sup>

Gränges has identified the following growth opportunities that it believes are interesting for the future further development of the business.

#### Expansion in China

The Asian market remains attractive and is expected

<sup>5</sup> Capital Market Day (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

to continue to exhibit above global average growth in vehicle production. The continued increase in vehicle demand is expected to partly be driven by a relatively high amount of new first time car owners. This growing customer base will require affordable modern cars, in turn translating into a growing demand for cost-efficient and cost-competitive brazed heat exchanger solutions. The emerging demand for more cost-efficient brazed heat exchanger solutions creates opportunities for Gränges. In order to capture this opportunity, Gränges is considering expanding through establishing a second manufacturing facility in China. Gränges sees several attractive structural opportunities to add such capacity allowing for a shorter time to market compared to a greenfield investment. Between 2008 and 2010, Gränges added approximately 40,000 metric tonnes of capacity (hot rolling, cold rolling and slitting) in China in a expansion of the existing production facility. This investment amounted to approximately CNY 500 million (SEK 568 million<sup>1</sup>). Since 2010, the Company has increased the production capacity even further. The investments during this period was approximately half of the investments made during 2008 to 2010, but had led to an increase in production capacity of the same magnitude.

### Expansion in North America

Gränges is currently successfully supplying its global customers in North America from its production facilities in both Sweden and China. Complementing Gränges' existing offering in the region with a local manufacturing base would improve Gränges' ability to serve its existing and new customers and thereby strengthen its position on the market, which is currently dominated by two local competitors with local manufacturing capacity. Also, establishing local manufacturing is further expected to improve economics of supplying customers in the region. Although establishing production capacity in North America is regarded to be primarily a long-term

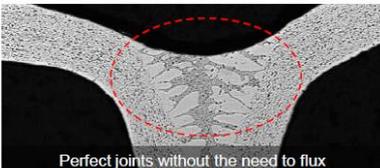
growth opportunity, the Company is continuously evaluating opportunities to acquire and upgrade an existing production facility, which is expected to be significantly more cost efficient than a greenfield expansion. Adding green-field capacity in North America is estimated to require a substantially larger investment compared to adding greenfield capacity in China.

### Expansion within HVAC&R

The stationary aluminium heat exchanger market is anticipated to exhibit significant growth over the next years, with an estimated CAGR of approximately 20 percent between 2013 and 2016, as a result of a shift from copper heat exchangers towards brazed aluminium heat exchangers in the HVAC&R end-customer market. To date, less than five percent of the global HVAC&R end-customer market has been converted to aluminium, leaving room for further conversion. For further information see "Market overview". Over the past years, Gränges has invested in strong relationships with key customers within the segment. The alloy and material solutions and developments for the HVAC&R end-customer market are very similar to those for the automotive industry. Therefore, Gränges is well positioned to capture growth opportunities in this segment.

### Heat exchangers for industrial applications

In Asia, there are a handful of markets and applications which are fairly mature, for example, brazed heat exchangers for off-highway machinery, locomotives, wind mills and air separation equipment. The current market for industrial applications is expected to grow as brazing technology can be applied more widely in other industries for other applications. Certain industries may adopt the brazing technology in, for example, water heaters or cooling of LED lighting. There are opportunities for Gränges to penetrate both the mature markets and the emerging markets.

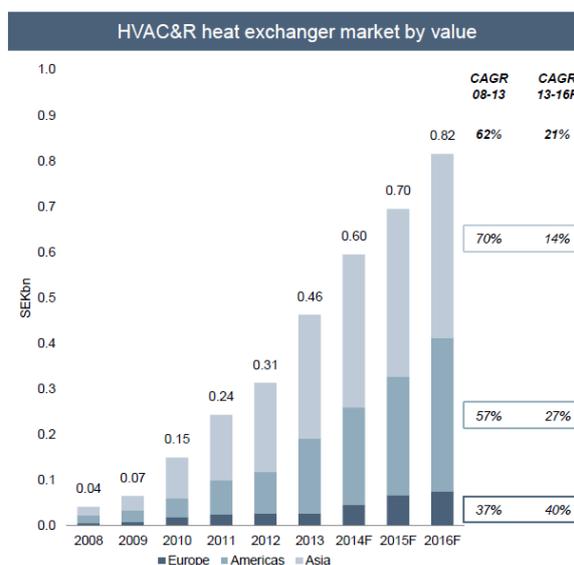
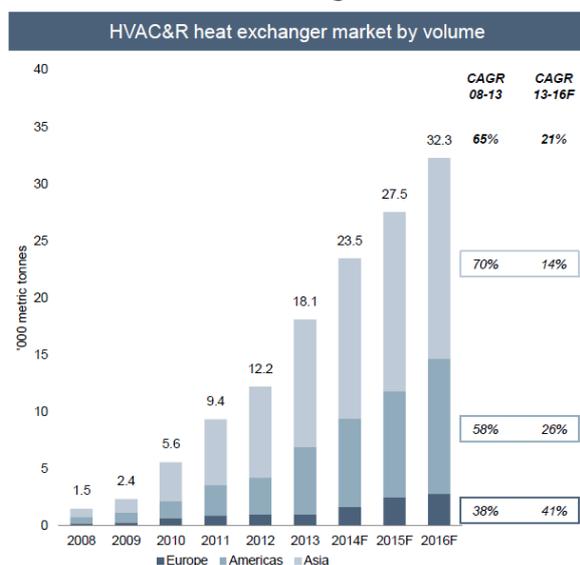
Accelerated expansion in HVAC&R	Heat exchangers for industrial applications	TRILLIUM commercialisation
<ul style="list-style-type: none"> <li>• Shift to aluminium and brazed technology may occur more rapidly than projected by industry experts</li> <li>• To date, below 5% of the global HVAC&amp;R segment production has been converted to aluminium brazing technology</li> </ul>	<ul style="list-style-type: none"> <li>• Significant potential from further targeting the market for heat exchangers for industrial applications</li> <li>• Market size ~4x market for HVAC&amp;R applications</li> </ul>	<ul style="list-style-type: none"> <li>• TRILLIUM is an alternative brazing process developed together with Sandvik-Osprey</li> <li>• Gränges' customers have been very positive on the material produced using the TRILLIUM process</li> <li>• TRILLIUM™ enables Gränges and its customers to remain at the forefront of applications that are difficult to realize based on traditional brazing technology</li> </ul>
		

## TRILLIUM™ commercialization

The traditional brazing process that is used by the producers of heat exchangers today requires the application of a flux salt. Flux salt has significant negative consequences in customers' production of brazed heat exchangers in terms of operational cost, equipment contamination and protection of environment and heat exchanger design freedom. Gränges has developed TRILLIUM™, an entirely new material, which has the flux salt incorporated into the raw material. This means that Gränges' customers

can avoid the problem associated with the application of flux salt in the brazing process. TRILLIUM™ enables Gränges and its customers to remain at the forefront of applications for rolled aluminium products that are difficult to realise based on traditional brazing technology. Gränges is further developing and improving the processes and economics of TRILLIUM™, and as the production volumes are scaled-up, production cost is expected to be reduced which would enable customers to purchase the material for increasingly more applications.

## Attractive outlook for HVAC&R segment driven by conversion from copper to aluminium heat exchangers



- The strong growth is expected to be driven primarily by the increased substitution of copper for aluminium in the manufacturing of heat exchangers
- Higher assembly efficiency for aluminium heat exchangers and more stringent energy regulations is also expected to have positive impact on segment

## 1.5 The business case for seeking funds from investors

The Offering and the listing will expand the Company's shareholder base and enable Gränges to access the Swedish and international capital markets, which will promote the Company's continued growth

and development. The board of directors and management of Gränges consider the Offering and listing of the Company's shares to be a logical and important step in Gränges development, which will also increase the awareness of Gränges and its operations.

# Financial targets and dividend policy



Growth	<ul style="list-style-type: none"><li>• Gränges aims to grow volumes sold <b>at least in line</b> with its <b>existing end markets</b> over time</li></ul>
ROCE	<ul style="list-style-type: none"><li>• Gränges aims to generate a <b>15 per cent to 20 per cent</b> return on average capital employed over time</li></ul>
Capital structure	<ul style="list-style-type: none"><li>• The <b>Net Interest Bearing Debt</b> should normally be in the range of <b>one to two times EBITDA</b> over the last twelve months</li></ul>
Dividend policy	<ul style="list-style-type: none"><li>• Gränges aims to have an annual dividend corresponding to <b>30 to 50 percentage of the net profit for the period</b></li><li>• The pay out decision will be based on the Company's financial position, cash flow and future outlook</li></ul>

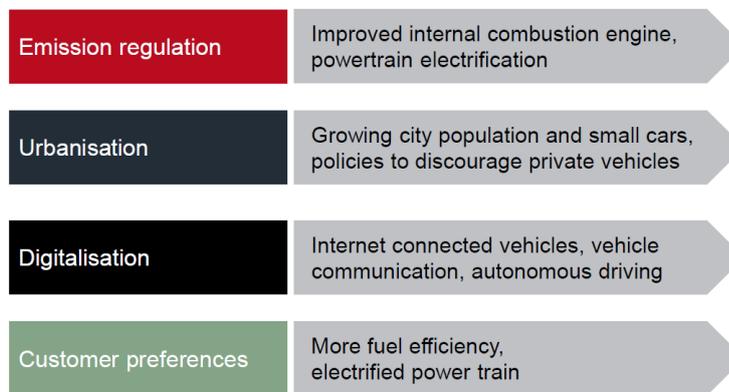


In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the purpose of the section below is to provide a short description of the overall market(s) in which the company operates and how trends of that market may create value for investors.

The content of the section is based on Chapter 6 (Market overview) of the company's original prospectus as well as the company's Capital Market Day presentation.

## 2. Insight into the key market features

### Trends set to drive demand for advanced heat exchanger materials in automobiles



#### Market Overview

According to the World Aluminium Organization, the global upstream aluminium market had an annual capacity of approximately 69 million metric tonnes in 2013. The upstream aluminium market consists of recycled aluminium and primary aluminium (aluminium produced from mining bauxite that is refined into alumina and then processed into aluminium). The secondary aluminium market consists of processed aluminium in various forms including casted, extruded and rolled products. Rolled products, such as sheet, plate and foil, represented approximately 30 percent of the secondary aluminium market in 2013. Rolled products used in brazed aluminium heat exchangers represent a niche market in the global aluminium value chain.

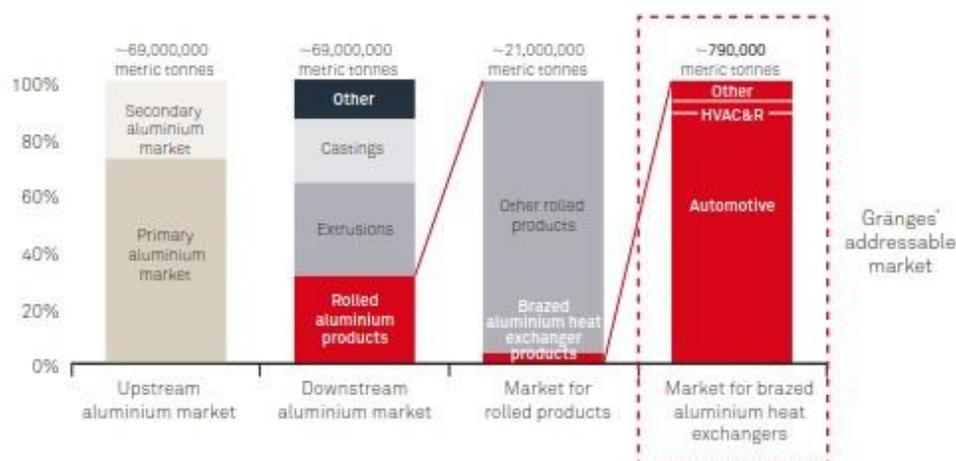
#### Rolled products uses and end markets

Within rolled aluminium products, the packaging industry consumes the majority of the sheet and foil for making beverage cans, foil containers and wrapping. Sheet is also used in buildings and in the

transportation industry. Plate is used for airframes, vehicles and bridges, ship superstructures, cryogenic and chemical vessels as well as tooling plate.

Rolled products used in brazed aluminium heat exchangers constituted approximately four percent of the total market for rolled products and approximately one percent of the total upstream aluminium market in 2013 measured by volume. Within the rolled products used in brazed aluminium heat exchangers, the automotive and Heating, Ventilation, Air Conditioning and Refrigeration (HVAC&R) market segments are, at present, Gränges' main market segments. These two segments had an aggregate market size of approximately 720,000 metric tonnes in 2013, which corresponded to a value of approximately SEK 19 billion. The rest of the market for brazed aluminium heat exchangers consists of various industrial applications such as air separators, air compressors, construction equipment, hydraulic systems, wind power and process cooling.

## Rolled products for brazed aluminium heat exchanger within the global aluminium value chain (2013 by volume)



Source: World Aluminium Organization and Granges' estimates based on market intelligence. See section "Market size and growth" for more information.

### Market characteristics

Brazed heat exchangers must meet a variety of demanding requirements. In terms of performance, they have to ensure maximum heat transfer performance while keeping size and weight to a minimum. Furthermore, brazed heat exchangers must be durable, providing trouble-free performance throughout their service life. All of these requirements must be met in a cost-effective manner. Rolled aluminium products, in various forms, have the characteristics to meet the requirements of increasing market demands for cost-effective, energy-efficient and new, innovative applications.

The characteristics of rolled aluminium products empower system designers and product manufacturers with multiple options for performance and design improvement as well as cost reduction. However, the process of transforming aluminium from the upstream aluminium industry into rolled products for brazed aluminium heat exchangers is complex and requires a sophisticated knowledge of how the properties of aluminium can be influenced by different metal compositions and processes in order to meet customer demands. The market is continuously developing and the demand for research and development generates high barriers to entry.

In the automotive product area, brazed aluminium heat exchangers have become the primary heat exchanger manufacturing method. In contrast, brazed aluminium heat exchangers constitute less than five percent of all heat exchangers used in the HVAC&R market segment as of 2013. At present, the industry standard in the HVAC&R market segment is to use mechanically assembled copper based heat exchangers. The initial capital requirement needed for new production technology paired with a

technology knowledge gap are factors that have limited the adoption of brazed aluminium heat exchangers in the HVAC&R product area and have led to challenges in getting brazed aluminium technology validated and accepted by OEMs.

### Market trends

Market trends shift industry dynamics and catalyse future development in the industry. The two macro trends that are particularly relevant to both the automotive and HVAC&R segment are the drive to increase energy efficiency and reduce emissions and the trend towards an increasingly global landscape with higher living standards.

### Improving efficiency and reducing emissions

#### Drive to produce lighter vehicles

There is a strong incentive in the automotive industry to reduce vehicle weight, in order to improve fuel economy. As aluminium is lighter than steel, this trend is expected to lead to an increase in aluminium content per vehicle. Components such as heat exchangers, engines, transmissions and wheels have already adopted aluminium as the primary material used in production. Moreover, there is a drive to further reduce the weight of these components through redesign. For rolled product producers, this leads to competitive pressures to produce technically advanced material to support the development of lighter products, without sacrificing quality, performance or reliability. In contrast, automotive body panels and components such as hoods, fenders, doors and chassis are still predominantly produced using steel. Automotive aluminium content per vehicle is expected to increase by approximately 60 percent from the period 2012 to 2025, according to the Aluminium Association

Transportation Group. This trend is expected to lead general purpose mills to shift their strategic focus towards automotive body panels and components, resulting in a lack of dedicated rolled product capacity in the brazed aluminium heat exchanger industry.

### **Engine redesign and downsizing**

Automotive OEMs are reducing engine size and implementing increasingly complex systems in order to facilitate greater efficiency and reduce emissions. To supplement the performance of smaller engines, manufacturers often use turbochargers. Turbochargers are especially prevalent in diesel engines, which are increasingly used as an alternative to petroleum-based engines. The use of turbochargers requires CACs, a type of heat exchanger that cools the air entering the engine after it passes through the turbocharger. Additionally, electric and hybrid vehicles are receiving interest from automotive OEMs and environmentally conscious consumers. These vehicles require implementation of brazed aluminium heat exchangers such as battery and electric system coolers that are similar to radiators in terms of construction and functionality. Engine redesign and downsizing leads Tier 1 suppliers to increase pressure on rolled product producers to provide technically advanced products that support the development of new applications, complex designs and compact brazed heat exchangers.

### **Reducing harmful emissions**

Internal combustion engines produce harmful emissions by burning fossil fuels as well as through the leakage of refrigerants used in heat exchangers. To reduce exhaust system emissions, EGRs, a type of brazed aluminium heat exchanger, are used to reduce nitrogen oxide emissions. Similarly, in diesel engines brazed aluminium heat exchangers are used to cool unburned diesel fuel before returning the fluid to the gas tank. With regards to the refrigerants used in brazed aluminium heat exchangers, there is a movement to utilize alternative refrigerants that are not harmful to the environment. These developments are leading to system requirements that redefine the functional purpose and specifications of heat exchangers. For rolled product producers, this leads to an increasing demand for technology content that allows Tier 1 suppliers to create brazed aluminium heat exchangers that promote efficiency and reduce emissions in a cost-efficient manner. As with the automotive industry, refrigerant emissions generated by HVAC&R heat exchangers are harmful to the environment. As a result, the HVAC&R end-customer market is facing pressure to phase out harmful refrigerants and use natural refrigerants with low, or no environmental impact. The substitution to more environmentally friendly refrigerants changes design specifications for heat exchangers. Rolled product

producers are, accordingly, required to supply products that allow Tier 1 suppliers to redesign brazed aluminium heat exchangers that are suited to new requirements and specifications.

### **Increasingly energy efficient buildings and homes**

HVAC&R heat exchanger applications constitute a large portion of the energy used in a building or home. In light of legislative mandates and high energy costs, heat exchangers used in the HVAC&R end-customer market require increased efficiency. This trend provides brazed aluminium heat exchanger manufacturers with the opportunity to differentiate their product by producing more energy efficient applications.

### **Evolving global landscape and increasing living standards**

#### **Newly industrialised countries and economies of scale in the automotive industry**

Newly industrialised countries, such as China, are driving changes in the automotive segment's industrial landscape, as they represent an increasing share of global vehicle demand. This trend has three marked effects on the automotive industry. First, to take advantage of economies of scale, OEMs are creating global platforms that ensure a presence in both newly industrialised and developed markets (e.g. the U.S and Europe). Second, within their global platforms, OEMs are increasingly basing production close to where their vehicles are sold in order to facilitate efficient logistics. The first and second factors increase the importance of global reach on the part of automotive suppliers. Lastly, there is a trend towards "global modular mega-platforms" whereby automotive OEMs produce an increasing number of vehicle families, brands and models from the same set of common components. This trend towards "global modular mega-platforms" lead OEMs to increase quality and durability requirements for components supplied by Tier 1 suppliers, and in turn rolled product producers in order to maintain brand image and avoid costly mega-platform recalls. To meet OEM demands, the relationship between rolled product producers and Tier 1 suppliers is expected to become increasingly important.

#### **Increasing living standards drive demand for human comfort applications**

Higher living standards combined with higher temperatures due to the effects of global warming are leading to an increase in demand for human comfort applications. This trend is especially evident in newly industrialized countries where living standards are rapidly increasing. In the automotive

industry, air conditioning is becoming a standard feature in vehicle platforms. The HVAC&R market segment has also seen an increased demand for human comfort applications, such as heat pumps and air conditioning units. As a result, the use of heat exchangers, such as condensers and evaporators that promote human comfort is expected to increase for both the automotive and the HVAC&R market segments.

**Market size and growth**

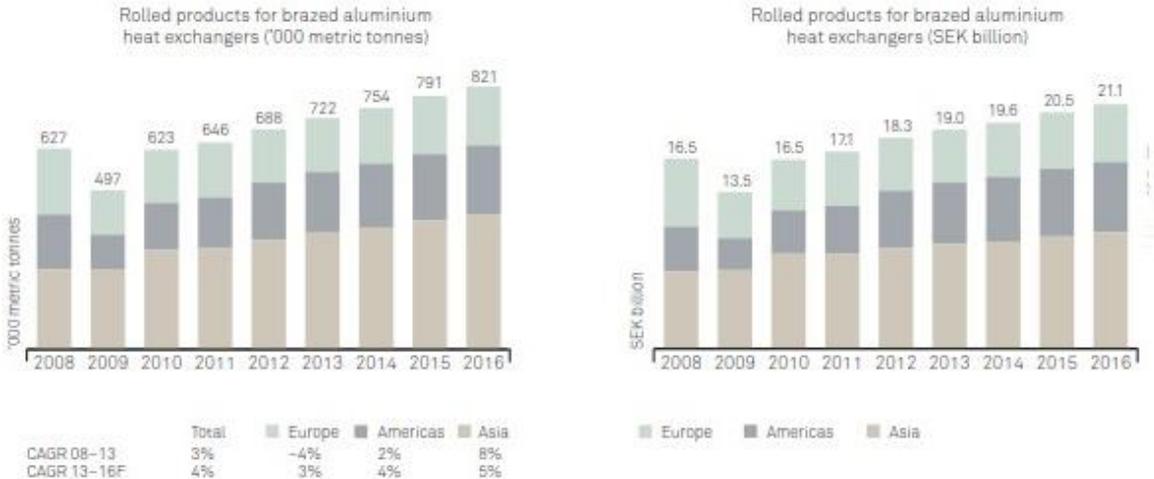
As of 2013, the total market size for rolled products used in brazed aluminium heat exchangers for automotive industry and the HVAC&R market segment was estimated by Gränges, with a corresponding value of approximately 720,000 metric tonnes, with a corresponding value of approximately SEK 19 billion. Gränges’ total market, including other applications, was estimated to be approximately 790,000 metric tonnes in 2013. Market size in the rolled products industry is normally measured in volume (metric tonnes). Gränges’ estimates of the market are based on external forecasts (e.g. LMC Automotive) of the automotive production in different regions and a number of assumptions. The assumptions include number of heat exchangers per vehicle, the proportion of diesel cars and the proportion of cars with air conditioning, average weight of heat exchangers, type of heat exchanger, the proportion of brazed heat exchangers within HVAC&R and aftermarket. The market value is calculated by multiplying volume by the price parameter. The price parameter consists of metal price and a conversion price. The metal price is based on an official metal exchange price, where London Metal Exchange (“LME”) is most commonly used. The conversion price includes the price to convert the metal into the finished rolled product and the customer value.

**Market size**

The automotive product area is the largest market segment for brazed aluminium heat exchangers, accounting for over 90 percent of the total volume of sales in 2013. The charts below illustrate the historical development of the market for rolled products used in brazed aluminium heat exchangers by market segment. The market is expected to grow at a CAGR of four percent between 2013 and 2016. The automotive market segment is expected to continue to represent the largest share of sales in the near to mid-term. Even though the total market for heat exchangers used in HVAC&R applications (including heat exchangers other than brazed aluminium heat exchangers) is approximately the same size as the automotive product area, the low portion of brazed aluminium heat exchangers for HVAC&R application makes this product area significant smaller. The growth of the HVAC&R market segment is expected to mainly be driven by the conversion from copper to aluminium based heat exchangers.

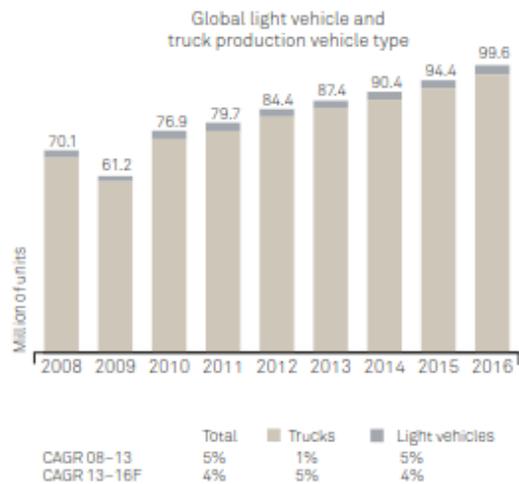
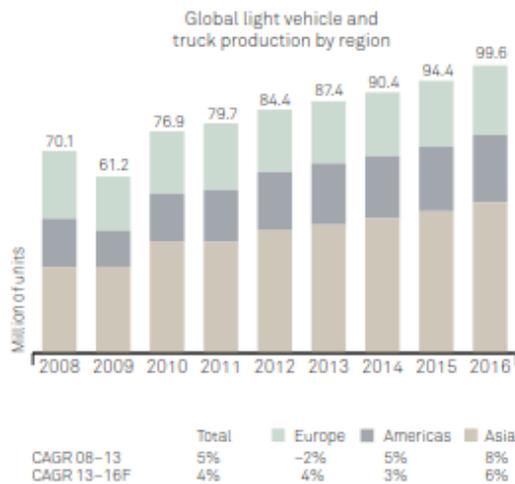
The graphs above show the market data broken down by geography. The Asian market has historically exhibited the most robust growth with a CAGR of approximately eight percent from the period 2008 to 2013. Markets in Europe and the Americas were significantly affected by the financial crisis in 2008 and 2009, but have rebounded. Europe had a negative CAGR of four percent between 2008 to 2013. In Americas, the CAGR was two percent in the corresponding period.

**Rolled products for brazed aluminium heat exchangers – by geography**



Source: Gränges’ estimates based on market intelligence. See section “Market size and growth” for more information. (Constant currency as per June 3, 2014 used for USD/SEK 6.69 and CNY/SEK 1.08. Market value based on constant LME prices calculated using annual averages).

## Global automotive vehicle production



Source: LMC Automotive

### Automotive market segment

The market for rolled products used in brazed aluminium heat exchangers in the automotive end-customer market is directly related to overall automotive industry development. The two main drivers for the automotive product area are (i) automotive industry vehicle production and (ii) the number of heat exchangers per vehicle.

### Automotive industry vehicle production

Automotive vehicle production is a function of a number of macro-economic factors, such as economic growth, employment levels, interest rates, consumer spending patterns, the price of fuel, the pace of new vehicle model offerings and overall household wealth levels. The global light vehicle and truck market is expected to grow at a CAGR of approximately four percent between 2013 and 2016, according to LMC Automotive.

Asia represents the largest end market and an attractive growth market for automakers. In Asia, China is the main driver for vehicle production, accounting for approximately 50 percent of vehicle sales in the Asian market and approximately 25 percent of vehicle sales worldwide in 2013, according to LMC Automotive. Chinese automotive sales were relatively unaffected by the economic downturn in 2008 to 2009 and is expected to grow at a CAGR of approximately nine percent between 2013 and 2016, according to LMC Automotive. This is a higher growth rate than Asia as a whole, which is expected to grow at a CAGR of six percent for the same period. Europe and the Americas are expected to show stable growth with a CAGR of four and three percent respectively between 2013 and 2016, according to LMC Automotive.

### Growth within the automotive market segment

Given the close historical correlation between rolled products for brazed aluminium heat exchangers in

the automotive segment and vehicle sales, Gränges expects the market for rolled products to grow in line with vehicle production at a CAGR of approximately four percent between 2013 and 2016, as shown in the figures below. There are a number of factors that have the potential to increase the number of heat exchangers per vehicle such as, increasing use of air conditioning, new and smaller engines and decreased harmful pollutant. Within the forecast period, the projected increase in the number of heat exchangers per vehicle is not expected to have a significant effect on the market.

### HVAC&R market segment

The underlying growth driver for HVAC&R heat exchangers, irrespective of type, is global construction expenditure, which is forecasted to grow at a CAGR of approximately four percent over the next four years according to the IHS World Petrochemical Conference. Unlike the automotive market segment, growth in the underlying HVAC&R heat exchanger market is of secondary importance due to the fact that brazed heat exchangers constituted less than five percent of the overall market as of 2013. For this reason, the main driver behind growth in the market for rolled products for brazed aluminium heat exchangers in the HVAC&R market segment is expected to be the increasing adoption of brazed aluminium heat exchangers. Factors contributing to the adoption of brazing technology include the potential for efficiency gains and cost reduction.

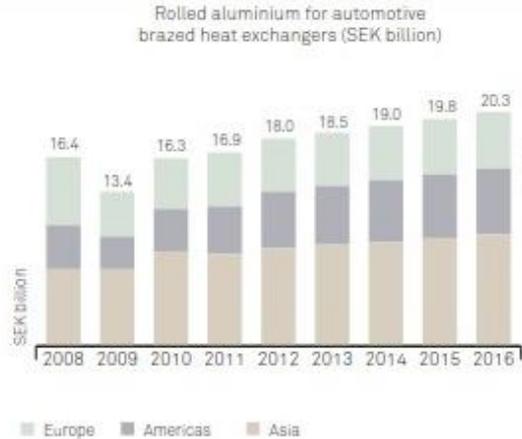
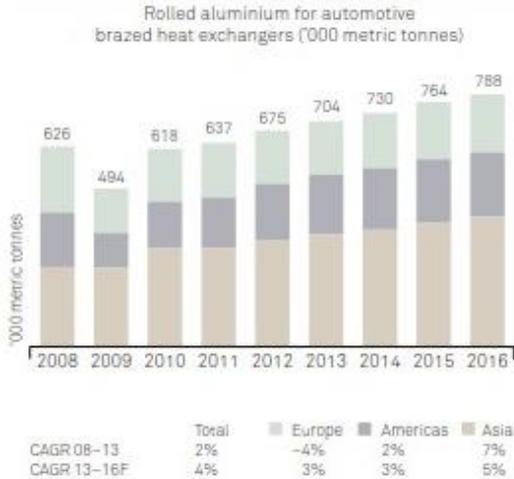
### Efficiency gains realized by using brazed aluminium heat exchangers

Brazed aluminium heat exchangers are able to achieve improved energy efficiency compared to copper based heat exchangers, due to design and construction elements. Aluminium heat exchangers are smaller, lighter and uses less material than copper based heat exchangers. Brazed heat exchangers achieve higher efficiency because of

better air-side and refrigerant-side heat transfer coefficients. Increased efficiency relates to a

reduction in overall system cost due to a reduction in the electricity used by the application.

**Rolled products for brazed aluminium heat exchangers in the automotive segment**



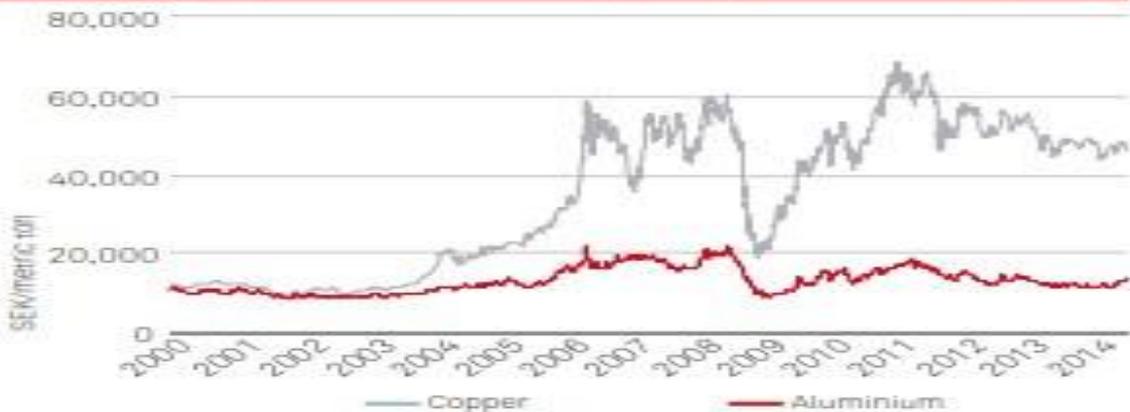
Source: Gränges' estimates based on market intelligence. See section "Market size and growth" for more information. (Constant currency as per June 3, 2014 used for USD/SEK 6.69 and CNY/SEK 1.08. Market value based on constant LME prices calculated using annual averages).

**Brazed aluminium heat exchangers' cost advantage**

Another important reason that brazed aluminium heat exchangers have a cost advantage over traditional copper solutions is the discrepancy in pricing between copper and aluminium. This

discrepancy has become pronounced in recent years, with copper trading at approximately four times the price of aluminium (July 2014). Furthermore, the characteristics of brazed aluminium heat exchangers also provide other functional benefits that ultimately translate to total system cost savings.

**Copper price vs. aluminium price (SEK/metric ton)**



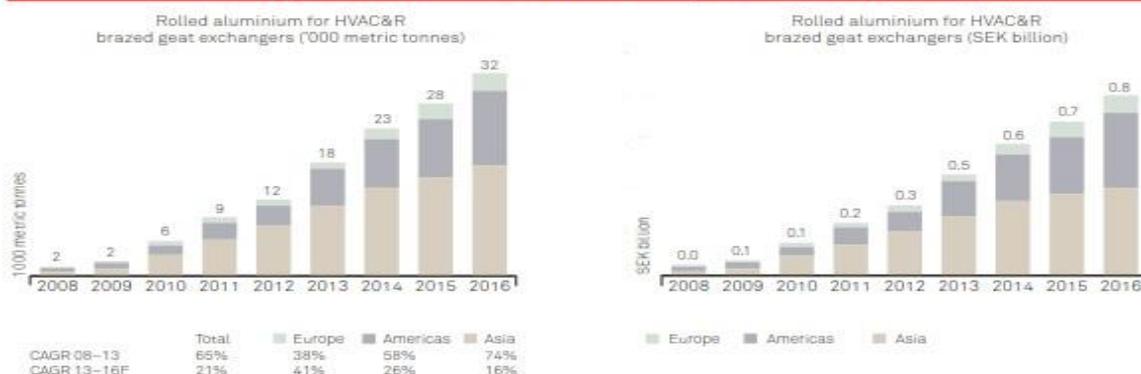
T) Based constant currency as per June 30, 2014 USD/SEK 6.74.  
 Source: Bloomberg

**Growth within the HVAC&R market segment**

The initial capital requirements needed for new production technology paired with a technology knowledge gap are factors that have delayed the validation and acceptance of brazed aluminium technology in the HVAC&R product area; however, brazed aluminium heat exchangers are expected to gradually displace traditional copper solutions. As a result, the HVAC&R market segment for rolled products in brazed aluminium heat exchangers is

estimated to grow at a CAGR of approximately 20 percent between 2013 and 2016. The growth is based on increased substitution of brazed aluminium heat exchangers rather than growth in the overall market for heat exchangers in the HVAC&R product area. The relative importance of substitution compared to construction expenditure is highlighted by the increase in the rolled product market for HVAC&R heat exchangers from 2008 to 2009. Despite the economic downturn and sharp decrease in construction expenditures in Europe and the

**Rolled products for brazed aluminium heat exchangers in the HVAC&R product area**



Source: Gränges' estimates based on market intelligence. See section "Market size and growth" for more information. (Constant currency as per June 3, 2014 used for USD/SEK 6.69 and CNY/SEK 1.08. Market value based on constant LME prices calculated using annual averages).

Americas, the rolled product market for brazed heat exchangers in the HVAC&R product area is estimated to have grown a CAGR of by approximately 38 percent and 58 percent, respectively, during the period 2008 to 2013. The high growth is partly a result of growth from low volumes.

**Competitive landscape**

The market for brazed aluminium heat exchangers is serviced by rolled product suppliers that vary in size and relative focus on the brazed heat exchanger market. Gränges is the only global supplier with sole focus on the brazed aluminium heat exchanger market and held a leading position with an estimated

market share of 20 percent of the global market volume in 2013. The Company estimates that its three main competitors have market shares of approximately 10, 10 and 5 percent, respectively within the global market volume in 2013. Within the two product areas, automotive and HVAC&R, Gränges had leading market positions with an estimated market volume of 20 and 40 percent, respectively. Most of Gränges' competitors are large international companies engaged in several sub segments of the aluminium industry. Gränges considers Alcoa, Aleris, Haufon, Norsk Hydro, Novelis and UACJ to be six of its largest competitors. Gränges also faces competition from local actors in newly industrialized countries, primarily China.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the purpose of the section below is to provide a concise description of the company’s long-term strategy and how it expects to create value for investors; describe how the company has met or exceeded its past strategic plans; comment on how the Business Case fits into the strategic plan; and describe the company’s value creation model.

The content of the section is based on the company’s original prospectus Chapters 6 (Market overview) and 7 (Business overview), the company’s Capital Market Day presentation, as well as the company’s year-end reports 2015 and 2016.

### 3. Explanation of the strategy

#### 2020 goal and strategy

#### Strengthen global leadership

- Grow significantly above the market rate
- Become the market leader in all geographical regions
- Maintain good and sustainable profitability

Drive growth through innovation	Create value from sustainability	Increase efficiency through continuous improvements	Grow presence through structural expansion
<ul style="list-style-type: none"> <li>• Lead the development of heat exchanger materials</li> <li>• Offer the most advanced solutions</li> <li>• Be the preferred partner for our customers</li> </ul>	<ul style="list-style-type: none"> <li>• Zero accident target</li> <li>• Reduce waste</li> <li>• Increase recycling</li> <li>• Ensure diversity</li> <li>• Be an attractive employer</li> </ul>	<ul style="list-style-type: none"> <li>• Improve process stability</li> <li>• Increase productivity</li> <li>• Increase energy efficiency</li> <li>• Improve metal management</li> </ul>	<ul style="list-style-type: none"> <li>• Add production capacity in North America</li> <li>• Increase production capacity in Asia</li> <li>• Expand into adjacent market segments</li> </ul>

#### 3.1 A concise description of the company’s long-term strategy

##### Current business strategy

Gränges’ business strategy is based on being a niche actor with its expertise within the market for rolled products for brazed heat exchangers in aluminium. By only focusing on this niche and a global offering of tailored products with high-technology content, Gränges’ aims for a profitable organic growth and to maintain and strengthen the Company’s market leading position.

Our CEO provides complementary thoughts and commentary on the company’s strategy in the Capital Market Day presentation video at 0:11:15 – 0:36:30.<sup>6</sup>

Gränges focuses on three cornerstones to strengthen the global leadership: Industrial craftsmanship, Leading edge technology and Attention to customer needs.

##### *Industrial craftsmanship*

Gränges’ customers’ operations are dependent on the quality, reliability and consistency the Company delivers, which is why the quality of Gränges’ products and services is, and will remain, the Company’s number one priority. The Company recognises that, although it is working with advanced production technology and highly complex processes, consistency in quality comes from competence. It is a result of employees with a large skill- set, vast experience and dedication to what they do. Gränges calls this industrial craftsmanship, which is the Company’s contribution to more efficient production

<sup>6</sup> Capital Market Day (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

and higher competence within brazed heat exchangers. The Company's sole focus allows it to devote resources to improvements in its field.

#### ***Leading edge technology***

Gränges capitalises on being a technology development partner in close cooperation with its customers. The Company's centre for research, development and applied engineering – Gränges Technology – uses its knowledge to develop the right materials for the customers' needs. Product developers and technical support engineers work closely with customers to optimise material- machine interaction.

#### ***Attention to customer needs***

Gränges works closely with its customers to continually improve their profitability. The Company's industry focus and attention to global customers, enable it to tailor customer service to customer needs, whether it relates to product development, delivery terms, service levels or administrative routines.

#### ***Execute efficiency improvements***

Gränges focuses on operational improvements and cost reductions to reach higher efficiency. The

Gränges Production System is Gränges' concept for lean manufacturing aimed at simple production flows, direct connection between production steps and well-defined and waste-free processes. The Company launched a program in the summer of 2013 for the production plants in Europe and Asia. The ongoing efficiency focus with cost control has increased cost awareness and budget adherence which has improved the operating margin. The adjusted operating margin improved from 7.6 percent to 10.9 percent during the first six months of 2014 compared to the same period in 2013.

#### ***Sustainable development***

Gränges continuously works towards sustainable development without compromising environmental conditions. Aluminium is sometimes called the green metal, due to properties that support sustainability, such as recycling and re-melting. Gränges' ambition is to minimise the environmental impact of its products and processes. Increased energy efficiency is a key part of Gränges' sustainability efforts, as well as increased use of recycled aluminium. Principally, Gränges achieves the latter by upgrading the production equipment and by developing innovative, sustainable products that can be recycled.

### 3.2 How the company has met or exceeded its past strategic plans

Strong performance against targets in 2015



Strong performance against targets in 2016 while completing a major acquisition in the US



This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed these three organisations to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decision based on this model prospectus.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the section below provides explanatory comments on the key risks affecting the business and how these could influence future results; identification of key customers and suppliers; a brief comment on key suppliers, including their relative importance to the supply chain or the value chain as a whole; a comment on how such suppliers may impact the risks and opportunities; a description of barriers to entry, intellectual property, patents etc.; and a description of existing legal, technological and other hurdles that may both create more stability in certain markets and/or stymie growth and opportunities in others.

The content of the section is based on the company's original prospectus' Summary, as well as Chapters 2 (Risk factors), 6 (Market overview) and 7 (Business overview).

Moreover, we have introduced in grey boxes "fictional quantified risk data". The main company specific risk factors should be quantified, if possible, in order to provide investors with a better understanding of their potential exposure to risks. The grey boxes provide a snapshot on the kind of quantifiable data and estimations that could be provided. They are purely fictional, devised by the three cooperating organisations and do not derive in any way from Gränges.

## 4. Identification of key risk factors specific to the company

### 4.1 Explanatory comments on the key risks affecting the business model

#### **Demand for Gränges' products is dependent on end users' markets and end-customers' production, in particular within the automotive industry**

The majority of Gränges' customers are active within the automotive industry as suppliers to vehicle and original equipment manufacturers. As a result, the demand for Gränges' products is dependent on automotive industry production. Automotive industry production is largely driven by demand for and sales of vehicles, as well as stock levels of vehicle and equipment manufacturers. New vehicle demand, in turn, is dependent on consumer spending and is tied closely to the strength of the overall economy. During recessions or periods of low growth, the automotive industry typically experiences significant cutbacks in production, resulting in decreased demand for aluminium products. For example, in 2009 the global financial crisis led to a 20 percent decline in European automotive production according to LMC Automotive and a 24 percent decline in Gränges' sales in Europe.

#### **Gränges is exposed to the price of aluminium and may be adversely affected by inability to properly manage such exposure**

Gränges has production facilities in Finspång and Shanghai. Gränges purchases large volumes of aluminium for production at these facilities. The purchasing price is generally based on the trading

price on the London Metal Exchange ("LME"). However, the price of the aluminium supply for the facility in Shanghai is based on the trading price on the Shanghai Futures Exchange ("SHFE"). The revenue model for rolled aluminium products is based on a price model in which the cost of raw material is passed on to the customer, while Gränges is compensated for its processing by way of a conversion price paid by the customer in addition to the raw material costs. This entails that the raw material price risk is mostly passed on to by the customer, although Gränges is still exposed to fluctuations in market prices of aluminium as a result of, for example, the delay between a manufacturer purchasing its aluminium at potentially a different price, and the product being sold to the customer. In addition, differences between the LME and SHFE price may lead to a lower profit margin on products exported from Shanghai, as well as reduced profitability. Gränges' ability to reduce the effect of fluctuations in market prices by way of hedging measures is dependent upon many factors, including factors that are beyond the Company's control. All of these factors could adversely affect Gränges' business, financial condition or results of operations.

**Fictional quantified risk data:** The amount of aluminium purchased from the LME constituted X% of total aluminium purchases in 2013, and Y% for SHFE. The costs of these purchases were SEK ABC for LME and SEK XYZ for SHFE. An increase of 10% in aluminium purchasing prices in LME would have caused additional production costs of SEK JKL, and in the case of SHFE an additional SEK OPQ.

### **Gränges could be adversely affected by changes in the business or financial condition of a significant customer or customers**

In 2013, the top five customers accounted for approximately 48 percent of Gränges' sales by volume. A significant downturn in the business or financial condition of a key customer or customers could adversely affect the Company. Gränges' customers may experience delays in the launch of new products, interruptions such as labour strikes, diminished liquidity or credit unavailability, weak demand for their products, or other difficulties in their business, resulting in lost business for Gränges. If a customer significantly relocates its manufacturing operations, such as to a low-cost country, Gränges may not be asked, or be able to, make deliveries to the new location to the same extent as prior to the relocation, or may not be able to source any or all of its products to the new location efficiently. Any material loss of contracts from one or more of significant customers could have an adverse effect on Gränges' business, financial condition or results of operations.

### **Gränges is exposed to risks related to the Chinese legal system**

As Gränges has operations in China, Gränges is subject to general Chinese laws and regulations and, in particular, to laws applicable to wholly foreign-owned investments in China. In 1979, the Chinese government introduced comprehensive new laws on economic matters. These laws have significantly enhanced the protection afforded to various forms of foreign investments in China. However, the Chinese legal system continues to evolve rapidly and the interpretation of many laws and regulations entails uncertainties which may limit the protection available to foreign investments like the Company's subsidiary Gränges Shanghai. It is not always possible to predict the interpretation of relevant laws and regulations due to the lack of detailed implementation rules issued by government authorities. Some government authorities (including local government authorities) may not consistently apply rules and regulations issued either by themselves or other Chinese government authorities, thereby rendering strict compliance either impractical or, in some cases, impossible. For example, amendments to dividend distribution or dividend taxation rules and may affect Gränges Shanghai's ability to efficiently distribute dividends to Gränges. From its establishment in China in 1996 and until Gränges Shanghai became a wholly-owned subsidiary of Gränges in 2003, Gränges Shanghai was jointly owned by Gränges and a Chinese state-owned joint venture partner. Certain supporting documents prepared in connection with the transactions to establish the joint venture and transfer all shares to Gränges cannot be located,

primarily because both the joint venture partner and the local authorities involved have ceased to exist. The lack of full and complete documentation may result in penalties or adversely affect Gränges' ability to independently document full and indisputable title to part of the Chinese operations. In China, resort to administrative and court proceedings to enforce legal protection granted by law or to enforce contractual rights may not always be successful. Administrative authorities and courts have significant discretion in interpreting and implementing statutory and contractual terms, and circumstances unrelated to the legal merits of a particular matter or dispute may influence their determination. It is therefore more difficult to assess the outcome of any proceedings and the level of protection that is available than it may be in more developed legal systems. Accordingly, the factors outlined above could adversely affect Gränges' business, assets, equity, financial position or results of operations.

**Fictional quantified risk data:** The Chinese operations of Gränges amount to X% of the group's sales. The group has, moreover, Z amount of production facilities in China. This means that the company is particularly vulnerable to legal, economic and political risks stemming from China. These risks include, in particular, ABC.

### **Gränges' production in Finspång relies on infrastructure owned by a third party**

As part of a Group restructuring in 2009, Gränges transferred certain assets and infrastructure for distribution of operating media at its site in Finspång to Coor Service Management AB ("Coor"). Such infrastructure includes the main system, pipes, pump stations, distribution plant, furnace rooms and, compressors, as well as an LPG station and a power plant (hydroelectric power station). The parties have entered into two agreements under which infrastructure and operating media at the site are to be exclusively provided to Gränges by Coor valid until December 31, 2016. No assurances can be given regarding on what terms Gränges will be able to renew these agreements in the future. Further, if any of these agreements terminates and is not renewed, the Company could be required to replace existing infrastructure at the site which would be expensive, time consuming and might require new permits. Such a situation could adversely affect Gränges' business, financial position or results of operations.

**Fictional quantified risk data:** The Finspång site is the second largest out of a total of three such facilities in Sweden, and this could therefore have a material impact on the company's Swedish operations. Should this scenario materialise, it is estimated to come at the additional cost of SEK XX million over a period of Y years.

### **The development of Gränges as a stand-alone group of entities is associated with separation costs and a number of uncertainties**

The development of Gränges as a stand-alone group of entities has entailed separation costs, including among other things the use of key management personnel's time and attention, overhead and logistical costs, and the cost of recruiting, training and retaining a higher number of staff across different businesses. Gränges may incur higher operational costs than it would have had as a part of the Orkla/Sapa group due to loss of economies of scale, the need for stand-alone corporate and support services, and less access to certain resources compared to those available to the Company if continued as a part of the Orkla/Sapa group. Such factors could increase operating costs and adversely affect Gränges' business, financial condition or results of operations.

**Fictional quantified risk data:** This could result in additional annual operational costs of SEK XYZ to SEK ABC.

### **Gränges will, for a transitional period, rely on the Sapa group for certain services**

Gränges has previously relied on entities within the Sapa group to provide certain services; including accounting and finance services, treasury services, IT services, insurance and lab services. Through transitional arrangements entered into in conjunction with the legal demerger, entities within the Sapa group shall provide Gränges with such services. Gränges intends to either develop internal capabilities or make arrangements with third-party service providers to replace services provided by the Sapa group in the transitional period. If Gränges fails to adequately replace the functions for which it currently relies on entities within the Sapa group, or is unable to enter into alternative arrangements with third parties on commercially viable terms, its business, financial condition or results of operations could be negatively affected.

**Fictional quantified risk data:** the estimated financial impact from failing to find commercially viable alternatives to Sapa group's services could amount to between SEK XYZ and SEK ABC annually.

### **Swedish law subjects Gränges to secondary joint liability for certain obligations from the demerger**

Through the legal demerger between Gränges and Sapa AB which was carried out in 2013 in accordance with the provisions of Chapter 24 of the Swedish Companies Act, the obligations of the prior company were divided between Gränges and Sapa AB in

accordance with the principles set forth in the demerger plan. If Sapa AB is liable under the demerger plan for an obligation that arose prior to consummation of the demerger and fails to satisfy that obligation, the Company will, pursuant to the demerger provisions in Chapter 24 of the Swedish Companies Act, be subject to secondary joint liability for that obligation. Secondary joint liability does not apply in respect of obligations incurred after consummation of the demerger. This statutory liability is unlimited in time but is limited in amount to the equivalent of the real value of the net balance allocated to the non-defaulting party in the demerger. Accordingly, if Sapa AB is unable to satisfy its obligations, Gränges could be liable for Sapa AB's obligations that arose prior to the demerger. This liability could result in an adverse effect on the Company's business, financial condition or results of operations.

**Fictional quantified risk data:** Should the liability materialise, it is estimated to result in an additional cost of between SEK ABC and SEK XYZ over a period of Z years.

## **4.2 Identification of key customers and suppliers**

The subsidiaries Gränges Sweden and Gränges Shanghai enter into purchase agreements for certain amounts of primary aluminium on a yearly basis with large suppliers. Two of Gränges Sweden's suppliers carry a consignment stock at the plant in Finspång from which delivered products are drawn. The purchase price for primary aluminium is generally based on the trading price on the London Metal Exchange and, as regards China, the price on the Shanghai Futures Exchange. In addition to the primary aluminium base price, there is a premium paid to the supplier of the aluminium. The premium varies depending on the type and quality of the sourced aluminium, as well as the location of delivery reflecting regional supply-chain cost. Gränges has also entered into agreements with suppliers of logistic services for the forwarding of products from Gränges' plants in Finspång and Shanghai. Suppliers of aluminium scrap and alloying metals are generally not bound by long term agreements as purchases are made on the spot-market.

Gränges differentiates itself from global aluminium companies by being a niche actor with tailored products in combination with a production facilities that is only used for rolled products for brazed aluminium heat exchangers. Compared to low cost producers, Gränges also has the capacity to meet customers' global demand.

Gränges provides products to suppliers for two main market segments, the Automotive industry and HVAC&R which represented about 88 percent and

about 4 percent of sales in the period January 1 to June 30, 2014 respectively. Sales to residual customers represented about 7 percent during the period.

### **4.3 Description of barriers to entry**

#### **Global leadership on niche market**

Gränges has a global leading market position in rolled products used in brazed aluminium heat exchangers with a total market share estimated at approximately 20 percent in 2013. The Company supplies products for the automotive and HVAC&R end-customer markets. Gränges holds leading positions in both these segments, with estimated 20 percent and 40 percent global market shares by volume in 2013, respectively.

The Company holds strategic positions in key geographical regions. Gränges is a leading supplier in Asia, which is the geographical market that has exhibited the largest growth over the last years. Furthermore, there are attractive growth prospects for the North American market. Gränges' close

integration of its geographical regions offers significant competitive opportunities, e.g. within product development.

#### **Market leading research and development capabilities**

Gränges has a research and development team dedicated to rolled aluminium solutions for brazed heat exchangers. The Company has a strong track record of research and development achievements and a portfolio of on-going projects such as the state-of-the-art technology TRILLIUM™ and MULTICLAD™ multi-layered- clad.

Gränges has acquired specific competencies relevant to brazed aluminium heat exchangers over its more than 40 years' experience developing brazing materials. The Asian research and development centre has obtained aluminium brazing competences through knowledge transfer and training from a highly educated staff from the research and development centre in Finspång.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the section below describes the key features of the existing or planned corporate governance structure and process; explains past and current experiences, including relationships with existing management team members and key shareholders, of those in charge of corporate governance; comments briefly on the type of oversight activities or procedures performed by the corporate governance structure, including nature and frequency; comments on key findings and resulting suggestions it has initiated; and provides a track record of selected key management.

The content of the section is based on Chapters 11 (Board of directors, executive management and auditor) and 12 (Corporate governance) of the company's original prospectus.

The section includes a grey box outlining a fictional remuneration policy for the audit committee. The purpose is to demonstrate how we would foresee an issuer to elaborate on key management's remuneration principles. The content of the box is fictional, has been devised by the three cooperating organisations, and does not derive from Gränges.

## 5. Outline of the governance and ownership structure

### 5.1 Key features of the existing or planned corporate governance structure and process

#### Corporate governance

Gränges is a Swedish public limited liability company. Prior to the listing on NASDAQ OMX Stockholm, corporate governance in the Company was based on Swedish law and internal rules and instructions. Once the Company has been listed on NASDAQ OMX Stockholm, the Company will also comply with NASDAQ OMX Stockholm's Rule Book for Issuers and apply the Swedish Corporate Governance Code (the "Code"). The Code applies to all Swedish companies with shares listed on a regulated market in Sweden and shall be fully applied from the first annual shareholders' meeting held the year following the listing. The Company is not obliged to comply with every rule in the Code as the Code itself provides for the possibility to deviate from the rules, provided that any such deviations and the chosen alternative solutions are described and the reasons therefore are explained in the corporate governance report (under the so-called "comply or explain principle").

The Company will apply the Code from the time of the listing of the shares on NASDAQ OMX Stockholm. Any deviation from the Code will be reported in the Company's corporate governance report, which will be prepared for the first time for the financial year 2014. However, in the first corporate governance report, the Company is not required to explain non-compliance with such rules that have not been

relevant during the period covered by the corporate governance report. Currently, the Company does not expect to report any deviations from the Code in the corporate governance report, other than what is set out in our "Incentive program" (see section below) regarding the lack of performance conditions and the incentive program's vesting period. The purpose of the incentive program is to enable the Group to recruit and keep qualified staff in connection with the Offering. Allotment of warrants in connection with the Offering establishes a link between employees' remunerations and the Company's results of operations and value growth, which promotes company loyalty and thereby long-term value growth in the Company. A further purpose of the incentive program is to unite the interests of shareholders, executive management and key individuals. The reason for the deviation from the Code is that, with respect to the listing, the Company assesses such incentive program to be appropriate for its purpose considering that the Company has not previously been listed. A vesting period of two years is deemed adequate for the Company in its present situation.

#### Incentive program

The Company has established an employee incentive program (the "LTI"), addressed to Gränges' executive management and other key employees, as a way to promote and stimulate continuous loyalty with the operations by linking the interests of such persons with the interests of the shareholders. The LTI comprises a total of 1,000,000 employee warrants, with a maximum of 200,000 warrants to the CEO and a maximum of 150,000 warrants to other members of the executive management and

other key individuals of the Group. The LTI runs for two years as from the listing on NASDAQ OMX Stockholm, followed by a conversion period of one year. The LTI does not contain conditions on performance. The strike price is 120 percent of the final price in the Offer. If exercised in full, the LTI would lead to a dilution of 1.3 percent of the total number of shares in the Company. The Company's total costs for the incentive program, including social insurance contributions, amounts to approximately SEK 5.3 million.<sup>1</sup>) In order to secure implementation of the LTI, the Company has issued the warrants to the wholly owned subsidiary Gränges Skultuna AB.

### **Shareholders' meeting**

According to the Swedish Companies Act, the shareholders' meeting is the Company's ultimate decision-making body. At the shareholders' meeting, the shareholders exercise their voting rights in key issues, such as the adoption of income statements and balance sheets, appropriation of the Company's results, discharge from liability of members of the board of directors and the CEO, election of members of the board of directors and auditors and remuneration to the board of directors and the auditors.

The annual shareholders' meeting must be held within six months from the end of the financial year. In addition to the annual shareholders' meeting, extraordinary shareholders' meetings may be convened. According to the articles of association, shareholders' meetings are convened by publication of the convening notice in the Swedish National Gazette (Sw. Post-och Inrikes Tidningar) and on the Company's website. At the time of the notice convening the meeting, information regarding the notice shall be published in Svenska Dagbladet.

### **Right to participate in shareholders' meetings**

Shareholders who wish to participate in a shareholders' meeting must be included in the shareholders' register maintained by Euroclear Sweden on the day falling five workdays prior to the meeting, and notify the Company of their participation no later than on the date stipulated in the notice convening the meeting. Shareholders may attend the shareholders' meetings in person or by proxy and may be accompanied by a maximum of two assistants. Typically, it is possible for a shareholder to register for the shareholders' meeting in several different ways as indicated in the notice of the meeting. A shareholder may vote for all shares owned or represented by the shareholder.

### **Shareholder initiatives**

Shareholders who wish to have a matter brought before the shareholders' meeting must submit a written request to the board of directors. Such

request must normally be received by the board of directors no later than seven weeks prior to the shareholders' meeting.

### **Audit committee**

Gränges has an audit committee consisting of three members: Ragnild Wiborg, Terje Andersen and Bertil Villard. The audit committee shall, without it affecting the responsibilities and tasks of the board of directors, monitor the Company's financial reporting, monitor the efficiency of the Company's internal controls and risk management, keep informed of the auditing of the annual report and the consolidated accounts, review and monitor the impartiality and independence of the auditors and pay close attention to whether the auditors are providing other services besides audit services for the Company, and assist in the preparation of proposals for the shareholders' meeting's decision on election of auditors.

### **Remuneration committee**

Gränges has a remuneration committee consisting of three members: Anders Carlberg, Terje Andersen and Bertil Villard. The remuneration committee shall prepare matters concerning remuneration principles, remuneration and other employment terms for the CEO and the executive management.

### **The CEO and other executive management**

The CEO is subordinated to the board of directors and is responsible for the everyday management and operations of the Company. The division of work between the board of directors and the CEO is set out in the rules of procedure for the board of directors and the CEO's instructions. The CEO is also responsible for the preparation of reports and compiling information for the board meetings and for presenting such materials at the board meetings.

According to the instructions for the financial reporting, the CEO is responsible for the financial reporting of the Company and consequently must ensure that the board of directors receives adequate information for the board of directors to be able to evaluate the Company's financial condition.

The CEO must continuously keep the board of directors informed of developments in the Company's operations, the development of sales, the Company's result and financial condition, liquidity and credit status, important business events and all other events, circumstances or conditions which can be assumed to be of significance to the Company's shareholders.

The CEO and executive management are presented in section "Board of directors, executive management and auditor".

### **Remuneration to the members of the board of directors**

Fees and other remuneration to the members of the board of directors, including the chairman, are resolved by the annual shareholders' meeting. At an extraordinary shareholders' meeting held on September 2, 2014, it was resolved that, for the period until the next annual shareholders' meeting, remuneration shall amount to SEK 500,000 for the chairman of the board of directors, SEK 275,000 for other members of the board of directors, except for Carina Andersson, whose remuneration shall amount to SEK 210,000, since her time on the board of directors is covering a shorter period of time, SEK 80,000 for the chairman of the Audit Committee, SEK 40,000 for other members of the Audit Committee, SEK 50,000 for the chairman of the Remuneration Committee and SEK 25,000 for other members of the Remuneration Committee. All employee representatives shall, for the corresponding period, receive remuneration of SEK 40,000 each. The Chairman of the board of directors and the Chairman of the Audit Committee shall receive additional remuneration of SEK 50,000 each for extra work in connection with the IPO. The members of the board of directors are not entitled to any benefits following termination of their assignments as board members.

#### **Fictional explanation of the remuneration policy of the audit committee**

Fees paid to members of the audit committee are based on the number of meetings that they have attended. The audit Committee, given its significance as an overall corporate governance body, should not be linked to the performance of the company nor its market capitalization or share price. The fees paid to the members per meeting are higher than the average dues for attending meetings. This is to allow members of the corporate governance body to appropriately prepare and reward the audit committee members for their careful analysis.

## **5.2 Explain past and current experiences of those in charge of corporate governance**

### **Board of directors**

The board of directors is the second-highest decision-making body after the shareholders' meeting. According to the Swedish Companies Act, the board of directors is responsible for the organization of the company and the management of the company's

affairs, which means that the board of directors is responsible for, among other things, setting targets and strategies, securing routines and systems for evaluation of set targets, continuously assessing the financial condition and profits as well as evaluating the operating management. The board of directors is also responsible for ensuring that annual reports and interim reports are prepared in a timely manner. Moreover, the board of directors appoints the CEO. Members of the board of directors are normally appointed by the annual shareholders' meeting for the period until the end of the next annual shareholders' meeting. According to the Company's articles of association, the members of the board of directors elected by the shareholders' meeting shall be not less than four and not more than eight with not more than four deputy members. According to the Code, the chairman of the board of directors is to be elected by the shareholders' meeting and have a special responsibility for leading the work of the board of directors and for ensuring that the work of the board of directors is efficiently organized. The board of directors applies written rules of procedure, which are revised annually and adopted by the inaugural board meeting every year. Among other things, the rules of procedure govern the practice of the board of directors, functions and the division of work between the members of the board of directors and the CEO. At the inaugural board meeting, the board of directors also adopts instructions for the CEO, including instructions for financial reporting. The board of directors meets according to an annual predetermined schedule. In addition to these meetings, additional board meetings can be convened to handle issues which cannot be postponed until the next ordinary board meeting. In addition to the board meetings, the chairman of the board of directors and the CEO continuously discuss the management of the Company. Currently, the Company's board of directors consists of five ordinary members and two employee representatives, who are presented in section "Board of directors, executive management and auditor".

### **Overview of board members**

Gränges' board of directors consists of five ordinary members, including the chairman of the board, with no deputy board members, all of whom are elected for the period up until the end of the annual shareholders' meeting 2015, as well as two employee representatives and two deputy employee representatives. The table below shows the members of the board of directors, when they were first elected and whether they are considered to be independent of the Company and/or the Principal Owner.

### **Anders Carlberg**

Chairman of the board since 2014. Board member since 2002.

**Born:** 1943.

**Education:** M.Sc. in Business Administration from Lund University.

**Other current assignments:** Chairman of the board of directors of Herenco Aktiebolag. Member of the board of directors of Axel Johnson Inc. AxFast AB, Beijer Alma AB (publ), Erik Penser Aktiebolag, Erik Penser Bankaktie-bolag, Investment aktiebolaget Latour, SWECO AB (publ), Recipharm AB (publ), Smilbandsbolaget AB and Åda Golfintressenter AB. Deputy member of the board of directors of Vidya Performance Consulting AB.

**Previous assignments (last five years):**

Chairman of the board of directors of AxIndustries AB and Höganäs Aktie-bolag. CEO and member of the board of directors of Axel Johnson International Aktiebolag. Member of the board of directors of Axel Johnson Aktiebolag, Emballator AB, Latour Förvaltning AB, Martin & Servera Aktiebolag, Mekonomen Aktiebolag, Orkla Industriinvesteringar AB, Sapa AB, Sapa Profiles Holding AB, SSAB AB (publ) and SäkI AB. Partner of Fairway Handelsbolag.

### **Bertil Villard**

Board member since 2014.

**Born:** 1952.

**Education:** Master of Laws from Stockholm University.

**Other current assignments:** Chairman of the board of directors of Landsort Care AB, Landsort Care 2 AB and Landsort Care 3 AB. Member of the board of directors of AB Novestra, Auriant Mining AB, Bertil Villard Holding AB, Cleanergy AB, Mercuri International Group AB and Prior & Nilsson Fond- och Kapitalförvaltning Aktiebolag. Deputy member of the board of directors of Advokat CJMGB AB, Advokat Johan Winnerblad AB, PPRD Nordic AB and Tengroth & Co AB.

**Previous assignments (last five years):**

Chairman of the board of directors of Advokatfirman Vinge Aktiebolag, Advoktafirman Vinge Stockholm AB, AMF Pensions-försäkring AB, Burgundy AB, KISI Invest Aktiebolag and Voddlar Group AB. Member of the board of directors of Aktiebolaget Nyhetsbyrå Direkt, HEXICON AB and Lernia AB. Deputy member of the board of directors of Voddlar Sweden AB.

### **Ragnhild Wiborg**

Board member since 2014.

**Born:** 1961.

**Education:** M.Sc. in Business Administration from Stockholm School of Economics. Other current assignments: CEO and member of the board of directors of Wiborg Kapitalförvaltning AB. Member of the board of directors of Borregaard ASA, Brunsbica AS, EAMSolar ASA, IMSkaugen ASA, Jesem AS, Kistefos AS, RECSilicon ASA and Sevan Drilling ASA. CEO of Cerebrum Invest.

**Previous assignments (last five years):** Member of the board of directors of REC ASA.

### **Carina Andersson**

Board member since 2014.

**Born:** 1964.

**Education:** M.Sc. Material Science from the Royal Institute of Technology, Stockholm.

**Other current assignments:** Member of the board of directors of Beijer Alma AB (publ) and SinterCast Aktie-bolag (publ).

**Previous assignments (last five years):**

Chairman of the board of directors of Sandvik Osprey Ltd and Sandvik Powder Solutions AB. Member of the board of directors of Sandvik Riser Technology AS. General manager of Sandvik AB.

### **Terje Andersen**

Board member since 2009.

**Born:** 1958.

**Education:** M.Sc. in Business Administration from Norwegian School of Economics.

**Other current assignments:** CEO and manager of Orkla Investments, Orkla ASA. Chairman of the board of directors of Alno Eiendom AS, BRG Holding AS, Finans-gruppen Eiendom AS, Industriinvesteringer AS, KA Mangan Management AS, Orkla Asia Holding AS, Orkla Brands AS, Orkla Energi AS, Orkla Industriinvesteringar AB, Reach Media AS and Viking Askim AS. Member of the board of directors of Borregaard ASA, Jotun AS, Orkla Eiendom AS, Orkla Shared Services AS and Sapa AS.

**Previous assignments (last five years):**

CFO of Orkla ASA. Chairman of the board of directors of Elkem Solar AS and Sapa AB. Member of the board of directors of Elkem AS. Member of the representative assembly of Storebrand ASA.

## **Employee representatives**

### **Öystein Larsen**

Larsen is a member of the board of directors in the capacity of employee representative for Gränges and has been employed within IT Development with Gränges since 1979. Öystein Larsen is a representative of Unionen.

### **Conny Svensson**

Conny Svensson is a member of the board of directors in the capacity of employee representative for Gränges and has been employed as an industrial electrician with Gränges since 2008. Conny Svensson is a representative of IF Metall.

### **Tommy Andersson**

Tommy Andersson is a member of the board of directors in the capacity of deputy employee representative for Gränges and has been employed as smelter with Gränges since 1999. Tommy Andersson is a representative of IF Metall.

### **Claudi Martin Callizo**

Claudi Martin Callizo is a member of the board of directors in the capacity of deputy employee representative for Gränges and has been employed as HVAC&R Technical Manager with Gränges since 2008. Claudi Martin Callizo is a representative of the Swedish Association of Graduate Engineers (Sw. Sveriges Ingenjörer) and the Union for Professionals (Sw. Akademikerförbundet).

## **5.4 Track record of selected key management**

### **Johan Menckel**

CEO since 2013, Gränges since 2004.

**Born:** 1971.

**Education:** M.Sc. in Industrial Engineering and Management from the Royal Institute of Technology, Stockholm.

**Other current assignments:** Chairman of the board of directors of Gränges Aluminium Shanghai Ltd., Gränges India Pvt. Ltd., Gränges Japan Ltd. and Gränges Sweden AB. Member of the board of directors of Svenska Post-kodföreningen. CEO and member of the board of directors of The Menckels AB.

### **Previous assignments (last five years):**

Chairman of the board of directors of Remi Claeys Aluminium NV, Sapa Heat Transfer Tubes GmbH, Sapa Profiles India Pvt. Ltd. and Sapa Profiles (Jiangyin) Co. Ltd. Member of the board of directors of Monterrey Extrusions S DER.L.DE.C.V., Sapa Asia Limited Management company, Sapa Ben Thanh Aluminium Profiles Co. Ltd., Sapa Chalco Aluminium Products (Chongqing) Co. Ltd., Sapa Profiles (Shanghai) Co. Ltd. and Sapa (Shanghai) Management Co. Ltd.

### **Oskar Hellström**

CFO since 2011.

**Born:** 1979.

**Education:** M.Sc. in Industrial Engineering and Management from Linköping Institute of Technology. B.Sc. in Economics and Business Administration from Stockholm University.

**Other current assignments:** Member of the board of directors of Gränges Aluminium Shanghai Ltd and Gränges Sweden AB.

**Previous assignments (last five years):** CEO of Gränges Sweden AB. Member of the board of directors of Remi Claeys Aluminium NV. Deputy member of the board of directors of Orkla Industriinvesteringar AB.

### **Paul Neutjens**

CTO since 2012, Gränges since 2011.

**Born:** 1959. **Education:** M.Sc. in Metallurgy and Applied Material Science from Catholic University of Louvain.

**Other current assignments:** Member of the board of directors of Leanlight Consulting BV.

### **Previous assignments (last five years):**

Member of the boards of directors of Gränges Sweden AB and Remi Claeys Aluminium NV.

### **Kent Schölin**

President Europe since 2012.

**Born:** 1964.

**Education:** M.Sc. in Material Science from Royal Institute of Technology, Stockholm.

**Other current assignments:** CEO of Gränges Sweden AB.

**Previous assignments (last five years):** CEO of Gunnebo Gateway AB. Member of the board of directors of Gateway Loss Prevention SLU, Gateway Portugal, Gateway Varesikring AS and PRODIMO Aktiebolag.

### **Colin Xu**

President Asia since 2011.

**Born:** 1976.

**Education:** EMBA degree from CEIBS (China Europe International Business School), Bachelor of Business Administration from Shanghai Science and Engineering University.

**Other current assignments:** CEO of Gränges Aluminium Shanghai Ltd. Member of the board of directors of Shanghai Gränges Moriyasu Aluminium Co. Ltd.

### **Previous assignments (last five years):**

Supervisor of Sapa Heat Transfer Shanghai Co. Ltd.

**Daniel Daoust**

President Americas since 2009.

**Born:** 1957.

**Education:** B.Sc. in Metallurgical Engineering from Ecole Polytechnique de Montréal.

**Other current assignments:** None.

**Previous assignments (last five years):** Sales & Marketing Director of Aleris Aluminium Canada LP.

**Niclas Nelson**

General Counsel since 2014.

**Born:** 1964.

**Education:** Master of Laws from Lund University.

**Other current assignments:** Member of the board of directors of SWERMA.

**Previous assignments (last five years):** Deputy Legal Counsel at Autoliv AB. CEO of Franco Suedoise d'Investissement SAS. Chairman of the board of directors of Autoliv Cankor Otomotiv Emniyet Sistemleri Sanayi Ve Ticaret A.S., Autoliv East Europe Aktiebolag and Autoliv Italia SPA. Deputy chairman of the board of directors of Autoliv Metal Pres Sanayi Ve Ticaret A.S. Member of the board of directors of Airbags International Aktiebolag AIA, AS Norma, Autoliv ASP BV, Autoliv Poland Sp.z.o.o, Autoliv BKI SAU, Autoliv India Private Ltd., Autoliv KLE SAU, Autoliv Philippines Inc, Autoliv (Nanjing) Vehicle Safety Co. Ltd. and Autosafety SL. Deputy member of the board of directors of Autoliv-Cipro Aktiebolag and Airbags International Aktiebolag AIA. Co-Manager at ASW El Fahs (Steering Wheels), ASW2 Nadour (Steering Wheels), ASW3 Nadour (Steering Wheels), Autoliv France SNC, ISO AIR SNC, OEA Europé SARL, SCI ISI Immo and Steering Wheels Tunisia 1.

**Pernilla Grennfelt**

Director Communication and IR since 2014.

**Born:** 1970.

**Education:** M.Sc. in Business Administration from Gothenburg University.

**Other current assignments:** None.

**Previous assignments (last five years):** IR Manager at Hakon Invest and Ica Gruppen AB.

## 5.5 Key drivers in the compensation packages

### Guidelines for remuneration to the CEO and other executive management

The first annual shareholders' meeting to be held following the listing on NASDAQ OMX Stockholm will resolve on guidelines which shall apply in relation to remuneration to the CEO and the other members of the executive management.

### Remuneration during the financial year 2013

The table below presents an overview of remuneration to the board of directors and the CEO for the financial year 2013

### Current employment agreements for the CEO and other executive management

Decisions as to the current remuneration levels and other conditions for employment for the CEO have been resolved by the board of directors.

The CEO is entitled to a fixed annual salary of SEK 4 million and variable remuneration for 2014 corresponding to not more than 67 percent of his fixed annual salary with an annual bonus target of 20 percent. For 2014, members of executive management are, in addition to their fixed salary, generally entitled to a maximum annual bonus of 67 percent of their annual salary with an annual bonus target of 20 percent. In 2013, the total remuneration to current members of executive management who were employed during 2013 amounted to approximately SEK 10 million (see appropriation in table above). As of the day of the Offering Circular, executive management has been increased by two persons and now comprises a total of seven individuals in addition to the CEO. As part of the separation from the Orkla group and the planned IPO, as per June 30, 2014 the Company has

Amounts in SEK million	Board fee	Remuneration (including variable remuneration)	Other benefits	Pension costs	Total
Anders Carlberg	0.25	-	-	-	0.25
Terje Andersen	-	-	-	-	-
Johan Menckel	-	3.23	-	0.34	3.57
Other executive management	-	6.74	-	1.09	7.83
<b>Total</b>	<b>0.25</b>	<b>9.97</b>	<b>-</b>	<b>1.43</b>	<b>11.65</b>

terminated certain incentive programs for executive management, resulting in a remuneration of SEK 3.2 million for the CEO and SEK 4.8 million, including social insurance contributions, for other members of the executive management.

Agreements concerning pensions shall, wherever possible, be based on fixed premiums and must be in accordance with the levels, practice and collective bargaining agreements applicable in the country where the relevant member of the executive management is employed.

Members of the executive management domiciled in Sweden and their employers are entitled to a mutual notice period of 6–12 months. Some members of the executive management are entitled to severance pay in the amount of 12 months' salary on top of their salary during the notice period when notice is given by the Company.

Gränges has entered into a consultancy agreement with Paul Neutjens, CTO of the Company. Under certain conditions, Gränges is obliged to pay certain remuneration upon termination of the consultancy agreement. If terminated during the period 2014–2015, such remuneration would amount to EUR 400,000. Thereafter, the remuneration gradually

decreases and as of 2024, the Company is no longer obliged to pay any remuneration upon termination of the consultancy agreement.

As regards the employment of the executive manager of Asia, there is a notice period of 6 months for the employee and 30 days for Gränges Shanghai (to the extent Gränges Shanghai is legally entitled to terminate the employment). The employee is entitled to severance pay by law. The severance pay calculation is primarily based on an average monthly salary (with an upper limit currently three times the local average monthly salary) and the number of years in service, where each year of service (with an upper limit currently corresponding to 12 years of service) entitles the employee to one average monthly salary.

The executive manager of North America is employed under a so called "at will" employment which, inter alia, implies that both the employee and the employer Norca may terminate the employment immediately, without any notice period. The employee is generally entitled to severance pay amounting to 6 months' salary upon termination of the employment by Norca.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the section below provides a performance overview pictured through a set of financial and non-financial KPIs and summary historical financial information. This consists, notably, of key historical financial information including, where applicable, operational and financial KPIs; comments on trends noted both in historical financial information and KPIs; comments on the quality of the historical financial information and KPIs, i.e. how these have been impacted by risk and opportunities that materialized in the past years, and how this historical data correlated with past forecasts by management; and a description of the key elements of past historical performance.

The content of the section is based on Chapters 8 (Selected financial information), 9 (Operating and financial overview) and 10 (Capitalization, indebtedness and their financial information) of the company's original prospectus.

## 6. Overview of performance

### Financial definitions

#### OPERATING MARGIN (%)

Operating profit as a percentage of net sales.

#### ADJUSTED OPERATING PROFIT

Operating profit adjusted for other income and expenses.

#### ADJUSTED OPERATING MARGIN (%)

Adjusted operating profit as a percentage of net sales.

#### EBITDA

Operating profit before depreciation, amortization and impairment losses.

#### EBITDA MARGIN (%)

EBITDA as a percentage of net sales.

#### ADJUSTED EBITDA

Adjusted operating profit before depreciation, amortization and impairment losses.

#### ADJUSTED EBITDA MARGIN (%)

Adjusted EBITDA as a percentage of net sales during the period.

#### EARNINGS PER SHARE

Profit for the period after non-controlling interest divided by the weighted average number of ordinary shares outstanding.

#### NUMBER OF EMPLOYEES

Average number of full-time employees during the period.

#### EQUITY / ASSETS RATIO

Closing balance of equity, as a percentage of total assets.

#### NET DEBT

Interest bearing liabilities and pension liabilities less cash and cash equivalents and interest-bearing receivables at the end of the period.

#### NET DEBT/EBITDA

Net debt divided by EBITDA over the last twelve months.

#### NET DEBT/ADJUSTED EBITDA

Net debt divided by adjusted EBITDA over the last twelve months.

#### NET DEBT/EQUITY

Net debt in relation to shareholders' equity.

#### CAPITAL EMPLOYED

Total assets less cash and cash equivalents/interest bearing receivables and non-interest bearing liabilities.

#### ROCE (%)

Adjusted operating profit during the last twelve months as a percentage of average capital employed over the last twelve months.

#### ROE (%)

Profit for the last twelve months in relation to average equity over last twelve months.

## Summary of consolidated income statement<sup>1)</sup>

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Net sales	4,840	4,946	4,642	2,473	2,333
Cost of materials	-3,186	-3,126	-2,806	-1,540	-1,359
Payroll and other operating expenses	-1,297	-1,294	-1,278	-652	-623
Depreciation and impairment charges	-148	-164	-187	-92	-97
Other income and expenses	-91	30	85	-22	-10
<b>Operating profit (EBIT)</b>	<b>118</b>	<b>392</b>	<b>456</b>	<b>167</b>	<b>244</b>
Profit from joint ventures	3	3	5	2	2
Finance income and costs	-57	-64	-43	-23	-14
<b>Profit before taxes</b>	<b>64</b>	<b>331</b>	<b>418</b>	<b>146</b>	<b>232</b>
Taxes	2	-15	-109	-38	-57
<b>Profit for the period</b>	<b>66</b>	<b>316</b>	<b>309</b>	<b>108</b>	<b>175</b>

### 6.1 Overview with key historical financial information

#### Basis of preparation of the consolidated financial statements

The selected consolidated financial information presented below has been derived from Gränges' audited consolidated annual accounts for the period 2011–2013, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information has also been derived from the reviewed interim report for the period January 1 to June 30, 2014, prepared in accordance with IAS 34.

Until 2013, Gränges was a part of the Sapa group and operated under the name Sapa Heat Transfer. The Gränges Group was established through dividing the former Sapa group into Sapa and Gränges, the legal split of the former Sapa AB took place in March 2013. The consolidated Gränges Group includes

direct and indirect subsidiaries of Gränges. For further information regarding basis for preparation of the consolidated annual accounts for the years 2011–2013, see page 7 to 8 in Gränges' audited consolidated annual accounts for the period 2011–2013 which are included in the Offering Circular. Gränges' result, financial position and cash flow may, however, not reflect what the results of the operations, financial position and cash flows would have been if the Gränges Group had been a stand-alone company during the periods presented.

The following information should be read in conjunction with section "Operational and financial overview", Gränges audited consolidated annual accounts for the period 2011–2013 and the reviewed interim report for the period January 1 to June 30, 2014 including the related notes in the sections "Interim report for the period January 1 to June 30, 2014" and "Audited consolidated annual accounts for the period 2011–2013".

## The Group's net sales and sales volume by geography<sup>1)</sup>

	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
<b>Net sales (SEK million)</b>					
Asia	2,243	2,416	2,271	1,233	1,151
Europe	1,914	1,757	1,673	875	853
Americas	683	772	698	367	330
<b>Total net sales</b>	<b>4,840</b>	<b>4,946</b>	<b>4,642</b>	<b>2,473</b>	<b>2,333</b>
<b>Sales volume ('000 metric tonnes)</b>					
Asia	64.7	70.4	75.0	39.3	40.4
Europe	61.5	55.9	59.5	30.0	31.0
Americas	23.2	25.3	24.0	12.4	11.7
<b>Total sales volume</b>	<b>149.4</b>	<b>151.7</b>	<b>158.6</b>	<b>81.8</b>	<b>83.1</b>

1. The selected consolidated financial information presented below has been derived from the audited consolidated annual accounts for the period 2011–2013 and the reviewed interim report for the period January 1 to June 30, 2014.

## Summary of consolidated cash flow statement<sup>1)</sup>

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Operating profit	118	392	456	167	244
Amortisation, depreciation and impairment charges	148	164	194	92	97
Items without cash flow effect	0	-55	-136	0	0
Change in net working capital etc.	-106	215	118	-36	201
Taxes paid	-35	-67	-31	-49	-55
<b>Cash flow from operating activities</b>	<b>125</b>	<b>649</b>	<b>601</b>	<b>174</b>	<b>487</b>
Investments property, plant and equipment and intangible assets	-323	-293	-125	-49	-33
Sale of property, plant and equipment	12	2	5	1	0
Investments in joint ventures	0	0	-5	0	0
Other capital transactions	-20	43	-26	-34	-1
<b>Cash flow from investing activities</b>	<b>-331</b>	<b>-248</b>	<b>-151</b>	<b>-82</b>	<b>-34</b>
Shareholders/group contributions (net paid to/received from shareholders)	-6	-252	567	547	126
Interest paid/received (net)	-52	-59	-43	-26	-11
Change in interest-bearing liabilities	376	10	-586	-404	-234
Change in interest-bearing receivables	0	0	-26	0	-1
Change in net interest-bearing liabilities	376	10	-612	-404	-235
<b>Cash flow from financing activities</b>	<b>318</b>	<b>-301</b>	<b>-88</b>	<b>117</b>	<b>-120</b>
<b>Change in cash and cash equivalents</b>	<b>112</b>	<b>100</b>	<b>362</b>	<b>209</b>	<b>333</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>319</b>	<b>452</b>	<b>527</b>	<b>527</b>	<b>896</b>
Change in cash and cash equivalents	112	100	362	209	333
Currency effect of cash and cash equivalents	21	-25	7	25	18
<b>Cash and cash equivalents at end of period</b>	<b>452</b>	<b>527</b>	<b>896</b>	<b>761</b>	<b>1,247</b>

## Summary of consolidated balance sheet<sup>1)</sup>

Amounts in SEK million	Audited Dec 31			Unaudited Jun 30	
	2011	2012	2013	2013	2014
<b>ASSETS</b>					
Property, plant and equipment	1,646	1,713	1,661	1,720	1,618
Intangible assets	10	17	13	15	11
Deferred tax assets	38	19	34	36	36
Investments in joint ventures	26	27	25	37	28
Interest-bearing receivables	–	–	26	–	27
<b>Total non-current assets</b>	<b>1,720</b>	<b>1,776</b>	<b>1,759</b>	<b>1,808</b>	<b>1,720</b>
Inventories	838	800	680	699	717
Receivables	1,380	1,193	1,291	1,447	1,155
Cash and cash equivalents	452	527	896	761	1,247
<b>Total current assets</b>	<b>2,670</b>	<b>2,520</b>	<b>2,867</b>	<b>2,907</b>	<b>3,119</b>
<b>Total assets</b>	<b>4,390</b>	<b>4,296</b>	<b>4,626</b>	<b>4,715</b>	<b>4,839</b>
<b>EQUITY AND LIABILITIES</b>					
Shareholder's equity	2,260	2,208	3,098	2,941	3,418
Non-current interest-bearing liabilities	575	809	265	236	27
Non-current non interest-bearing liabilities	134	150	135	165	164
Current interest-bearing liabilities	679	457	412	625	416
Current non interest-bearing liabilities	742	672	716	748	814
<b>Total equity and liabilities</b>	<b>4,390</b>	<b>4,296</b>	<b>4,626</b>	<b>4,715</b>	<b>4,839</b>

1. The selected consolidated financial information presented below has been derived from the audited consolidated annual accounts for the period 2011–2013 and the reviewed interim report for the period January 1 to June 30, 2014.

## The Group's key information and data<sup>1)</sup>

SEK million unless otherwise stated	Jan 1 – Dec 31			Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
<b>Net sales and volume</b>					
Sales volume ('000 metric tonnes)	149.4	151.7	158.6	81.8	83.1
Volume growth (%)	–	2%	5%	–	2%
Net sales	4,840	4,946	4,642	2,473	2,393
<b>Profitability</b>					
Operating profit	118	392	456	167	244
Operating margin (%)	2.4%	7.9%	9.8%	6.7%	10.5%
Adjusted operating profit	209	362	371	189	254
Adjusted operating margin (%)	4.3%	7.3%	8.0%	7.6%	10.9%
EBITDA	266	556	650	259	341
EBITDA margin (%)	5.5%	11.2%	14.0%	10.5%	14.6%
Adjusted EBITDA	357	526	558	281	351
Adjusted EBITDA margin (%)	7.4%	10.6%	12.0%	11.4%	15.1%
<b>Per share data</b>					
Earnings per share <sup>2)</sup> (SEK)	1.77	8.47	8.28	2.88	4.69
Weighted outstanding ordinary shares (diluted) (number)	37,319,693	37,319,693	37,319,693	37,319,693	37,319,693
<b>Employees</b>					
Average number of employees	988	947	954	960	949
<b>Return Indicators</b>					
ROCE (%)	6.9%	11.4%	12.0%	11.1%	15.0%
ROE (%)	3.1%	14.1%	11.5%	–	12.1%
Capital employed (rolling 12 month average)	3,019	3,163	3,082	3,128	2,914
Equity (rolling 12 month average)	2,160	2,243	2,685	2,361	3,104
	Dec 31			Jun 30	
	2011	2012	2013	2013	2014
<b>Capital structure</b>					
Equity/ asset ratio (%)	51.5%	51.4%	67.0%	62.4%	70.6%
Net debt	928	867	–126	227	–711
Net debt/EBITDA	3.5x	1.6x	–0.2x	0.4x	–1.0x
Net debt/Adjusted EBITDA	2.6x	1.6x	–0.2x	0.4x	–1.1x
Net debt/Equity	0.4x	0.4x	0.0x	0.1x	–0.2x

1. The selected consolidated financial information presented below has been derived from the audited consolidated annual accounts for the period 2011–2013 and the reviewed interim report for the period January 1 to June 30, 2014.

2. Before and after dilution of shares.

## 6.2 Trends noted both in historical financial information and KPIs

### Gränges' financial performance

The following table sets forth, for the periods presented, the consolidated income statement. The information in the tables below should be read in conjunction with the consolidated annual accounts for the period 2011–2013 and the interim report for the period January 1 to June 30, 2014 and the related notes which are to be found in another part of the Offering Circular.

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Net sales	4,840	4,946	4,642	2,473	2,333
Cost of materials	-3,186	-3,126	-2,806	-1,540	-1,359
Payroll and other operating expenses	-1,297	-1,294	-1,278	-652	-623
Depreciation and impairment charges	-148	-164	-187	-92	-97
Other income and expenses	-91	30	85	-22	-10
<b>Operating profit (EBIT)</b>	<b>118</b>	<b>392</b>	<b>456</b>	<b>167</b>	<b>244</b>
Profit from joint ventures	3	3	5	2	2
Finance income and costs	-57	-64	-43	-23	-14
<b>Profit before taxes</b>	<b>64</b>	<b>331</b>	<b>418</b>	<b>146</b>	<b>232</b>
Taxes	2	-15	-109	-38	-57
<b>Profit for the period</b>	<b>66</b>	<b>316</b>	<b>309</b>	<b>108</b>	<b>175</b>

The following tables shows net sales and volume by geographical region for the periods presented.

	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
<b>Net sales (SEK million)</b>					
Asia	2,243	2,416	2,271	1,233	1,151
Europe	1,914	1,757	1,673	875	853
Americas	683	772	698	367	330
<b>Total net sales</b>	<b>4,840</b>	<b>4,946</b>	<b>4,642</b>	<b>2,473</b>	<b>2,333</b>
<b>Sales volume ('000 metric tonnes)</b>					
Asia	64.7	70.4	75.0	39.3	40.4
Europe	61.5	55.9	59.5	30.0	31.0
Americas	23.2	25.3	24.0	12.4	11.7
<b>Total sales volume</b>	<b>149.4</b>	<b>151.7</b>	<b>158.6</b>	<b>81.8</b>	<b>83.1</b>

### Six months period ended June 30, 2014 compared to six months ended June 30, 2013

#### Volume and net sales

Volume increased by 2 percent to 83,100 metric tonnes for the first half of 2014, compared to 81,800 metric tonnes for the same period in 2013. Net sales for the corresponding periods declined from SEK 2,473 million in 2013 to SEK 2,333 million in 2014. The decline in net sales was primarily driven by lower aluminium prices which were passed through to

customers. The average conversion price remained stable between the periods whereas the net impact of foreign exchange rates on net sales was positive SEK 12 million.

Volume to Asia increased by 3 percent from 39,300 metric tonnes in the first half year of 2013 to 40,400 metric tonnes in 2014. The improvement was mainly driven by the continued strong light vehicle production growth in China. In Europe volume increased by 3 percent from 30,000 metric tonnes in the first half year of 2013 to 31,000 metric tonnes for

the corresponding period in 2014 whereas volume to the Americas declined 6 percent from 12,400 metric tonnes in the first half year of 2013 to 11,700 metric tonnes for the corresponding period in 2014. The decline in the Americas was a combination of a weaker market in South America and lower contracted volumes to some North American customers.

#### ***Operating profit (EBIT)***

The operating profit for the first half of 2014 amounted to SEK 244 million compared to SEK 167 million for the same period in 2013. The adjusted operating profit increased by 35 percent to SEK 254 million in the first half of 2014 from SEK 189 million for the corresponding period in 2013, reflecting an increase in adjusted operating margin from 7.6 percent to 10.9 percent. The improvement between the same periods in the previous year was primarily driven by internal efficiency improvements including the effects of a successful restructuring of the operation in Finspång that was conducted in the fourth quarter of 2013 in combination with by increased sales volumes. The net impact of foreign exchange rates on operating profit was negative SEK 3 million.

Cost of materials in the period January 1 to June 30, 2014 amounted to SEK 1,359 million compared to SEK 1,540 million in the same period in 2013. The decrease in cost of materials despite the increase in volume was driven by lower aluminium prices and improved internal metal management and scrap utilization.

Payroll and other operating expenses decreased from SEK 652 million in the period January 1 to June 30, 2013 to SEK 623 million for the same period in 2014 primarily driven by internal efficiency improvements. Depreciation increased by SEK 5 million from SEK 92 million for the period January 1 to June 30, 2013 to SEK 97 million for the same period in 2014.

#### ***Profit before taxes***

Profit before taxes for the period January 1 to June 30, 2014 increased to SEK 232 million compared to SEK 146 million for the same period in 2013. The increase was driven by improved operating profit in combination with a reduction in net finance costs.

#### ***Profit for the period***

The profit for the period increased by SEK 67 million to SEK 175 million for the first half of 2014 compared to SEK 108 million for the same period in 2013. Profit for the period was negatively impacted by an increase of taxes from SEK 38 million in the first half year of 2013 to SEK 57 million in the corresponding period in 2014 following the higher profit before taxes.

### **Year ended December 31, 2013 compared to year ended December 31, 2012**

#### ***Volume and net sales***

Volume increased by 5 percent to 158,600 metric tonnes for 2013, compared to 151,700 metric tonnes for 2012. Net sales for the corresponding periods declined from SEK 4,946 million in 2012 to SEK 4,642 million in 2013. The decline in net sales was primarily driven by lower aluminium price in combination with a negative net impact of foreign exchange rates on net sales of SEK 99 million. The aluminium price effect has limited impact on profit, since it is passed through to the customer. The average conversion price remained stable between the years.

Volume to Asia increased by 7 percent from 70,400 metric tonnes in 2012 to 75,000 metric tonnes in 2013. The increase was mainly driven by continued strong growth in light vehicle production in the region. In Europe, the volume increased by 6 percent from 55,900 metric tonnes in 2012 to 59,500 metric tonnes in 2013 driven by Gränges' strong position among the most successful light vehicle producers. Volume to Americas declined 5 percent from 25,300 metric tonnes in 2012 to 24,000 metric tonnes in 2013. This was mainly driven by lower contracted volumes to two customers in North America.

#### ***Operating profit (EBIT)***

Operating profit for 2013 amounted to SEK 456 million compared to SEK 392 million for 2012. Adjusted operating profit increased to SEK 371 million in 2013 from SEK 362 million in 2012, and the adjusted operating margin improved from 7.3 percent to 8.0 percent driven by the decrease in net sales compared to 2012 as a consequence of lower aluminium prices. The increase in sales volume in 2013 had a positive impact on operating profit; however, this was largely offset by the negative net impact of foreign exchange rates of SEK 57 million and cost increases due to operational issues in the Finspång plant. In addition, increasing depreciation following large expansion investments made in the period had a negative impact on operating profit.

Cost of materials declined to SEK 2,806 million in 2013 compared to SEK 3,126 million in 2012 as lower aluminium prices offset the increase in material costs driven by the higher volume and operational issues in the Finspång plant.

Payroll and other operating expenses decreased from SEK 1,294 million in 2012 to SEK 1,278 million in 2013. Volume and inflation driven increases in payroll expenses from SEK 405 million in 2012 to SEK 418 million in 2013 and energy costs from SEK 218 million in 2012 to SEK 231 million in 2013 and were offset by a reduction in external freight costs from SEK 149 million in 2012 to SEK 127 million in 2013. The

reduction in freight costs was driven by optimisation across the production footprint in combination with a strategic transportation sourcing initiative. The repair and maintenance cost remained stable and amounted to SEK 138 million in 2013 compared to SEK 136 million in 2012.

Depreciation increased by SEK 23 million from SEK 164 million in 2012 to SEK 187 million in 2013.

#### ***Profit before taxes***

Profit before taxes for 2013 increased to SEK 418 million compared to SEK 331 million for 2012. The increase from 2012 to 2013 was driven by the improved operating profit in combination with a reduction in net finance cost.

#### ***Profit for the period***

Profit for 2013 decreased by SEK 7 million to SEK 309 million for 2013 compared to SEK 316 million for 2012. Profit for the period was negatively impacted by an increase of taxes from SEK 15 million in 2012 to SEK 109 million in 2013, due to withholding tax on dividend from China negatively impacting in 2013 and a correction of the 2010 tax rate in China following an approval of Gränges as 'high technology enterprise' positively impacting in 2012.

### **6.3 Quality of historical financial information and KPIs**

#### **Overview**

Gränges is a leading global supplier to manufacturers of rolled products for brazed aluminium heat exchangers. The Company produces and markets advanced materials that enhance both the efficiency during the customer manufacturing process as well as the performance of brazed heat exchangers. Gränges has its headquarters in Stockholm and operates in three geographical regions: Europe, Asia and the Americas. The Company operates production, research and development facilities in Finspång and Shanghai with a total annual production capacity of approximately 210,000 metric tonnes.

The Company was originally founded in 1896 and started to produce aluminium in 1922. Gränges developed its first brazed heat exchanger material in 1972.

In 2013, Gränges was separated from the Sapa group. In 2013, Gränges generated SEK 4,642 million of total sales revenue, and in the period January 1 to June 30, 2014 Gränges generated SEK 2,333 million of total sales revenue.

In 2013, the Company generated sales revenue allocated per geographical region of SEK 2,271 million in Asia, SEK 1,673 million in Europe and SEK 698 million in the Americas. In the period January 1

to June 30, 2014, Gränges generated sales revenue allocated per geographical region of SEK 1,151 million in Asia, SEK 853 million in Europe and SEK 330 million in Americas.

Gränges provides products to suppliers for two main market segments, the Automotive industry and HVAC&R which represented about 88 percent and about 4 percent of sales in the period January 1 to June 30, 2014 respectively. Sales to residual customers represented about 7 percent during the period.

Gränges continuously seeks operational improvements in order to achieve higher production and cost efficiency. In the last quarter of 2013, a restructuring was carried out in the production facility in Finspång, in order to reduce the manning.

In February 2010, there was a fire in one of the cold rolling bays in the production facility in Finspång. Extraordinary costs related to the fire were booked as other income and expense during 2010 and 2011. In December 2013, an arbitral award was issued in the process between Gränges and the insurance company related to the fire.

#### **Factors affecting Gränges' operating profit**

Gränges believes that the following factors are those that mainly affect the Company's financial performance:

- Market and general economic conditions
- Sales volume and pricing
- Prices of raw materials
- Operational efficiency
- Energy costs
- Research and development
- Investments in production capacity
- Currency fluctuations
- Seasonality
- Gränges as a stand-alone company

#### **Market and general economic conditions**

The demand for Gränges' products is closely linked to the demand within the automotive industry and global vehicle production. The financial performance of Gränges therefore significantly depends on sales of light and heavy vehicles and the number of heat exchangers per vehicle. Automotive sales are a function of a number of macro-economic factors such as economic growth, employment levels, interest rates, the price of fuel, the pace of new vehicle model

offerings, overall household wealth levels and purchasing power. The European and North American markets for heat exchanger materials are more mature markets compared to the Asian market. In the more mature markets, underlying economic growth has a larger effect on the demand for Gränges' products compared to underlying economic growth in emerging markets. For example, the economic downturn in 2008 and 2009 had limited impact on vehicle production in China, while both Europe and North America were significantly affected, with decreasing vehicle production as a result. This was reflected in Gränges' sold volumes in both Europe and Americas which declined by 24 percent and 4 percent, respectively, in 2009 compared to 2008, while Gränges Asia experienced a growth in sold volume during the same period of 10 percent.

Furthermore, Gränges' operation in Shanghai is exposed to a relatively high salary inflation which have had an impact on the Company's development of pay roll expenses.

## 6.4 Key elements of past historical performance

### Liquidity and capital resources

Gränges' liquidity requirements arise primarily from the need to fund working capital and capital expenditures requirements. Principal sources of liquidity are cash generated from operations, cash and cash equivalents on-hand and borrowings.

Gränges' historic cash flow from financing activities will not be representative for Gränges as a listed company. Historically, Gränges' main source of financing has been loan facilities from its ultimate parent, Orkla ASA, and local short-term credit facilities with banks. In connection with the IPO, Gränges has entered into a five-year SEK 1,800 million multicurrency revolving credit facility with Svenska Handelsbanken AB and Skandinaviska Enskilda Banken AB. For further information see section "Equity and indebtedness in connection with the IPO".

### Cash flow

The following table summarizes Gränges' cash flow in the periods presented.

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Cash flow from operating activities	125	649	601	174	487
Cash flow from investing activities	-331	-248	-151	-82	-34
Cash flow from financing activities	318	-301	-88	117	-120
<b>Change in cash and cash equivalents</b>	<b>112</b>	<b>100</b>	<b>362</b>	<b>209</b>	<b>333</b>

### Six months period ended June 30, 2014 compared to six months ended June 30, 2013

#### Cash flow from operating activities

Cash flow from operating activities for the period January 1 to June 30, 2014 gave rise to an inflow of SEK 487 million, compared to an inflow of SEK 174 million for the corresponding period in 2013. Cash flow was positively impacted by an extraordinary working capital release of SEK 325 million related to an insurance settlement following a fire in the production facility in Finspång in 2010. Adjusted for the insurance settlement, cash flow from operating activities the first half year of 2014 amounted to SEK 162 million, as operating profits were partially offset by taxes paid and an increase in working capital as inventory was built to allow for production stops during the summer period.

#### Cash flow from investing activities

Cash flow from investing activities for the six-month

period ended June 30, 2014 gave rise to an outflow of SEK 34 million, compared to an outflow of SEK 82 million in the corresponding period in 2013. Cash flow from investing activities for the period was mainly related to maintenance type investments to maintain and improve production facilities. The higher outflow in the six-month period ended June 30, 2013 was mainly driven by the finalisation of the large investment programs carried out during 2011 and 2012.

#### Cash flow from financing activities

Cash flow from financing activities for the six-month period ended June 30, 2014 gave rise to an outflow of SEK 120 million, compared to an inflow of SEK 117 million for the corresponding period 2013. During the period, net interest-bearing liabilities decreased by SEK 235 million while net interest paid amounted to SEK 11 million. Further to this, cash flow from financing activities also included a SEK 126 million cash payment of group contribution from the Orkla group.

***Year ended December 31, 2013 compared to the year ended December 31, 2012***

***Cash flow from operating activities***

Cash flow from operating activities gave rise to an inflow of SEK 601 million in 2013 compared to SEK 649 million in 2012. The decrease was mainly due to the high working capital release in 2012. Gränges' also had a release of working capital in 2013, although lower than in 2012, and an increasing operating profit compared to 2012. Decreased working capital levels were primarily due to continued positive effects from inventory reduction efforts in the production plant in Finspång as well as reducing the level of accounts receivable within the whole organization.

***Cash flow from investing activities***

Cash flow from investing activities gave rise to an outflow of SEK 151 million in 2013, compared to an outflow of SEK 248 million in 2012. The investments were lower in 2013 since a large expansion investment program was finalised in the early parts of 2013 and the majority of the investment program was conducted during 2011 and 2012. Capital expenditure during the period primarily referred to maintenance type investments to sustain and improve existing production facilities.

***Cash flow from financing activities***

Cash flow from financing activities gave rise to an outflow of SEK 88 million in 2013, compared to an outflow of SEK 301 million in 2012. During the period, net interest-bearing liabilities decreased by SEK 612 million while net interest paid amounted to SEK 43 million. Further to this, cash flow from financing activities was positively impacted by net shareholder and group contributions of SEK 567 million.

***Year ended 31 December, 2012 compared to the year ended 31 December, 2011***

***Cash flow from operating activities***

Cash flow from operating activities gave rise to an inflow of SEK 649 million in 2012, compared to SEK 125 million in 2011. The increase was mainly due to a higher operating profit together with activities to reduce working capital levels, through decrease in inventory in Finspång and optimisation of the total level of receivables in the organization.

***Cash flow from investing activities***

Cash flow from investing activities gave rise to an outflow of SEK 248 million in 2012, compared to an outflow of SEK 331 million in 2011. Investing activities during the period primarily related to capital expenditures as the large expansion investment program initiated in 2011 continued in 2012 in both production facilities in Finspång and Shanghai.

***Cash flow from financing activities***

Cash flow from financing activities gave rise to an outflow of SEK 301 million in 2012, compared to an inflow of SEK 318 million in 2011. The decrease was mainly due to the negative impact from net shareholder and group contributions of SEK 252 million. Interest-bearing liabilities also increased by SEK 10 million in 2012 compared to an increase of SEK 376 million in 2011.

***Working capital***

Working capital is driven by the volume of produced and sold rolled aluminium products. Accordingly, working capital assets primarily consists of trade receivables and inventory. Working capital liabilities consist mainly of accounts payable, employee related liabilities and accrued expenses. Further included are some short-term working capital facilities from banks for financing of purchasing of raw materials in China, which are not included in the table displaying working capital below. For further information see section "Capitalization, indebtedness and other financial information". The table below summarizes Gränges' working capital, as of the dates presented.

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Inventory	838	800	680	699	717
Receivables	1,380	1,193	1,291	1,447	1,155
Accounts payable	-463	-458	-375	-445	-422
Other liabilities <sup>1)</sup>	-235	-213	-247	-295	-284
<b>Working capital</b>	<b>1,520</b>	<b>1,322</b>	<b>1,349</b>	<b>1,406</b>	<b>1,165</b>
Adjustments <sup>2)</sup>	165	165	325	165	-
<b>Adjusted working capital</b>	<b>1,355</b>	<b>1,157</b>	<b>1,024</b>	<b>1,241</b>	<b>1,165</b>
As % of net sales (last 12 months)	28.0%	23.4%	22.1%	25.8%	25.9%
Net sales (last 12 months)	4,840	4,946	4,642	4,809	4,502

1) Excluding income tax payable.

2) Net impact on reported working capital from insurance claim relating to the 2010 fire in the plant in Finspång. See section "Use of non-IFRS measures" for further information.

### **Six months period ended June 30, 2014 compared to six months ended June 30, 2013**

Working capital decreased by SEK 241 million to SEK 1,165 million for the six-month period ended June 30, 2014, as compared to SEK 1,406 million for the six month period ended June 30, 2013. Adjusted for the fire insurance claim working capital decreased by SEK 76 million, primarily explained by a decreasing level of receivables.

### **Year ended December 31, 2013 compared to year ended December 31, 2012**

Working capital increased by SEK 27 million to SEK 1,349 million in 2013, as compared to SEK 1,322 million for 2012. Adjusted for the fire insurance claim working capital decreased by SEK 133 million. This change primarily resulted from a continued decrease in inventory levels.

### **Year ended December 31, 2012 compared to year ended December 31, 2011**

Working capital decreased by SEK 198 million to SEK 1,322 million for 2012, as compared to SEK 1,520 million for 2011. This change primarily resulted from a decrease in inventory and current receivables, following management's efforts to reduce working capital.

## **Financial arrangements**

### **Equity and indebtedness in connection with the listing**

In connection with the Offering, Gränges has 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 5 years. Interest will be based on interbank rates ("IBOR") for the relevant borrowing currency, plus a margin. The margin will vary depending on the ratio of net debt to EBITDA. Further, utilisation fees apply, depending on the ratio of outstanding loans under the facility to the total facility amount. A commitment fee, defined as a percentage of the applicable loan margin, is payable calculated on the unutilised portion of the facility at any time.

### **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

Amounts in SEK million	Land, building, property			Fixtures, vehicles			Other assets			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
<b>Cost current year</b>	-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	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total future leasing costs</b>	-	-	-	-35	-51	-54	-	-	-	-35	-51	-54

## OPERATING LEASES - LESSOR

### Rented/leased property, plant and equipment

Amounts in SEK million	Land, building, property			Fixtures, vehicles			Other assets			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
<b>Cost current year</b>	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	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total future leasing costs</b>	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

### PLEGGED ASSETS

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

## Liquidity arrangements

Gränges' primary sources of liquidity are, and are expected to remain, cash flow from operations and borrowings. Historically, Gränges' main source of financing has been loan facilities from its ultimate parent, Orkla ASA and some short-term working capital facilities from banks. Gränges has entered into a five-year SEK 1,800 million Multicurrency Revolving Credit Facility (the "Facility") with Svenska Handelsbanken AB (publ) and Skandinaviska Enskilda Banken AB, with Svenska Handelsbanken AB (publ) acting as agent. Furthermore, Gränges Shanghai has credit facilities with a total of CNY 1,350 million and USD 50 million, respectively.

Gränges ability to meet future working capital, capital expenditure and debt service requirement will

depend on the Company's future financial performance, which is affected by a range of economic, competitive and business factors, many of which are outside of Gränges control.

## Investments

Gränges continuously invests to maintain production facilities and equipment. In addition, investments are made to upgrade or expand production facilities to increase productivity and capacity or address health and safety issues. In recent years Gränges has invested a considerable amount in expanding the capacity in the whole production flow in Shanghai as well as in significantly increasing the cast house capacity in Finspång.

Amounts in SEK million	Audited Jan 1 – Dec 31			Unaudited Jan 1 – Jun 30	
	2011	2012	2013	2013	2014
Investments in intangible assets	3	–	–	–	–
Investments in property, plant and equipment	320	293	125	49	33
<b>Total investments in intangible assets and property, plant and equipment</b>	<b>323</b>	<b>293</b>	<b>125</b>	<b>49</b>	<b>33</b>

In 2011 and 2012, Gränges invested SEK 323 million and SEK 293 million respectively in an expansion in Shanghai, involving a new cast house furnace, a new cold mill and a new slitter and a new casting centre in Finspång, where three cold rolling mills was upgraded. In 2013 the major expansion programs had been completed and the investment level was reduced to SEK 125 million. The largest individual investment in 2013 was an upgrade of the production equipment in Shanghai to allow for a larger slab and

coil size. In 2014, Gränges' focus is on consolidating previous investments made and the investment level has been further reduced to SEK 33 million for the first half of the year 2014.

Gränges assesses that the future investment need to maintain the current production footprint in the medium term is some 70 to 80 percent of depreciation annually. This does not include any potential expansion outside of the current footprint.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the purpose of the section below is to explain the key assumptions of the management, how these compare to the actual trends described in the historical data and the expected market trends, and how the proceeds described in the business case will impact the forecasts.

The content of the section includes a video of the company's Capital Market Day's presentation, in which key management comments on the company's strategy, financial performance, growth opportunities and future prospects. The section also entails data from the company's year-end report 2015.

## 7. Management's view on market trends as well as the company's forecasts

 In the Capital Market Day presentation video, our CEO provides an overview and the management's views on the company's outlook and some key market trends. The graphs below complement the video's message, and should be considered in conjunction. Please see the video 0:15:45 – 0:36:30.<sup>7</sup>

### Trends set to drive the company's development

#### Higher living standards

- Increased demand for vehicles among first-time buyers in developing countries
- Many functions are becoming standard, like air-conditioning systems
- Safety is a driving trend that has increased demand for larger cars and SUVs

#### Reduced environmental impact

- Ambitions to reduce green house gas emissions
- Demand for lower weight and greater efficiency
- Larger car models require more heat exchanger material

#### Efficiency demands

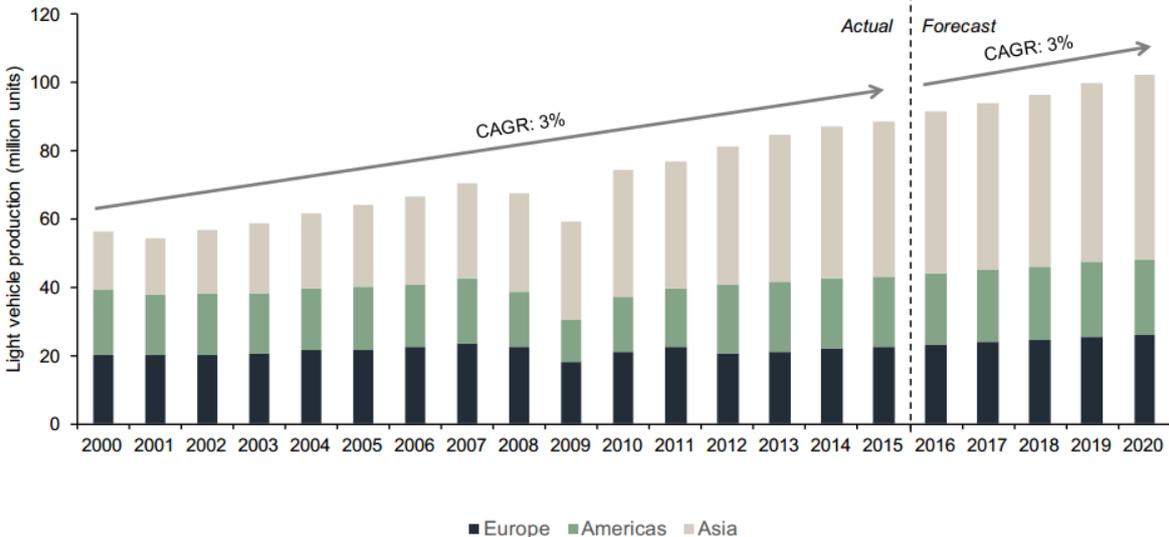
- Need for reduced energy consumption and cost savings drives demand for efficient products in logistics and production terms

<sup>7</sup> *Capital Market Day* (2016). Gränges. Available from: <https://granges.eventcdn.net/2016cmd/>

# Main forecasts

Market growth of 3% expected for full year 2016

Production of light vehicles by region



Global production of light vehicles is expected to grow by 3% annually from 2016 to 2020

Light vehicle production growth (YoY)

Region	Q4 2015	Q1 2016 outlook	FY 2016 outlook
Asia	↑ +8%	↑ +2%	↑ +4%
Europe	↑ +4%	↑ +2%	↑ +2%
Americas	↓ -3%	↑ +2%	↑ +2%
Global	↑ +4%	↑ +2%	↑ +3%

This model prospectus is the sole responsibility of Accountancy Europe, ECG and EGIAN. While Gränges has allowed these three organisations to use information on the company in the compilation of this document, it was not involved in the compilation, and had no influence over nor responsibility for it. Readers of this model prospectus should not consider this document as an actual prospectus, and should not make investment decision based on this model prospectus.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, the purpose of the section below is to summarise why the company is seeking funds, as opposed to alternative financing opportunities; how the funds will contribute to value creation for the investor; the key risks and opportunities investors should consider offering; and why an investor might find this particular investment an appropriate addition to his/her investment portfolio and risk/reward appetite.

The content of the section is based on Chapters 2 (Risk factors) and 4 (Background and reasons) of the company's original prospectus.

The section includes a grey box outlining a fictional elaboration on the use of proceeds. The purpose is to demonstrate how we would foresee an issuer to elaborate on how the proceeds – if any – will be used, or to otherwise explain the reason for the offering. The content of the box is fictional, has been devised by the three cooperating organisations, and does not derive from Gränges.

## 8. Reasons for offering and use of proceeds

In 2011, Orkla ASA decided to shift strategic focus to seek future growth in, and allocate capital to, the branded consumer goods sector, where Orkla ASA has its main operations. In 2012, Orkla ASA announced an agreement with Norsk Hydro ASA to combine their respective profiles, building systems and tubing business in a 50/50 joint venture. In order to facilitate the establishment of the joint venture a legal demerger of Sapa AB's assets and liabilities was carried out between the Company and a new company, subsequently called Sapa AB. The part of Sapa that focused on rolled aluminium products for brazed heat exchangers remained a wholly owned subsidiary of Orkla ASA and subsequently changed its name to Gränges.

Under Orkla's ownership, several important strategic initiatives have been implemented to create a platform for further growth, improve operational efficiency and establish a second R&D centre, in China. The initiatives have resulted in higher production capacity, improved production stability and profitable growth through a continued global market leading position within rolled products for brazed heat exchangers. Gränges attention to customer needs, industrial craftsmanship and leading-edge technology in production and development of materials for brazed aluminium heat exchangers are all important cornerstones in the Company's strategy. Gränges is well positioned to continue to benefit from underlying demand growth and has identified additional geographic and product growth opportunities that could further strengthen the Company's future market position.

In accordance with Orkla's strategic priorities, a decision was taken to separate Gränges from the Orkla group in a manner that would provide Gränges with improved strategic and operational flexibility. Therefore, Orkla and the board of directors of Gränges believe that it is an appropriate time for Orkla to decrease its ownership and list the Company.

The Offering and the listing will expand the shareholder base and enable Gränges to access the Swedish and international capital markets and thereby increase financing alternatives, which will support the Company's continued growth and development. The board of directors and management of Gränges consider the Offering and listing of the Company's shares to be a logical and important step in Gränges development, which will also increase the awareness of Gränges and its operations.

### **Fictional elaboration on the purpose of the proceeds**

There are no proceeds. The objective of the offering is to allow an existing majority shareholder to divest. As part of this IPO, neither the equity of the company or the number of the shares will change and therefore there is no additional capital or proceeds. All proceeds of this IPO will go to the selling shareholder.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, investors would benefit from the knowledge that an issuer and its management have been challenged in the process leading up to an IPO through a set of due diligence processes by independent third parties. This purely fictional section provides an overview of what such a due diligence transparency could look like.

The content of this chapter is completely fictional and does not derive from any material provided by Gränges or any other party.

---

## 9. Conducted due diligence

As part of its offering process, Gränges has engaged a number of service providers to conduct due diligence procedures on it, its processes and products. Communicating on these diligence procedures is pertinent for investors to consider when making an investment decision.

Any reports or advice that have been given by the service providers outlined below is provided privately to the company Board. Consequently, potential investors cannot claim damages to these service providers.

**Accountants – EY:** In addition to the audit of the financial statements, EY has provided 'comfort' procedures which is a customary process in IPOs. Furthermore, EY provided assurance on the

forecasts prepared by management, which were the basis of the working capital statement included in the prospectus.

**Law firm XYZ:** Gränges engaged XYZ to perform a review of its contracts and determine risks and other reportable matters to be included in the prospectus as part of the review.

**Tax firm ABC:** ABC performed a tax review for the periods 2011, 2012, 2013 and 2014 with an objective to identify possible tax risks globally.

**Engineering company JKL:** JKL was engaged by Gränges to review the IP rights related to its products, including those for which the company is currently conducting further R&D.



In line with the guidelines established in the joint paper of May 2016 on simplified prospectus for SMEs, information falling under Categories 2 and 3 should be made available on the issuer's website and a website maintained by a third party, respectively (see the Introductory section for further explanations). The purpose of this section is to indicate to prospective investors what additional information is available on these two additional sources. We encourage issuers to consider different technology-based solutions for linking the items in this section to the relevant locations on the web, for example via hyperlinks.

The content of this chapter is completely fictional and does not derive from any material provided by Gränges.

## 10. Additional information

### **Additional information on our company website:**

Audited historical financial statements

Overview of the most significant transactions and relationships with related parties

More extensive descriptions of the business, its markets and customers, and its strategy

Extended CVs and resumes of all management

Constitution(s) of the company

Extracts or summaries of key agreements

Lock up data, type of shares, voting rights and the likes

Any other risk factors – including risk factors that are non-quantifiable or that fall outside the scope of financial statements

### **Additional information is accessible from a third-party website:**

Generic risk factors

Investor's taxation position across the EU member states and those of other countries where investors may reside

Known differences between a country's accounting framework and the International Financial Reporting Standards (IFRS)



Avenue d'Auderghem 22-28, 1040 Brussels



+32(0)2 893 33 60



[www.accountancyeurope.eu](http://www.accountancyeurope.eu)



@AccountancyEU



Accountancy Europe

## **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).