Annual Report 2012

This is Ostnor

CONTENTS

Ostnor develops, manufactures and supplies sanitary fittings and associated concepts and services. The consistent theme of operations is leading-edge technology, high quality, attractive design and eco-friendliness. Marketing is through the strong, well-established product brands Mora Armatur and FM Mattsson. The strength of these brands is one of the group's most valuable assets.

To fully exploit the strength of its two product brands, Ostnor is engaged in a long-term process to clearly differentiate and position them on the market. The objective is that as far as possible, products should be mutually complementary, rather than competing. FM Mattsson should be the leading brand for faucets in the Nordics based on long-term and close customer relations.

The key words are safety, sustainability and functionality. Mora Armatur should be a premium brand with its emphasis on advanced design tailored to modern lifestyles. Ostnor's sales are nearly MSEK 900, and it has some 460 employees.

Operations are concentrated in Mora, Sweden, which is where Ostnor's head office also is located.

FINANCIAL INFORMATION

Annual General Meeting	7 May 2013
Interim Report for the period January–March 2013	8 May 2013
Interim Report for the period April–June 2013	29 August 2013
Interim Report for the period July–September 2013	7 November 2013
Year-end Report 2013	February 2014

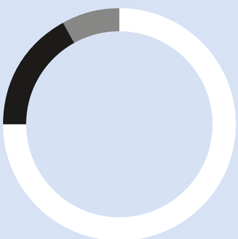
The year in brief

- Net sales were MSEK 860.5 (918.6).
- Operating income was MSEK 38.3 (69.6). Operating income before non-recurring items was MSEK 56.4 (75.8).
- Profit after tax was SEK 32.6 (45.7). Earnings per share were SEK 2.85 (4.00).
- Cash flow after investments remains strong and was MSEK 67.0 (85.3).
- Priveq sold its shares to Tibia Konsult AB, LK Finans AB and Jan Söderberg Förvaltning AB.
- The Board of Directors proposes a dividend of SEK 2.50 (4.00) per share.

KEY RATIOS **Group, MSEK**	**2012**	**2011**	**2010**
Net sales	860.5	918.6	936.0
Operating income	38.3	69.6	113.5
Profit after financial items	34.7	64.9	110.8
Total assets	663.5	692.3	705.2
Equity/assets ratio, %	49	49	48
Cash flow after investments	67.0	85.3	115.3
Return on capital employed, %	9	16	26
Return on equity, %	10	14	26
Average number of employees	459	504	510

SALES BY REGION

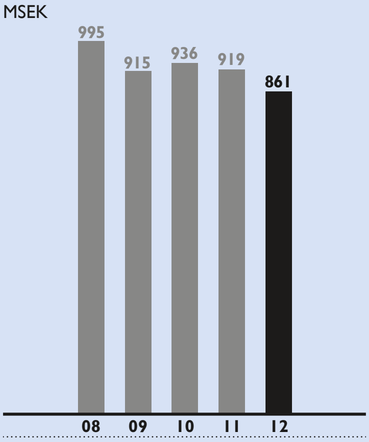
%



- Sweden 75 %
- Nordics (Finland, Denmark and Norway) 17 %
- International (inc. Iceland) 8%

NET SALES

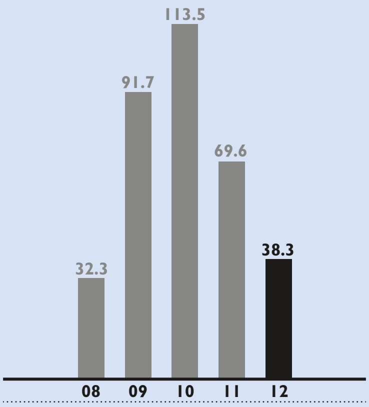
MSEK



2009–2012 prepared according to IFRS

OPERATING INCOME

MSEK



2009–2012 prepared according to IFRS

CEO's statement

2012

As a result of economic progress, many of our markets saw declining demand in 2012. In Sweden, new construction and the more stable 'ROT' (construction, renovation, conversion and extension) sector declined. The pattern was similar in Finland and Denmark, while the Norwegian market did achieve some growth. Overall, this is reflected in our sales decreasing by 6.3 percent to MSEK 860.5 (918.6). We judge that this corresponded to general market development, and that accordingly, we retained our market shares.

In terms of our operating income, we saw a positive trend in the year, keeping pace with the impact of our cost adaptation. Thanks to cost adaptation, we succeeded in mitigating volume contraction. For the full year, operating income was MSEK 38.3 (69.6) and MSEK 56.4 (75.8) before non-recurring expenses respectively.

Growth

We enjoy a very secure position in Sweden, with high market shares for FM Mattsson and Mora Armatur. I'm convinced that we can outgrow the market even from this high initial level. We will achieve this through measures including sharpening our focus on a number of segments and target groups where our current position isn't quite as strong as on the market generally. Growth is also a high priority in the other Nordic countries.

To rationalize our marketing and sales, we implemented a new, flatter sales organization in the year. With one Sales Director responsible for all four Nordic countries, we will achieve a more consistent approach and shorter decision-paths.

We also unified responsibility for our two brands FM Mattsson and Mora Armatur in a shared organization to be able to manage continued brand development on a more effective and coordinated footing, with the product portfolios being even clearer mutual complements.

On the non-Nordic international markets, our initial position is completely different, and accordingly, have different strategies. Here, we are a niche player focused on segments where we have especially good offerings. We are also open to strategic partnerships so that increasingly, we can offer complete solutions. Our ambition is to have a higher growth rate internationally than for the company overall.

Technology and design

Our competitiveness is highly dependent on us continuing to develop first-class products at the leading edge of technology, with attractive design. Accordingly, effective 2013, we'll be upscaling our research and development initiatives. This will have outcomes including us launching new, innovative products and product series more regularly.

Continuous materials development is an important component of our R&D process, as is our constant endeavor to develop eco-friendly and health-friendly products.

Efficiency

In recent years, Ostnor has achieved substantial efficiency improvements in its production. We also improved our productivity in 2012, largely thanks to us being able to balance our staffing flexibly to volume variations. I'm convinced that our continued LEAN work will sharpen our competitiveness.

Leadership and employees

Effective leadership that enables employee development and motivation at all levels is necessary for long-term success. In the year, we launched a document entitled 'Leadership for High Performance', which states guidelines and offers support on precisely this.

2013

Going into 2013, there is significant uncertainty regarding progress in the world around us. However, with its strong brands and market positioning, and with costs adapted for continued challenging market conditions, Ostnor is well prepared.

Finally, I'd like to address my warm thanks to all employees for their valuable efforts and great commitment in the year.

Claes Seldeby

CEO

Business concept, goals and strategies

Vision
Our vision is to aspire for leadership as a global premium vendor of sanitary fittings from Swedish origins.

Business concept
Our business concept is based on developing, manufacturing and supplying sanitary fittings and associated concepts and services with high customer value. Our offering to the market and our customers is based on attractive design, eco-friendly and health-friendly products, coupled with high quality and innovation.

Core values

- **Customer value:** we exist for our customers and our customers' customers. We produce, market and sell products and solutions that are attractive to users and our collaboration partners. We are responsive to customers' wishes. The greater value we can bring the customer, the greater our opportunity to uphold our pricing.
- **Commitment:** being committed to your work is important to everyone. We want every employee to use and develop their competence fully, and feel that Ostnor is an attractive and stimulating workplace.
- **Respect:** we are all different, and this is an asset. We value different opinions. We show respect for each other's integrity and situation. We treat workmates, colleagues, customers and owners as we would wish to be treated ourselves.

Financial targets

- Organic net sales growth of 5 to 8 percent per year (over a business cycle),
- An EBIT margin of 12 percent (over a business cycle),
- Annual dividend should be of an amount corresponding to 50 percent of profit after tax, although subject to the equity/assets ratio not falling below 30 percent after dividends, and
- An equity/assets ratio of 40 percent.

Strategies

To reach its goals, Ostnor has defined a number of strategic segments.

Growth

- Ostnor endeavors to create sustainable and profitable growth. A key part of this strategy is to continue to enhance the FM Mattsson and Mora Armatur brands with the aim of building two complementary, competitive product portfolios with high customer value, high profitability and clear market positioning.
- In Sweden, Ostnor should develop its position as the market leader. Ostnor should achieve positioning as the clear number two on the Norwegian and Finnish markets and increase its market share in Denmark. In addition, Ostnor will endeavor to achieve profitable growth on selected export markets through a niche strategy addressing public environments.

Efficiency

- Ostnor will develop production through sustained intensive improvement work focused on increased productivity, improved utilization of capital, and flexible working methods.
- Ostnor will continue to improve logistics and purchasing by reducing its throughput time and increase the precision of received deliveries of input goods to production.
- Ostnor's IT structure will be optimized for its processes.

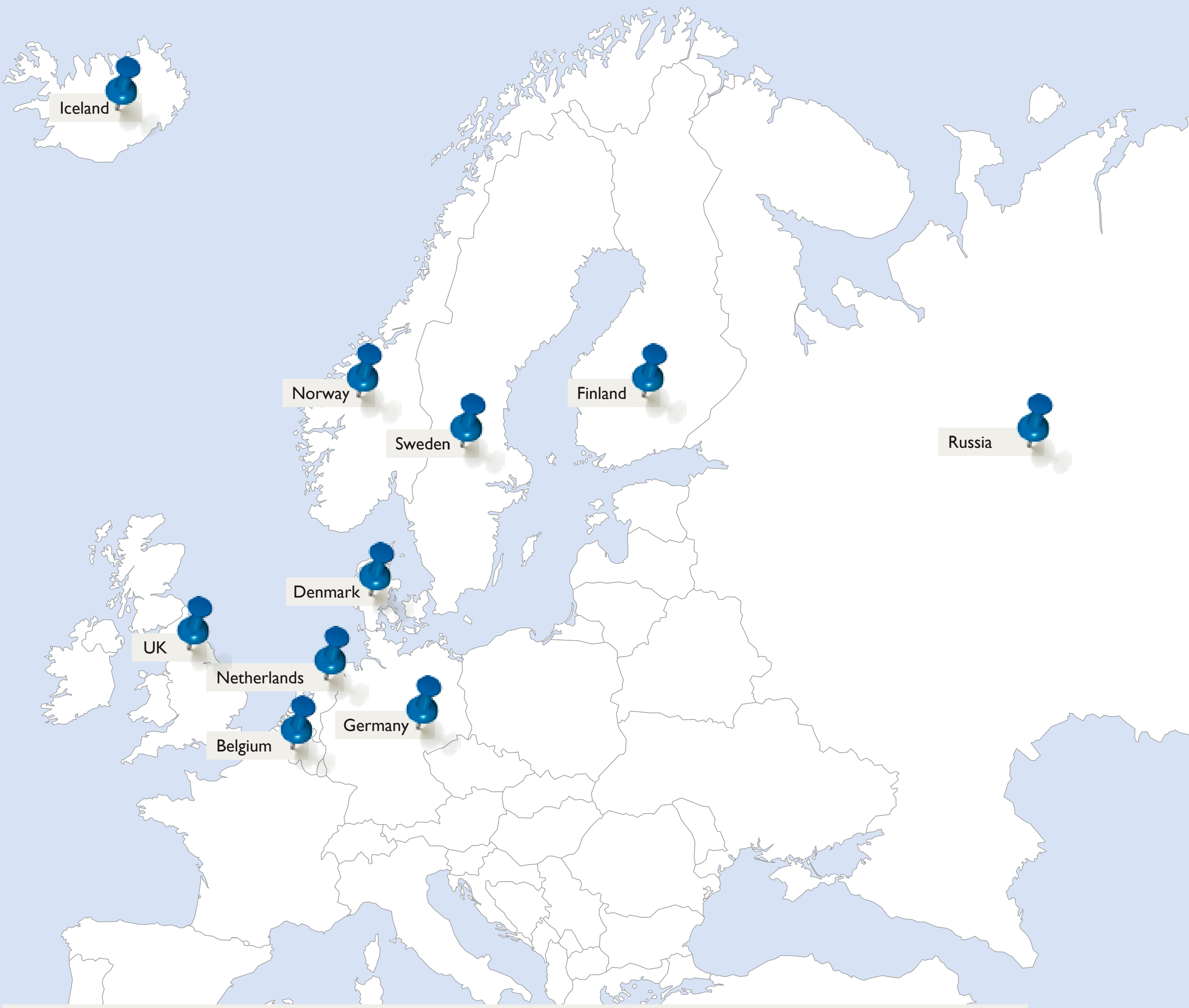
Technology and design

- Ostnor endeavors for continuous improvement in product development with shorter development lead-times and greater launch precision of new products.
- Product development should focus on design and customer value. Work will continue on an internal Design Board and partnerships with external designers.
- Ostnor should promote innovation and develop the leading products on the mixer faucet market. The company should continuously conduct technology development in electronics, energy and water saving, integrated technology and component technology.
- Ostnor should work actively to develop eco-friendly and health-friendly products. Ostnor wants to be the company most closely associated with eco-friendly and health-friendly products.

Leadership and employees

- Ostnor endeavors to be an attractive employer that can hire, retain and develop competent employees.
- Leadership at all levels of the organization should promote good performance and employees should conduct their daily work on the basis of shared core values.

Market
– the clear market leader in Sweden



MARKET TRENDS

Design increasingly important
The trend is for users to have a greater influence over the choice of mixer faucet. This means design is becoming more important, primarily for individual consumers, because the mixer faucet is viewed as an important kitchen and bathroom design item. This is reflected in design becoming a more important part of Ostnor's development work.

Greater environmental focus
The demand for eco-friendly products is increasing. Ostnor is a long-time leader in this segment. Usage of Ostnor's products has substantial positive effects from a sustainability perspective through energy and water savings. Examples include ceramic seals that prevent faucets dripping, ecoflow limiters that limit flows and soft closures that increase the useful lives of faucets and pipes. In 2012, the Swedish Energy Agency introduced an energy classification system for mixer faucets, similar to that used for white goods.

MARKET AND SALES

Some 75 percent of Ostnor's total sales are in Sweden, 17 percent in the other Nordics (Norway, Denmark, Finland) and 8 percent on other markets.
Market growth is driven by new construction, renovation, conversion and extension, known in Sweden as the 'ROT' sector. The ROT sector represents the majority of sales, and generated some 85 percent of the number of mixer faucets sold in the Nordics in 2012.

The Nordic ROT sector is less cyclical than the new construction sector, in commercial premises and housing.

The market is also divided into customer segments, such as private housing, real estate companies, manufacturing and the public sector.

Ostnor directs its marketing initiatives to the various segments on a structured basis. A new, flatter sales organization was introduced in the Nordic countries in the year. The intention is to create the prospects to address consumers and end-customers in public environments and real estate companies more effectively through shorter decision-paths.

Sweden

Through the group's two brands FM Mattsson and Mora Armatur, Ostnor is the clear market leader in Sweden. As a natural result of its high market share, sales cover all customer segments. Despite its very strong market positioning, Ostnor judges that it has opportunities to increase market share further, through channels including efforts targeting customer groups were its positioning is not as strong as in the country overall.

Basically all sales are through wholesalers. These companies then sell products onto installers, real estate companies, building firms, tenant-owners' co-operatives, etc. The wholesale level consists of just over 20 companies, but is dominated by a few large players, the largest being Ahlsell, Dahl and Onninen.

Ostnor is continuing to strengthen its brands by retaining and developing competitive advantages in technology and design. New sales channels have grown stronger in recent years, and Ostnor is monitoring progress closely. Examples of such channels include e-commerce and DIY stores. At present, such channels represent a small share of Ostnor's sales, but are expected to increase through the coming years.

Nordics outside Sweden

Ostnor is a challenger to the market-leading manufacturers in Norway, Denmark and Finland. Generally, its market positioning is well established in each country, with well-recognized brands with local links, and thus strong contacts in the sector. Ostnor is the second-largest player in Norway and Finland. The Danish mixer faucet market is far more fragmented than the other Nordic markets.

In Norway, which is Ostnor's second-largest market, marketing addresses all customer segments. In Finland and Denmark, Ostnor primarily concentrates its marketing on a small number of segments.

Ostnor judges its growth potential and opportunities to take market shares as good in all three countries.

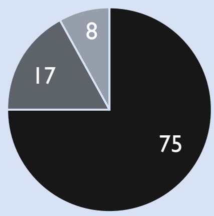
The Norwegian market had achieved some growth in 2012 while the Finnish and Danish markets weakened somewhat as a result of general economic conditions.

International

On markets outside the Nordics, Ostnor is a niche player largely working with local distributors, OEMs and collaboration partners. Ostnor currently has operations in Germany, Russia, Belgium, the Netherlands, the UK, Australia and Iceland. Ostnor's positioning on these markets is far less established, apart from Iceland, where Ostnor has a high market share. Progress on international markets was poor in the year, but as a niche player, Ostnor is significantly less dependent on general market progress compared to the situation in Sweden and the rest of the Nordics. Instead, sales are primarily affected by the company's capability to increase brand recognition and penetrate specific market niches.

Sales by region, %

- Market leader in Sweden
- Growth potential in the rest of the Nordics
- Niche player internationally



Brand strategy
– *scope and competitiveness*

Ostnor's products are sold under two brands: FM Mattsson and Mora Armatur. The strength of these brands is one of the group's most valuable assets.

The mixer faucet market can generally be defined on the basis of price level, quality, function and design. Based on these categories, Ostnor has defined three segments: economy, mid and premium.

The economy segment consists of mixer faucets with pricing and quality below the market average.

The mid-segment mainly consists of functional mixer faucets with good quality that satisfy most customer needs. The premium segment is lifestyle driven, often sold on design and on the name and reputation of well-known designers.

The mid-segment is by far the largest on the Swedish market. The premium segment has the lowest volume, but is the second-largest segment in value terms.

Ostnor's brand strategy is founded on retaining FM Mattson's very strong positioning in the mid-segment, while expanding the Mora Armatur brand to also address the premium segment. This orientation creates a broader and more competitive offering.

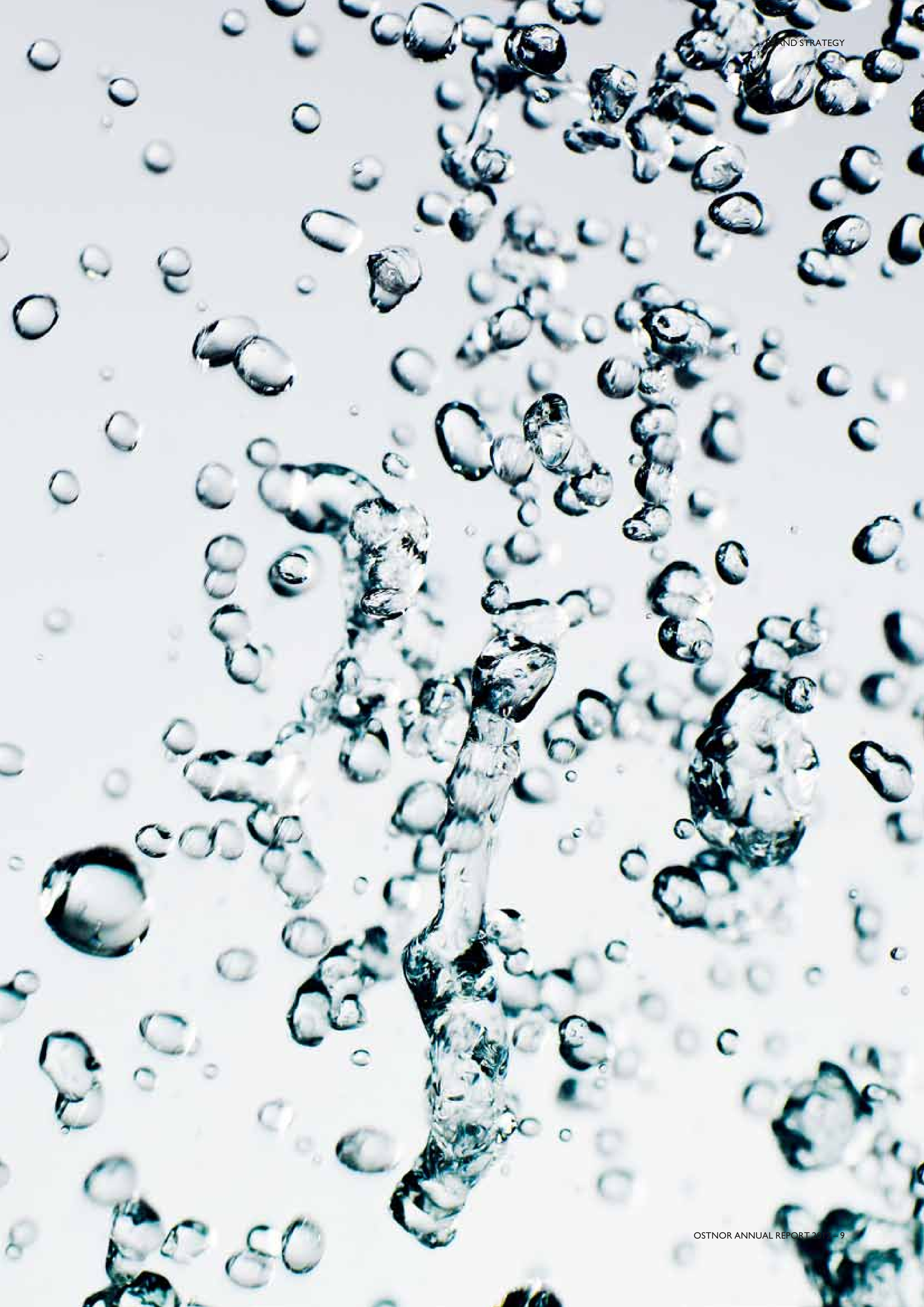
The EcoSafe® concept is an important component of both brand identities. EcoSafe® is a collective term for a number of environmental qualities that contribute to significant energy and water savings.

Satisfied customers are part of Ostnor's recipe for success. FM Mattsson's and Mora Armatur's CSI values on the Swedish mixer faucet market are 79 for FM Mattsson and 77 for Mora Armatur, which means very satisfied customers.

A reorganization was conducted in 2012, which unified the branding work of Mora Armatur and FM Mattsson in a single organization. The intention was to improve coordination, increase efficiency and facilitate collaboration with the sales force. Coincident with this process, responsibility for product management was transferred to the development function.

79

FM Mattsson's CSI was 79.
Mora Armatur's was 77.
Both results mean very
satisfied customers.



Mora Armatur *– quality time*

Mora Armatur features high quality and perceived value in the upper mid-segment and premium segment.

Mora Armatur's market success is a result of many years of carefully maintained customer relations. This is something Ostnor is very proud of and upholds.

Mora Armatur is a lifestyle brand, which in the long term, attracts customer groups such as architects, interior designers and consumers with an interest in design.

The combination of solid engineering know-how and leading-edge design skills is a basic condition for Mora Armatur's continued progress.

Mora Armatur's current product portfolio extends over the mid to premium segments. Product series feature driven design, innovation excellence and environmental awareness.

The objective for every product is that "under its innovative and stylish exterior there is all the necessary technology – and a feeling of precision".

The product portfolio will continue to develop in a more experience-oriented direction to fully deliver on the customer pledge of "contemporary Scandinavian design – to use every day". Marketing and communication is oriented towards reflecting the time devoted to manufacture in relation to the time – quality time – the consumer experiences when near to the product in kitchens or bathrooms.

Premium

A premium brand is often part of a chosen lifestyle based on personal commitments. Mora Armatur should deliver higher quality and perceived value at a price that corroborates this status.

Offering

"Contemporary Scandinavian design – to use every day." This offering is a pledge to everyone we want to attract and do business with.

For whom

Mora Armatur primarily communicates with "progressive consumers" – energetic and conscious individuals that often act as leaders for broader consumer bases.

mora® ARMATUR

FM Mattsson
– the professional choice

FM Mattsson is the market leader on the Swedish mixer faucet market. The brand is well established in the sector in other Nordic countries.

FM Mattsson's strong position in Sweden is based on long-term and close customer relations, with real estate companies, private housing and loyal plumbers being some of the primary customer groups. Technology, product quality and reliability are strengths that drive the brand. Over the years, FM Mattsson has built its reputation through technological excellence, robust quality and functionality that saves energy and creates safety.

Functions such as soft closing bring longer useful lives, while a double action thermostat always maintains a constant water temperature and optimizes comfort for the user. FM Mattsson offers a broad product range in the mid-segment.

The brand is the Swedish market leader with good potential to increase volumes on other markets.

The existing range, primarily the 9000 E series and associated installation products, cover most needs for mixer faucets in housing and public buildings. The loyalty Swedish professional groups have shown the brand over the years means that in 2013, FM Mattsson will be the self-evident choice for all professional and semi-professional installers. That is the consumers that prefer to select brands by relying on expert knowledge and experience.

FM MATTSSON'S DESIGN PHILOSOPHY

Functional design

- Faucets are a utility item that are part of everyday life.
- Utility items should be beautiful, simple, solid and discreet and not demand the attention.
- No unnecessary functions that are just decoration, but intelligent solutions to everyday problems.
- Sustainable solutions, sustainable design.

FM Mattsson

Design and innovation – *substantially upscaled resources*

Ostnor's development work focuses partly on design and partly on developing new functionality and new technologies such as energy efficiency, water-saving, electronics and new materials.

Research and development expenses were some 3 percent of total sales in the year. Research and development initiatives are being upscaled effective 2013.

This increase is evidence of the great significance of design and innovation work for the group's long-term development.

The increased resources will be used for purposes including the next generation of mixer faucets, and for further reducing development lead-times from project start-up to market launch.

The development lead-time was cut by some three months in 2012. Shorter development lead-times also increase the focus on more frequent new product launches.

We measure key performance indicators such as innovation rate and launch precision.

Launches in the year include the FMM 9000E wall-mounted single-lever mixer faucet, the FMM 9000E II basin mixer faucet and the Mora MMIX wall-mounted single-lever mixer faucet.

New Mora Cera, a complete mixer faucet series including kitchen, basin and thermostat mixer faucets, as well as showers, was launched in 2013.

Ostnor is a long-time leader in energy efficiency and water saving. The standards applied by regulators and consumers in these segments are continuing to become more stringent.

Ostnor's product range is very well positioned to address these standards with uncompromised functionality. Continued active work to make products even more eco-friendly and health-friendly have a high priority. Ostnor also puts a big emphasis on developing new materials that can offer lower costs, reduced environmental impact or enhanced functionality.

Design is an increasingly important factor in end-customers' decision-making, and plays a central role in developing the FM Mattsson and Mora Armatur brands. The fundamental focus on Scandinavian design is supplemented with research into global trends and design preferences on various international markets. A partnership with the Umeå Institute of Design was consolidated further in the year through means including projects oriented on the electronic mixer faucets of the future, and products that are easy for installers to work on.

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Single-lever mixer faucets with soft closing and the Mora ESS energy-saving system.

Thermostat mixer faucets with pressure control. Brass internals with polymer externals minimize environmental impact through less brass and less energy-intensive manufacturing processes.

Production
– *many more improvements implemented*

For a number of years, Ostnor has been continuously rationalizing its production facility at Mora, Sweden, and this process continued in 2012.

A system involving working hours being extended by a half hour per day for 16 weeks of the year, and correspondingly shortened in the fall, was implemented in the year. In addition, flexibility was enhanced through more widespread use of contract staff. This made a positive contribution to productivity because staffing was better adapted to variations in capacity utilization. Overall, productivity improved somewhat, despite reduced volume. Employees continued to demonstrate high commitment to improvement work, resulting in the execution of 1,815 improvements.

A new supply system for materials was introduced to production in 2012. By delivering raw materials and semi-finished goods to workstations at shorter intervals, Ostnor reduced its inventory levels. In addition, Ostnor implemented significant improvements to change-over efficiency, i.e. the time it takes to switch from one product to another, in casting cells, for example.

Work on reducing the cost of quality defects continued, through means including a sharper focus on 'right from me', 6-Sigma projects and improved failure mode effect analysis (FMEA) to identify potential failure risks when starting up new product series. Development collaborations with customers and suppliers also continued, to optimize logistics solutions and shorten lead-times from order to delivery.

Improvements are based on Lean Production and methods like 5S, continues improvements (Kaizen), SMED and 6-sigma. Ostnor's production systems can be summarized in six main points:

- **Standardized working methods** mean that everyone uses the best-known method for doing work, and that repeated problems can be identified and rectified.
- **Clear and visible** means that it is easy to see how a process is going, for example, where things should be kept, what should be produced now and when the next item should run. Clarity and visibility also feature in leadership of our production operation.
- **Minimizing waste** applies in eight different segments: surplus production, unnecessary working processes, unnecessary movement and relocation, unnecessary transport, unnecessary inventories, faults, re-working and scrapping, waiting times and unutilized competence.
- **Right from me** is about every employee viewing the next step of the process as his/her customer, and taking responsibility for delivering products that match customer needs.
- **Needs-controlled production** means always producing for the customer's current needs, and assumes small batches and short processing times.
- **Continuous improvement** is the key to sustainable success.

Production takes place at a proprietary plant in Östnor, a few kilometers north west of Mora, in central Sweden. The facility is highly automated, well invested in terms of mechanical equipment, while assembly is still largely manual.

Ostnor has one of Europe's most modern brass casting foundries, with two fully automated casting cells. Another foundry cell, which primarily, is used for testing new products and material, was installed in the year. Core manufacture is also automated. Our state-of-the-art foundry provides high capacity with limited staffing, the possibility of reduced cost of defects and energy savings. Ostnor has the potential to increase production at its existing premises.

Ostnor insourced manufacturing in China in the year, thanks to the savings potential offered by improved productivity in its production.

Assembler Fatime Berisha packages an FMM 9000E thermostat mixer faucet. Ostnor's employees continue to demonstrate high commitment to improvement work, with results including the implementation of 1,815 improvements in 2012.

'Right from me' means every employee is responsible for delivering products, in this case a Mora MMIX thermostat mixer faucet, that satisfy customer standards.

Sales Representative Torgny Mogren demonstrates the 9000E flexi mixer faucet, a good example of Ostnor's user-friendly products.

Clarity and visibility features in production management. A short review of the previous day's results, and planning for the next coming production day, is conducted daily.
Sven Olsson, Production Unit Manager.

Sustainability
– *caring for the environment*

Caring for the environment is high on Ostnor's agenda. For Ostnor, this primarily means developing products that help save water and energy. This entails the company being forward-looking and using resources effectively. Ostnor thinks and acts end to end on the environment – from suppliers and production to distribution and customers. The long useful lives of our products contribute to low life-cycle costs and lower consumption of finite resources.

PURCHASING

Ostnor's most significant purchasing is input materials to production such as brass, zinc castings and plastic components. The company has a total of some 500 suppliers in Europe and Asia, but a smaller share of them represent the majority of Ostnor's purchasing.

Suppliers of direct materials undergo audits, primarily of their technological capability but we also review their environmental work and working conditions.

Ostnor is gradually downscaling its supplier base – closer collaborations with fewer business partners are expected to provide mutual benefits.

Ostnor's selection process considers factors including the supplier's openness and its willingness to co-operate, as well as its ambitions in the environmental segment.

PRODUCT DEVELOPMENT AND PRODUCTION

Ostnor's products are certified according to applicable environmental and health standards. As drinking water is classified as food, it is regulated by law at national and EU levels.

Ostnor develops its processes and products to satisfy applicable regulatory and market standards.

Management of resources in focus

Ostnor puts a big emphasis on managing resources and reducing the environmental impact of production. Its focus is on the utilization of raw materials, consumption of energy and CO_2 emissions, the consumption of chemicals, emissions to water and waste. The company has come a fairly long way in terms of energy; for example, Ostnor was an early adopter of utilizing excess heat. Research conducted in 2011 indicated energy-saving potential of just 3–4 percent. However, the company could improve its management of sand, which is used in the casting process.

Ostnor's continuous review of manufacturing processes not only results in better products, but also financial and environmental benefits. To some extent, these efforts are sourced from the Lean Production concept. One of the principles Ostnor applies is to minimize waste such as excess production, unnecessary labor processes, as well as transportation and inventories. By reducing the number of faults, the need for reworking and scrapping, various resources also contribute to the manufacture of useful products instead of waste.

Operations subject to permits

Ostnor's main business is subject to permits according to the Swedish Environmental Code. The company has two permits, one for the Södra plant and one dormant permit for the Norra plant where no operations subject to permits are conducted. Ostnor has a fully comprehensive and coordinated management system. This system satisfies the stipulations set by standards including ISO for the external environment (14001) and quality (9001).

Det Norske Veritas Certification AB inspects the company 1–2 times yearly to ensure that its operations continuously satisfy the requirements of standards.

Land decontamination

Surveys have indicated that parts of the land surrounding Ostnor's plants are contaminated to some extent. This is the result of long-term industrial use. Soil samples indicate high content of metals. Ostnor is planning the decontamination of the estate around the Norra plant in 2013.

DISTRIBUTION

Effective and climate-neutral distribution is about efforts including choosing the right transport suppliers and means of transport, transporting full loads and reducing product weights and packaging.

The absolute majority of Ostnor's transports are by road. The company is currently trialing maritime freight from Gävle, instead of via Gothenburg. If the trial is positive, it may result in some transition from road to maritime transport, which is expected to reduce environmental impact.

Ostnor is also working to rationalize its logistics through greater coordination between suppliers, and by selecting suppliers located close to Mora. One example is its transportation requirement, and thus environmental impact, reducing through the company replacing Chinese partners with Swedish ones.

99

Ostnor products are
99 percent recyclable.

USAGE

Alongside sector colleagues and other parties, construction companies, real estate owners and regulators, Ostnor made choosing mixer faucets from environmental and cost perspectives easier in the year. These players developed a classification and labeling system from mixer faucets based on standard laboratory testing and certification rules. The energy classifications are from A to G, with labeling similar to white goods. Environmental consideration in product development is a long-term priority for Ostnor. People using FM Mattsson or Mora Armatur mixer faucets are saving energy and water compared to many other alternatives. The positive environmental qualities of the current range include:

- Ceramic seals prevent faucets dripping, which alongside other measures, saves substantial water volumes.
- Ecoflow limiters automatically reduce water consumption by limiting flow. The difference is hardly noticeable to the user, but saves thousands of liters of water every year.
- Cold Starting means that initially, only cold water passes when the mixer faucet is opened with the handle straight forward, rather than a mix of cold and hot water as in a conventional mixer faucet. This provides significant energy savings.
- Soft Closing means mixer faucets close with a small delay, avoiding pressure spikes in piping, thus increasing the useful lives of mixer faucets and pipe work.
- Ostnor products are 99 percent recyclable.
- There is a great emphasis on increasing FM Mattsson and Mora Armatur consumers' knowledge of what Ostnor is doing to improve its products from an environmental perspective, and what the consumer can do him or herself to reduce environmental impact further.

Overall, these product characteristics result in significant positive environmental effects.

FM Mattsson's and Mora Armatur's marketing puts a big emphasis on increasing consumer knowledge of the major saving potential this brings, in environmental and financial terms.

Our people
– leadership for high performance

To achieve the targets set, Ostnor needs clear and effective leadership based on the company's core values. A leadership standard called 'Leadership for High Performance' was implemented in 2012, consisting of guidelines and support for developing managers and staff. This document covers a number of aspects of leadership such as communication, decision-making, availability, improvement work, as well as occupational health and safety.

A leadership seminar addressing the survey of leadership conducted coincident with the employee satisfaction survey during the fall was executed in the year. This survey clarified the need for competence development in the leadership segment.

Ostnor endeavors to be an attractive employer that offers its people the opportunity to progress in the company. Competence mapping and regular dialogue between managers and staff are intended to ensure that talented people have individual development plans and remain within the company.

The yearly employee satisfaction survey that covers all employees demonstrated overall results that were better or in line with the previous year. A number of areas of improvement were also identified, such as appraisal interviews and cross-functional contacts. Some 120 improvement activities were commenced as a result of this survey.

At the end of the year, the number of full-time employees was 459 (487). A staff reduction of 21 white-collar employees was conducted in spring 2012 to adapt Ostnor's cost base to declining demand.

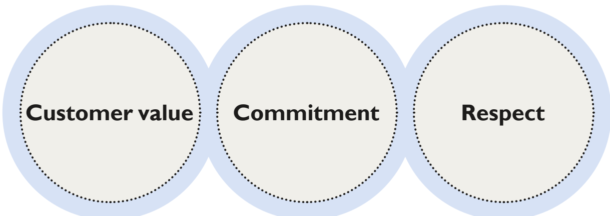
A system involving working hours being extended by a half hour per day for 16 weeks in the spring, and correspondingly shortened in the fall, was implemented in the year. This made a positive contribution to staffing matching seasonal variations in production more closely.

The positive long-term sickness absence trend continued in 2012 (see diagram).

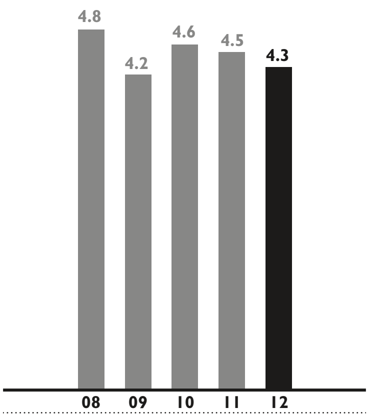
Samverkanspuls ('collaboration pulse'), means that management and representatives of the unions IF Metall and Unionen meet each morning for a brief review of current issues and activities, which has streamlined the MBL *(the Swedish Act on Employee Co-determination in the Workplace)* process very significantly. A new forum, **Skyddskommittépuls** ('safety committee pulse'), was introduced in the year. This replaces traditional health and safety activities and means that the company and unions raise health and safety issues on a daily basis, plus a slightly longer weekly **Skyddskommittépuls** meeting. This has led to a range of systematic occupational health and safety issues being resolved more efficiently than in the past.

Ostnor's core values

Ostnor's core values are a collective platform for all employees to build on in their everyday work. This applies to customers and in-house. The core values should permeate the entire company and are based on three fundamental concepts:

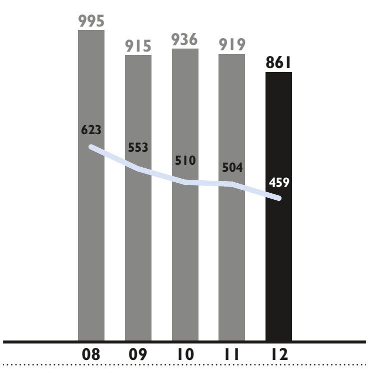


SICKNESS ABSENCE[1]

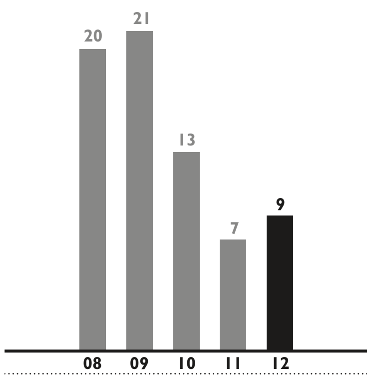


[1] Ostnor AB

SALES/AVERAGE NUMBER OF EMPLOYEES



STAFF TURNOVER[1]



[1] Ostnor AB

SONNY SÖDERSTEN

Born in 1985
Grinding and polishing
Employed in 2004

"I've been working for Ostnor since 2004, and started here straight from senior high school. Our final year of senior high was on work experience, and I applied to FMM. Three members of my old senior high school class got jobs here, and we're all still here. That's one of the reasons I like it so much, a lot of my childhood friends work here.

My work is also stimulating. I started in assembly, and moved to grinding and polishing after a year, where I work now.

We have flexitime at the beginning and end of the working day, which means work gives us a greater sense of freedom and the opportunity to utilize our leisure time optimally. I really like my job. I'm glad I had faith in Ostnor."

OSCAR EDFORS

Born in 1985
Sales representative,
Central district
Employed in 2012

"I'm still a rookie with the company, and will have been working for Ostnor for a year in April.

The sense of unity in my workgroup and among colleagues means it feels like I've been here far longer. You always feel extra secure as a new employee with a professional leadership that offers straightforward directions and clear targets. This makes managing your own work easy. Salespeople have a lot of responsibility, but great freedom too.

Working on sales in a company that does everything under one roof is a great benefit. You get insight into the complete development and manufacturing process. This creates extra trust in our customer relationships."

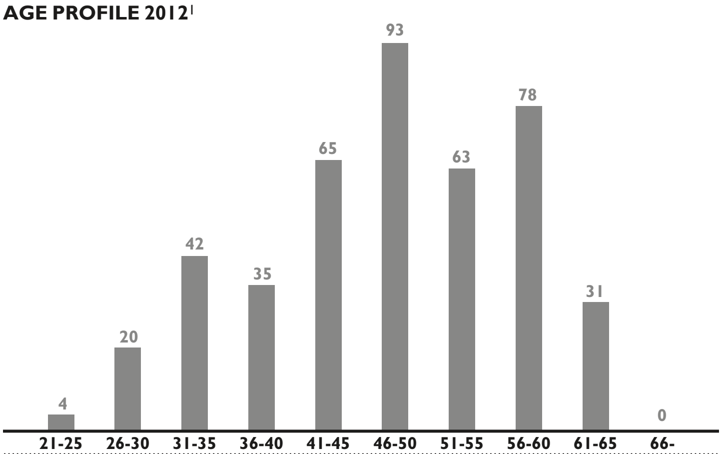
DENNIS KLANGEBO

Born in 1991
Toolmaker
Employed in 2011

"This is my first full-time job. I took a summer job in assembly straight after university, but am now permanently employed in the tooling department. Mostly, I work on CAM preparation. I spend half my time at my PC, and the rest rigging and running the program on the NC milling machine. But no two days are the same. You're presented with new challenges every day.

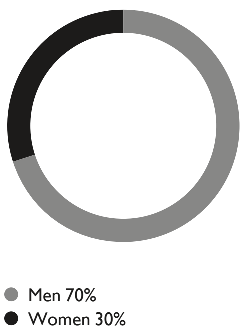
I feel motivated to learn new things. So I take every opportunity to learn something, and there are lots of opportunities, because I have very skilled colleagues with lots of experience."

AGE PROFILE 2012[1]



[1] Ostnor AB

DIVISION BETWEEN THE SEXES[1]



[1] Ostnor AB

Corporate governance

The Board of Directors reviews Ostnor's vision, strategy and goals each year. Governance, management and control of Ostnor is divided between the shareholders, Board of Directors, Chief Executive Officer and group management in accordance with the Swedish Companies Act, the Swedish Annual Accounts Act, the Articles of Association and the rules of procedure for the Board of Directors. Because Ostnor is not a listed company, it is not subject to the Swedish Code of Corporate Governance, although Ostnor applies most of the Code's rules.

Shares, ownership

The total number of Ostnor shares is 11,445,100 of which 2,060,200 class A shares with 10 votes, and 9,384,900 class B shares with one vote each. As of year-end 2012, the company had 164 shareholders.

The former main owner, Priveq Investment (with just under 30 percent of the number of shares and votes) was replaced by three new owners in November 2012: Tibia Konsult AB, LK Finans AB and Jan Söderberg Förvaltning AB. Ostnor has been a CSD-registered company since the 2003 AGM, which means its share register is maintained by Euroclear. The company has also been a public limited company since the 2011 AGM.

The company's largest shareholders, which represent at least one-tenth of the number of votes for all the shares of the company, are reported on page 27 of the Annual Report.

Annual General Meeting

The Annual General Meeting (AGM) is the company's chief decision making body. The AGM elects the Board of Directors and Auditors, approves the accounts, resolves on how profits are to be appropriated and resolves on discharging the Board of Directors and Chief Executive Officer from liability. The AGM also considers other matters that are mandatory according to the Swedish Companies Act and the Articles of Association.

In accordance with the Articles of Association, invitation to the AGM is through an announcement in the Swedish Official Gazette and by the invitation being available on Ostnor's website. An announcement that the invitation has been made is reported in Swedish newspapers Svenska Dagbladet and Mora Tidning.

115 shareholders were present at the AGM on 14 May 2012 in Mora, Sweden, representing 92.8 percent of the total number of shares and 93.7 percent of the total number of votes of the company. Most of the Board, the Interim Chief Executive Officer and the Auditor attended the Meeting. Minutes from the AGM and the current Articles of Association are available at Ostnor's website (www.ostnor.com).

The Meeting resolved on an amendment of the Articles of Association involving a reduction of the number of votes per class A share, conditional on an IPO being executed before year-end 2012. Because no IPO occurred, this amendment of the Articles of Association lapsed.

The AGM did not issue any authorization to the Board of Directors to decide on the company issuing new shares or purchasing treasury shares.

Extraordinary General Meeting (EGM)

Work on an initial public offering of the class B share on OMX Small Cap was basically concluded in fall 2012, but at that time, neither the market-specific nor company-specific circumstances were favorable for an IPO, and an alternative solution was prepared involving a postponement of the IPO and a change to ownership regarding Priveq, which had wanted to sell its holding for an extended period because the relevant fund had closed. This solution was implemented through an EGM on 15 November 2012.

At the meeting, Priveq requested reclassification of some one-third of its class A shares to class B shares. The meeting resolved to redeem Priveq's remaining class A shares for SEK 35.82 per share, and a new share issue of the corresponding number of class A shares to Tibia Konsult AB and LK Finans AB.

The subscription price was SEK 35.82 per share, and the shares were subscribed at the Meeting. After the above issues and Priveq's sale of its class B shares, Tibia Konsult AB held 14.9 percent of the shares (12.6 percent of the votes), LK Finans AB held 10.0 percent of the shares (10.7 percent of the votes) and Jan Söderberg Förvaltning AB held 5.0 percent of the shares (1.9 percent of the votes).

122 shareholders were represented at the Meeting, corresponding to 97.0 percent of the share capital and 96.4 percent of the votes. In February 2013, Allba Invest AB purchased a total corresponding to 3.5 percent of the shares from shareholders that reported their wish to sell in the fall. Members of the Board of Directors and management increased their net holdings coincident with this process.

Nomination Committee

The duty of the Nomination Committee is to present proposals to the Chairman and Directors, fees and other remuneration for work at Board meetings, election and remuneration of Auditors and appraising the work of the Board of Directors. The Nomination Committee's proposals are reported in the invitation to the AGM.

The AGM elects Directors, who as far as possible, should reflect ownership of the company. At present, the Nomination Committee members are Åsa Mattsson (Chairman), Lena Hermansson, Johan Eriksson and Christer Lenner.

Composition of the Board of Directors

The Directors are elected yearly by the AGM for the period until the end of the next AGM. According to the Articles of Association, the Board of Directors should consist of a minimum of four and a maximum of seven Directors. Otherwise, the Articles of Association stipulate no limitation regarding the appointment and dismissal of Directors or amendments to the Articles of Association.

The AGM resolved that the Board of Directors would have the following members: Christer Lenner (Chairman), Erik Eriksson, Magnus Hardmeier, Mats Hermansson, Johnny Alvarsson (first-time election), Hans Åke Norås and Pernilla Wigren. Magnus Hardmeier requested to leave the Board of Directors in December 2012 because Priveq had sold all its shares.

For this reason, the Board of Directors is not fully complete until a new shareholders' meeting has been held, and a resolution has been made on this issue.

Work of the Board of Directors

The work of the Board of Directors is formalized by rules of procedure adopted yearly, which regulate the internal division of responsibility, decision-making in the company, authorized signatories, Board meetings and the duties of the Chairman. The Board of Directors has also adopted instructions for the division of responsibility between the Board of Directors and Chief Executive Officer, which are evaluated each year.

Scheduled Board meetings consider the Chief Executive Officer's and management's reports regarding business conditions, forecasts, accounting and financial reporting, functional business reports, investments, potential significant disputes or potential matters of dispute and other applicable issues appropriate for presentation to the Board of Directors for decision. In addition, an appraisal of the work of the Chief Executive Officer, appraisal of the working methods and decision-making processes of the Board of Directors should also be considered by at least one of the scheduled Board meetings in the year.

One of the Board meetings in the year decides on a strategic plan including a vision, business concept and strategy. The budget for the coming year is considered and adopted at the final Board meeting of the year.

The Board receives a monthly written report from the Chief Executive Officer on Ostnor's results of operations and financial position.

In addition to its Board meeting following election, in 2012, the Board of Directors held six scheduled meetings and six additional telephone conferences relating to the change of CEO, the IPO process and Extraordinary General Meeting. All Directors attended all scheduled Board meetings. Some members were unable to attend three telephone conferences, although their support for decisions was obtained subsequently. One telephone conference dealt with remuneration for two Directors for additional work relating to the EGM; these two members did not participate in this conference. Apart from the Board of Directors, the CEO and CFO always attend Board meetings, with the CFO also serving as Board secretary. Other employees of the company participate at Board meetings to report on particular issues, or if otherwise considered appropriate.

The company's Auditor attends board meetings as required to judge the company's financial position and at least once in the year. The Auditor attended and reported on two occasions in 2012.

Remuneration Committee

The Board of Directors has appointed a Remuneration Committee that should consist of the Chairman and two members elected by the AGM. Its duty is to consult on the CEO's salary and other terms of employment. The Committee shall also consult on appraisal of the CEO. The Committee should receive and approve agreements the CEO reaches with senior managers of the company. The Remuneration Committee's members were Christer Lenner, Erik Eriksson and Magnus Hardmeier until the latter's departure from the Board.

Audit Committee

The Board of Directors does not have an audit committee because the whole Board performs the duties incumbent on the audit committee in accordance with the Swedish Companies Act.

CEO and other senior managers

The CEO is subordinate to the Board of Directors and has primary responsibility for Ostnor's ongoing administration and daily operations. The division of responsibilities between the Board of Directors and CEO is stated in the rules of procedure for the Board of Directors and the CEO's instructions. The CEO should keep the Board of Directors continuously informed on the progress of Ostnor's operating activities, the scale of sales, Ostnor's profits and financial position, liquidity and credit situation, major business events and other important circumstances.

Claes Seldeby was appointed as the new CEO on 25 May 2012, succeeding Håkan Olson, who had been CEO since December 2006.

Risk management

Financial risks

Ostnor's operations are exposed to various types of financial risk such as market risks relating to currencies and interest rates, as well as liquidity and capital risks. All these risks are managed in accordance with the company's finance policy, which is updated and approved by the Board of Directors yearly. There is a more detailed description in Note 3. Hedges are entered for 50 percent of forecast currency flows over a rolling 12-month period. Financial exposure of foreign currency accounts is regulated. Interest swaps are used to minimize interest risks on borrowing. Investments are only permitted on a short-term basis in securities with high credit ratings.

Raw materials price risks

Some one-third of Ostnor's total expenses for direct materials consist of metal raw materials input into works-made and purchased components. Essentially, the expense for metal raw materials relates to alloy brass, which consists some 60 percent of copper and 40 percent of zinc. Thus the group has significant risk exposure to these metals. Risk management of raw materials prices addresses the avoidance of speculation risks and creating predictability. For Ostnor's own requirements of brass, this is achieved through short agreements and ongoing financial hedges of 70-80 percent of the requirement for the following year. In accordance with the company's brass policy, which is updated and approved by the Board of Directors yearly. The policy was amended at the end of 2012 due to uncertainty regarding volumes, so that hedges should be conducted on 50-60 percent of the following year's need. For purchased components, Ostnor endeavors to reach agreements conferring a low frequency of price updates.

Hedge accounting has been introduced effective 1 January 2012, which means the market valuation of brass derivatives will not affect operating income, providing hedges entered are sufficiently effective. The wide fluctuations in market prices of copper and zinc in recent years put high demands on the company's competence in measuring the annual cost of brass, not least for price negotiations with customers and analyzing the company's results of operations.

Operational risks

Over and above financial risks, Ostnor identifies and manages operationally related risks. These risks are divided between operational risks and market risks as well as legal and regulatory risks.

Most of Ostnor's products are works made at the Mora production facility. Production is primarily exposed to various risks in the supply of materials, health and safety, the operational environment and exogenous environmental factors. Risk management is conducted through daily production control and an annual improvement program that identifies new risks and their management. The company is exposed to risks of the material flows of raw materials such as brass, and components sourced from external suppliers. All suppliers are evaluated and screened by the company with the aim of ensuring a satisfactory supply of materials and components.

Product development operations are exposed to risks that can result in recalls and/or exchanges of delivered and installed products due to poor quality of materials of purchased or works-made components and design faults.

Dependency on key staff is another risk because senior positions and specialists are difficult to recruit.

Market risks

Ostnor's sales are dependent on a few markets and strongly linked to dominant wholesalers in Sweden and the Nordics. The construction, renovation, conversion and extension (ROT) sector is the main driver of market progress and is controlled by factors including price growth of single-family houses and tenant-owners' cooperative housing. Changes in market interest rates, housing prices and general economic conditions may affect the company's sales and results of operations.

Legal and regulatory risks

Ostnor's products are accredited in accordance with applicable national environmental and health standards. Drinking water is classified as food and is regulated by national and EU-wide drinking water legislation. Changed standards and limits may affect the content of materials and construction solutions of faucets. Ostnor conducts its own sector-wide materials development projects and participates in policy work with sector and regulatory organizations.

Senior managers

Claes Seldeby
CEO, Director of Sales & Marketing, employed in 2011
Born in 1969
B.Sc. (Econ.)
Class B shares: 20,500

Anne-Charlotte Eggwertz
CFO, employed in 2008
Born in 1951
B.Sc. (Econ.), Stockholm School of Economics
Class B shares: 10,000

Morgan Nilsson
Director of Production, employed in 2008
Born in 1952
Mechanical engineer
Class B shares: 8,000

Niclas Brandshage
Nordic Sales Director, employed in 1999
Born in 1967
B.Sc. (Econ.)
Class B Shares: 200

Larz Ericson
Director of Human Resources, employed in 2008
Born in 1956
B.Soc.Sc.
Class B shares: 5,000

Mikael Hansson
Director of Research & Development, employed in 2000
Born in 1959
B.Sc. (Eng.)
Class B shares: 6,000

Shareholdings as of 28 February 2013

Board of Directors

Christer Lenner
Chairman of the Board since 2009
Born in 1947
Engineering and marketing qualifications
Other assignments: President of Siljan Group AB, Chairman of the Board of Scanmast AB, Scanmast Holding AB, AB Nybrogrus, Håkan & Anders Brodyr AB, Mattsson Metall AB, Siljan Skog AB, Siljan Energi AB and Västerviks Företagsgrupp Ekonomisk förening as well as Director of Gunnebo Industrier AB, Mora Trading Christer Lenner AB, Stenbåkkan Konsult AB, Tjustgalan Ekonomisk förening, H Lenner Förvaltning AB, Blyberg Sveg Timber AB and Siljan Wood Products AB.
Class B shares: 40,600 through companies

Erik Eriksson
Director since 2003
Born in 1959
Senior high school technology graduate
CEO of Mattsson Metal AB and Deputy Director of Bröderna Eriksson Metallfabrik AB.
Director of non-profit organizations.
Class A shares: 41,200
Class B shares: 28,900

Mats Hermansson
Director since 2003
Born in 1940
Structural engineer
(former CEO of Mora Armatur AB)
Other assignments: Chairman of Aktiebolaget Rots Övre Kraftverk AB.
Class A shares: 61,600
Class B shares: 103,600

Johnny Alvarsson
Director since 2012
Born in 1950
B.Sc. (Eng.), Management studies
Other assignments: CEO and President of Indutrade AB. Chairman of Pentronic AB, ETP Transmission AB, Colly Company AB, Filterteknik Sverige AB, Strålprofil PK AB, Dasa Control Systems AB, Indutrade Flödesteknik AB, AB Elektronik-Konstruktion Innovation, Strålprofil PK Invest AB, Damalini AB, Flintec Group AB and Manava Konsult AB as well as Director of VBG Group AB and Gedevelop AB.
Class B shares: 10,000

Hans Åke Norås
Director since 2009
Born in 1944
B.Sc. (Econ.), Gothenburg School of Business, Economics and Law and CEO of CNN Clarhäll Norås & Norås Consulting AB.
Other assignments: Chairman of the Board of Proplate AB, Proplate Oxelösund AB and Hasselkobbens Fastighetsägarförening as well as Director of CNN Clarhäll Norås & Norås Consulting AB, Norped AB and Söderbergföretagen J AB as well as Deputy Director of Brännholmen Capital AB.
Class B shares: 77,000 through companies

Pernilla Wigren
Director since 2007
Born in 1964
B.Sc. (Eng.)
CEO of Kopparstaden AB and Kopparstaden Förvaltning AB. Director of Almi Företagspartner GävleDala AB and Kopparstaden Förvaltning AB.
Class B shares: 1,000

Kenneth Östlund
Employee Representative (Unionen) since 2012
Born in 1966
Unionen

Staffan Gryting
Employee Representative (IF Metall) since 2005
Born in 1968
IF Metall

AUDITORS:
Öhrlings Pricewaterhouse Coopers AB

Auditor in Charge

Magnus Brändström
Authorized Public Accountant
Born in 1962
Auditor in charge for Ostnor since 2011
Other Auditing assignments: Scandic, Dometic, Acando, Addnode et al.

Shareholdings as of 28 February 2013

Financial summary

Five-year summary, 2008–2012

The group's financial performance is summarized in the following table:

GROUP

MSEK	2012	2011	2010	2009	2008[1)]
Net sales	860.5	918.6	936.0	915.0	994.8
Profit after depreciation, before goodwill amortization [2]	38.3	69.6	113.5	91.7	38.9
Operating income [2]	38.3	69.6	113.5	91.7	32.3
Profit after financial items [2]	34.7	64.9	110.8	92.2	16.2
Total assets	663.5	692.3	705.2	655.0	618.3
Equity/assets ratio, %	49	49	48	41	32
Net debt	11.8	17.6	46.4	141.9	196.0
Working capital	96.4	110.9	137.4	155.8	161.3
Investments	22.5	23.9	34.6	36.6	47.8
Cash flow after investments	67.0	85.3	115.3	104.3	–15.2
Return on capital employed, %	9	16	26	22	9
Return on equity, %	10	14	26	29	5
Average number of employees	459	504	510	553	623
Dividend SEK/share	2.50	4.00	4.00	1.25	0

[1] 2008 not according to IFRS.
[2] Includes non-recurring items of MSEK –18.1 (2011: –6.2, 2010: 4.7) See Note 5 page 51.

DEFINITION OF KEY RATIOS

Equity/assets ratio. Equity and untaxed reserves (less deferred tax) in relation to total assets.

Return on capital employed. Profit/loss after tax in relation to average equity.

Return on capital employed. Operating income plus interest income in relation to average capital employed (total assets less non interest-bearing liabilities and provisions).

Net debt. The total of interest-bearing liabilities and interest-bearing provisions less cash and cash equivalents.

Working capital. The total of inventories including work in progress and trade receivables less trade liabilities.

The share and shareholders

Owners

Ostnor has just over 160 shareholders, mainly from its founding families and the three new shareholders Tibia Konsult, LK Finans and Jan Söderberg Förvaltning, which acquired Priveq Investment's shareholdings in the fall of 2012. The following table illustrates the ten largest shareholders of the company as of 31 December 2012:

Name	Total number of shares	Number of class A shares	Number of class B shares	Proportion of share capital, %	Proportion of votes, %
Tibia Konsult AB	1,710,500	229,000	1,481,500	14.94	12.58
LK Finans AB	1,144,510	228,900	915,610	10.00	10.69
Mats Mattsson	674,500	134,900	539,600	5.89	6.30
Anna Mattson-Svensson	594,000	118,800	475,200	5.19	5.55
Jan Söderberg Förvaltning AB	565,990	0	565,990	4.95	1.89
Ulla Hermansson	445,500	89,100	356,400	3.89	4.16
Rosebo Kapital AB	342,000	0	342,000	2.99	1.14
Decent AB	300,000	0	300,000	2.62	1.00
Gunnar Eriksson	251,200	50,300	200,900	2.19	2.35
Rolf Eriksson	240,300	48,100	192,200	2.10	2.24
Other	5,176,600	1,161,100	4,015,500	45.24	52.10
	11,445,100	**2,060,200**	**9,384,900**	**100.00**	**100.00**

In February 2013, Allba Invest AB purchased 400,032 shares, corresponding to 3.5 percent of the share capital (1.3 percent of the votes) from shareholders that reported their wish to sell in fall 2012.

Administration Report 2012

Ostnor AB (publ.) corporate identity number 556051-0207

GROUP

The Board of Directors and Chief Executive Officer of Ostnor AB, with registered office in Mora, Sweden, hereby present the annual accounts and consolidated accounts for the financial year 2012.

Operations

The group conducts product development, manufacturing and sales of water faucets under the strong and well-established brands FM Mattsson and Mora Armatur.

Operations and manufacturing are concentrated in Mora in Sweden, where the group's headquarters are also located. The Nordic countries are the main market, of which 75 percent (75) of group sales refers to Sweden and 17 percent (17) refers to the other Nordic countries. In Sweden, Ostnor has strong positioning with customers in the dominant wholesale sector. Ostnor also has a smaller, non-Nordic export share of 8 percent (8).

Events during 2012

Market progress

Ostnor's markets generally featured declining demand in 2012, the main reason being financial turmoil in Europe. First and foremost, willingness to invest by individual consumers fell in the second half-year. On the professional side, demand was more stable. However, the Norwegian market did achieve some growth.

Market growth is driven by new construction and the construction, renovation, conversion and extension sector, termed the 'ROT' sector in Sweden. This sector represents a growing portion of the market, as new construction continued to decline in the year. The ROT sector is driven by house price rises and the Consumer Confidence Index (CCI). This primarily applies to Sweden, as well as several of Ostnor's other priority markets.

Design and product development

Ostnor engaged in intensive development work in 2012. Launches in the year included the FMM 9000E wall-mounted single-lever mixer faucet, the FMM 9000E II basin mixer faucet and the Mora MMIX wall-mounted single-lever mixer faucet. New Mora Cera, a complete mixer faucet series, including kitchen, basin and thermostat mixer faucets, as well as showers, was launched in February 2013. Ostnor worked on the design and conceptual development of a new generation of mixer faucets through 2012, and will continue in 2013.

Production

The implementation of Ostnor's production system, which is an application of Lean Production, continued in the year. Actions included the implementation of 1,815 improvement proposals, operation flow groups were implemented, daily control was developed and change-over times reduced. Inventories were downscaled by MSEK 16 despite lower volumes. Seasonal working hours, and some contract staff, improved Ostnor's prospects of executing adaptations to volume fluctuations promptly.

The focus remained on reducing the cost of quality defects through means including a sharper focus on 'right from me', 6-Sigma projects and improved failure mode effect analysis (FMEA) to identify potential risks of error when starting up new products series.

Development collaborations continued with customers and suppliers to optimize logistics solutions and reduce lead-times from order to delivery.

Ostnor made investments in machinery and pipe bending equipment, polishing equipment, sand core machine, milling cells and casting cells. Barcodes for production reporting were partially introduced.

A sales and marketing organization with customer focus

A new, flatter sales organization was introduced in the year to rationalize Ostnor's marketing and sales.

A Nordic Sales Director was appointed, with responsibility for all four countries to make this work more consistent and shorter decision paths.

Responsibility for market communication for Ostnor's two brands FM Mattsson and Mora Armatur was unified into a single organization to achieve the greatest possible coordination gains within the group for marketing and PR. Continued development of these brands, with product portfolios becoming even clearer mutual complements, will be promoted by this co-ordination process.

Work on segmenting priority export markets continued in 2012.

The objective of this work is to be able to develop dedicated solutions and services for attractive foreign customer segments. Ostnor is a niche player on international markets in hospitals, hotels and sports facilities, for example.

Within International, a number of distributors were changed in the year. The effects of these changes are expected to be visible within a few years.

New Chief Executive Officer

Claes Seldeby was appointed as the new CEO on 25 May 2012, succeeding Håkan Olson, who had been CEO since December 2006.

Net sales and earnings

Key ratios

MSEK	2012	2011
Net sales	860.5	918.6
Operating income	38.3	69.6
Operating margin, %	4.5	7.6
Profit after financial items	34.7	64.9
Cash flow after investments	67.0	85.3
Return on equity, %	9.9	13.6

Net sales amounted to MSEK 860.5 (918.6), a decrease of 6.3 percent year on year. In volume terms, sales decreased by 9.2 percent year on year, explained by continued hesitant demand on most of the company's markets. December was a poor month in the sector. New construction on the Swedish market continued to slow in the fall. The ROT sector remained stable, although it did experience a faint negative effect from general economic conditions, banks' increased demands for cash deposits for property purchases and the number of real estate transactions executed reduced somewhat. Progress on the other Nordic markets was consistent with Sweden. The Norwegian market was an exception, which had positive growth in early-2012, although this slowed late in the year. Europe generally featured continued poor demand. Exchange rate fluctuations affected net sales negatively by MSEK –4.2.

Ostnor restructured International with the aim of making a new start for Ostnor's presence on international markets. Ostnor still sees market opportunities internationally. In the first phase, profitability will be achieved through market segmentation and addressing the market for increased growth in attractive customer segments. In the longer term, growth will be supported by developing new products tailored for different segments and markets. Accordingly, Ostnor will advance its niche positioning for the long term on international markets.

Operating income was MSEK 38.3 (69.6). Excluding non-recurring items, operating income was MSEK 56.4 (75.8). Operating margin (excl. non-recurring items) was 6.6 percent (8.3). Gross profit was down MSEK 19.7 on the previous year due to lower volumes. However gross margin was unchanged at 32 percent.

The cost of brass was stable, and down some MSEK 3 on 2011. The cost of brass in 2011 was MSEK 23 higher than in 2010.

The company is working actively to control its level of overheads with the aim of balancing fluctuations in sales performance, and accordingly 21 white-collar staff were offered early pensions, relocation or redundancy. In addition, the share of contract production staff was reduced, new hirings were delayed and purchased consulting services were downscaled. However, marketing initiatives continued, which explains most of the increase in operating expenses between the years, as did continued investments in developing new products.

These marketing initiatives included participation in Nordbyggmässan construction trade show in Stockholm, initiatives to increase exposure in wholesale stores, builders' merchant superstores and the plumbing trade, as well as additional initiatives on the Mora Armatur brand. The new Mora Cera series was premiered under the Mora Armatur brand in November. Sales commence in the first quarter of 2013.

Profit was charged with MSEK 3 in the second quarter for a settlement with a former distributor in the Netherlands. The reserve for restructuring the Russian operation is MSEK 5 (5), and this restructuring process is scheduled for completion in the first half-year 2013.

Hedge accounting of brass contracts has been introduced effective 1 January 2012, which means the market valuation of brass contracts did not affect operating income because hedges were sufficiently effective (MSEK–10.3). Operating income was charged with non-recurring expenses of MSEK –18.1 (–6.2), MSEK –6.7 (–6.2) relating to preparations for Ostnor's IPO, MSEK –5.8 for the change of CEO, MSEK –7.5 for pension settlements etc. in tandem with staff reductions and MSEK 1.9 for the repayment of pension premiums from FORA for 2007–2008.

Inventories reduced by MSEK 15.9 (–13.1). Due to the flexible working hours introduced in the first quarter, the utilization of working hours was somewhat higher during the spring. This effect was compensated in the fall.

FINANCIAL POSITION

Financial instruments – brass derivatives

Hedge accounting was introduced effective 1 January 2012, and accordingly, the market valuation of outstanding brass derivatives in the year did not affect profit or loss because hedges were sufficiently effective (MSEK –10.3). The price of brass at year-end was SEK 36.18 (36.25) per kg.

Financial items

Net financial items amounted to MSEK –3.6 (–4.7), mainly due to exchange rate fluctuations.

Income tax

Income tax for the year reduced by MSEK 8.4 due to reduced corporation tax in Sweden from 26.3 to 22.0 percent, effective 2013.

Cash flow

Cash flow from operating activities was MSEK 88.6 (108.3). The decrease is due to the lower level of income and the negative progress of working capital. Cash flow for the fourth quarter was MSEK 34.7 (45.8). Tax payments amounted to MSEK –13.7 (–25.0). Cash flow after investments amounted to MSEK 67.0 (85.3). Cash flow from investing activities was MSEK –21.6 (–23.0). Dividends of MSEK 45.8 (45.8) were paid.

Investment

In total, the group's investments in property, plant and equipment amounted to MSEK 7.8 (12.2). In addition, assets were leased for MSEK 9.4 (7.4). The group's investments in intangible assets amounted to MSEK 14.7 (11.7), and were primarily related to the capitalization of development costs.

Depreciation and amortization

The group's depreciation and amortization was a total of MSEK 46.5 (42.6), of which the amortization of intangible assets was MSEK 16.2 (13.5).

Balance Sheet

Net debt amounted to MSEK 11.8 (17.6). Cash and cash equivalents, including investments in securities etc., amounted to MSEK 102.0 (98.8). MSEK 18.1 (16.7) of loans including finance leases were amortized.

Total assets at year-end were MSEK 663.5 (692.3). Inventories amounted to MSEK 136.6 (152.6). Current receivables amounted to MSEK 125.9 (125.6) of which accounts receivable were MSEK 103.8 (109.1).

The equity/assets ratio was 48.5 percent (48.6).

Shareholders' equity at the end of the period was MSEK 321.8 (336.3), corresponding to SEK 28.12 per share (29.39).

Return on equity was 9.9 percent (13.6).

Employees

At the end of the period, the number of full-time employees was 459 (487). The average number of employees in the period was 459 (504).

A staff reduction of 21 white-collar employees was conducted in spring 2012 to adapt Ostnor's cost base to declining demand.

Risks and factors of uncertainty

Ostnor's operations are exposed to various market risks for finished goods and raw materials, and the customary financial risks related to currencies and interest rates. Risks are managed in accordance with the company's finance policy, which is updated and approved by the Board of Directors yearly. The group has significant risk exposure to the metals copper and zinc, which are raw materials for the alloy, brass. Some one-third of Ostnor's total expenses for direct materials consist of brass metal input into works-made and purchased components.

Risk management for raw materials prices addresses avoiding speculative risks and creating predictability. For Ostnor's own requirements of brass, this is achieved through short-term agreements and ongoing financial hedges of 70-80 percent of the requirement for the following year. Because of uncertainty in volumes, the hedging level was reduced to 50-60 percent at year-end, which will be applied to forthcoming hedging. For purchased components, Ostnor endeavors to reach agreements conferring a low frequency of price updates.

More information on Ostnor's risks is on page 23 and Note 3 Financial risk management.

Land decontamination

Surveys have indicated that parts of the land surrounding Ostnor's plants are contaminated to some extent as a result of long-term industrial use. Soil samples indicate high content of metals. Ostnor is planning to commence the decontamination of the estate around the Norra plant in 2013. There is a reserve for this decontamination of MSEK 6.5 (6.5).

There is a review of environmental issues and sustainability on pages 18–19.

Amended accounting policies

New accounting policies according to IAS 19 Employee Benefits should be applied effective 1 January 2013 (see Note 2.1). If these policies had been implemented in the financial year 2012, this would have meant that Ostnor's pension provision as of 31 December 2012 would have increased by MSEK 21.4, the provision for special employer's contribution would have increased by MSEK 4.6 and equity would have decreased by MSEK 20.2.

Group structure

The consolidated accounts for 2012 include the Swedish Parent Company and its wholly owned subsidiaries:

- Ostnor Finland OY, Finland
- Ostnor Danmark A/S, Denmark
- Ostnor Norge AS, Norway
- Mora GmbH, Germany
- Mora Armatur Ltd, Russia

PARENT COMPANY

The majority of Ostnor's operations are conducted in the Swedish parent company. In addition to production, research and development, sales on the Swedish market, some foreign markets as well as to subsidiaries, the parent company also provides services within management, administration and IT for subsidiaries.

The net sales of the parent company amounted to MSEK 797.7 (859.2), of which goods exports were MSEK 144.3 (159.4).

Operating income was MSEK 22.0 (52.0). The parent company's investments in property, plant and equipment amounted to MSEK 7.6 (10.7).

Accounts receivable of MSEK 9.8 from the Russian subsidiary and a loan receivable of MSEK 1.8 were written off by the parent company to restore the equity of the Russian subsidiary. These losses were charged to consolidated profit or loss in previous years.

Proposed appropriation of profits

The Board of Directors is proposing a dividend of SEK 2.50 (4.00) per share to be paid to shareholders registered on the record date of 13 May 2013, and that the remainder of non-restricted equity is carried forward.

Amount payable as dividends to shareholders	SEK 28,612,750.00
Carried forward	SEK 66,788,121.78
Total non-restricted equity in parent company	SEK 95,400,871.78

As the basis of its proposed dividend, in accordance with chap. 18 §4 of the Swedish Companies Act, the Board of Directors has evaluated the parent company's and the group's need to strengthen their Balance Sheets, liquidity, financial position otherwise and the ability to fulfill obligations over time. According to the Annual Report, the group's equity/assets ratio is 48.5 percent. The Board of Directors has also considered the parent company's results of operations and financial position and the group's position otherwise. In this context, the Board of Directors considered known circumstances that could materially affect the parent company's and the group's financial position.

The proposed dividend does not limit the company's investment capability or liquidity requirements, and the Board of Directors judges that the proposed dividend is well considered in terms of the nature, scope and risks of operations and the parent company's and the group's requirement for capital.

The group's and the parent company's results of operations in 2012, as well as the financial position at the end of the financial year on 31 December 2012, are stated in the following Income Statement and Balance Sheet with accompanying Notes.

Financial statements

TABLE OF CONTENTS

The notes on pages 42–68 form an integral part of the annual report and consolidated accounts.

Consolidated Statement of Comprehensive Income

TSEK	Note	2012	2011
Net sales	6	860,517	918,569
Cost of sales	9, 10	–585,971	–624,339
Gross profit/loss		**274,546**	**294,230**
Selling expenses	9, 10	–178,733	–170,337
Administrative expenses	8 ,9, 10	–33,189	–26,777
Research and development expenses	9, 10	–27,653	–25,409
Other operating income	11	13,134	10,281
Other operating expenses	11	–9,756	–5,554
Other gains / losses - net	12	0	3,500
Financial instruments, brass	21	0	–10,303
Operating income	5	**38,349**	**69,631**
Financial income	13	4,456	3,995
Financial expenses	13	–8,104	–8,717
Financial items – net	13	**3,648**	**–4,722**
Profit before tax		**34,701**	**64,909**
Income tax	14	–2,083	–19,160
Profit/loss for the year		**32,618**	**45,749**
Other comprehensive income			
Exchange rate differences		–250	85
Hedge accounting of brass contract		–1,400	
Tax on items relating to other comprehensive income		308	
Other comprehensive income for the year, net after tax		**–1,342**	**85**
Total comprehensive income for the year		**31,276**	**45,834**
Earnings per share (in SEK per share)			
Earnings per share	15	2.85	4.00

Total comprehensive income is attributable to the shareholders of the Parent Company.

Consolidated Balance Sheet

TSEK	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible Assets	16		
Intangible assets under development		50,390	50,812
Other intangible assets - IT		2,063	3,186
Goodwill		92,604	92,604
Total intangible assets		**145,057**	**146,602**
Property, plant and equipment	17		
Land and buildings		50,914	52,902
Plant and machinery		63,916	69,848
Equipment, tools, fixtures and fittings		23,623	28,823
Construction in progress		4,092	4,731
Total property, plant and equipment		**142,545**	**156,304**
Financial non-current assets			
Financial assets available for sale		2	2
Other receivables	20	4,715	4,866
Total financial non-current assets		**4,717**	**4,868**
Deferred tax assets	18	6,600	7,655
Total non-current assets		**298,919**	**315,429**
Current assets			
Inventory			
Raw materials and consumables		9,699	10,875
Goods in progress		72,339	81,418
Finished goods and commodities		54,607	60,291
Total inventories		*136,645*	*152,584*
Accounts receivable	20, 22	103,805	109,070
Tax receivables		10,691	7,610
Other receivables	20	5,920	2,208
Prepaid expenses and accrued income		5,274	6,039
Derivative instruments	20, 21	253	662
Cash and cash equivalents	20, 23	101,991	98,752
Total current assets		**364,579**	**376,925**
TOTAL ASSETS		**663,498**	**692,354**

Consolidated Balance Sheet *cont.*

TSEK	Note	31 Dec 2012	31 Dec 2011
EQUITY			
Equity attributable to Parent Company shareholders	24		
Share capital		11,445	11,445
Reserves		–726	615
Retained earnings including comprehensive income for the year		311,103	324,265
Total equity		**321,822**	**336,325**
LIABILITIES			
Non-current liabilities			
Borrowings	20, 25	18,580	25,992
Derivative instruments	20, 21	216	240
Deferred tax liabilities	18	40,886	50,805
Pension obligations	26	82,991	77,397
Provisions	28	25,553	22,952
Total non-current liabilities		**168,226**	**177,386**
Current liabilities			
Borrowings	20, 25	16,867	17,841
Accounts payable	20	62,687	62,743
Current tax liabilities		1,090	1,112
Derivative instruments	20, 21	2,053	4,814
Other liabilities	20	10,427	14,333
Accrued expenses and deferred income	29	80,326	77,800
Total current liabilities		**173,450**	**178,643**
TOTAL EQUITY AND LIABILITIES		**663,498**	**692,354**
Pledged assets	30	80,707	80,855
Contingent liabilities	31	1,348	1,294

Consolidated Statement of Changes in Equity

TSEK	Note	Share capital	Reserves	Retained earnings	Total equity
Opening balance as of 1 January 2011		**11,445**	**530**	**324,296**	**336,271**
Comprehensive income					
Net profit/loss for the year		–	–	45,749	45,749
Other comprehensive income					
Exchange rate differences		–	85	–	85
Total comprehensive income		**–**	**85**	**45,749**	**45,834**
Transactions with shareholders					
Dividends	37	–	–	–45,780	–45,780
Closing balance as of 31 December 2011		**11,445**	**615**	**324,265**	**336,325**
Opening balance as of 1 January 2012		**11,445**	**615**	**324,265**	**336,325**
Comprehensive income					
Net profit/loss for the year				32,618	32,618
Other comprehensive income					
Exchange rate differences			–250		–250
Hedge accounting of brass contract			–1,400		–1,400
Tax on items relating to other comprehensive income			308		308
Total comprehensive income			**–1,342**	**32,618**	**31,276**
Transactions with shareholders					
Dividends	37			–45,780	–45,780
Closing balance as of 31 December 2012		**11,445**	**–726**	**311,103**	**321,822**

Consolidated Statement of Cash Flows

TSEK	Note	2012	2011
Cash flow from operating activities			
Operating income before financial items		38,349	69,631
Depreciation	10	46,482	42,632
Other non-cash items	36	8,421	3,188
Interest received		4,233	4,006
Paid interest		–7,814	–8,477
Income taxes paid		–13,710	–24,993
Cash flow from operating activities before changes in working capital		**75,961**	**85,987**
Cash flow from working capital changes			
Increase / decrease in inventories		15,939	13,115
Increase / decrease in operating receivables		2,981	14,404
Increase / decrease in operating liabilities		–6,250	–5,180
Total change in working capital		**12,670**	**22,339**
Cash flow from operating activities		**88,631**	**108,326**
Cash flow from investing activities			
Investments in intangible assets	16	–14,668	–11,678
Investments in property, plant and equipment	17	–7,127	–12,246
Sales of property, plant and equipment	17	45	0
Investments of other financial assets		151	936
Cash flow from investing activities		**–21,599**	**–22,988**
Cash flow after investing activities		**67,032**	**85,338**
Cash flow from financing activities			
Change in bank overdraft facilities		0	–1,698
Repayment of debt		–18,013	–16,719
Dividend paid		–45,780	–45,780
Cash flow from financing activities		**–63,793**	**–64,197**
Decrease / increase in cash and cash equivalents		**3,239**	**21,141**
Cash and cash equivalents at beginning of year	23	98,752	77,611
Cash and cash equivalents at year-end	23	**101,991**	**98,752**

Parent Company Income Statement

TSEK	Note	2012	2011
Net sales	6, 7	797,651	859,229
Cost of sales	9, 10	–591,588	–628,155
Gross profit/loss		**206,063**	**231,074**
Selling expenses	9, 10	–125,937	–114,844
Administrative expenses	8, 9, 10	–37,846	–41,734
Research and development expenses	9, 10	–23,538	–20,780
Other operating income	11	12,970	10,127
Other operating expenses	11	–9,688	–5,078
Other gains / losses – net	12		3,500
Financial instruments, brass	21		–10,303
Operating income		**22,024**	**51,962**
Income from financial items			
Income from participations in Group companies		4,023	
Income from other securities and receivables that are accounted for as non-current assets	34	–67	–251
Financial income	13	4,191	4,060
Financial expenses	13	–6,266	–7,209
Total income from financial items		**1,881**	**–3,400**
Income after financial items		**23,905**	**48,562**
Appropriations	35	4,400	–27,844
Tax on profit/loss for the year	14	–10,939	–8,022
Net profit/loss for the year		**17,366**	**12,696**

Parent Company Statement of Comprehensive Income

	2012	2011
Net profit/loss for the year	**17,366**	**12,696**
Hedge accounting of brass contract	–1,400	
Tax on items relating to other comprehensive income	308	
Total comprehensive income	**16,274**	**12,696**

Parent Company Balance Sheet

TSEK	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Goodwill	16	***66,148***	***72,762***
Property, plant and equipment	17		
Land and buildings		50,914	52,902
Plant and machinery		32,802	41,442
Equipment, tools, fixtures and fittings		21,984	26,696
Construction in progress and advance payments		4,092	4,731
Total property, plant and equipment		**109,792**	**125,771**
Financial non-current assets			
Participations in Group companies	19	8,178	8,178
Receivables from Group companies		3,077	5,926
Deferred tax assets	18	3,248	4,546
Other non-current receivables		4,451	4,600
Total financial non-current assets		**18,954**	**23,250**
Total fixed assets		**194,894**	**221,783**
Current assets			
Inventories			
Raw materials and consumables		9,699	10,875
Goods in progress		72,339	81,418
Finished goods and commodities		48,064	51,212
Total inventories		**130,102**	**143,505**
Current receivables			
Accounts receivable		76,067	81,179
Receivables from Group companies		10,522	22,944
Tax receivables		10,674	7,610
Other receivables including derivatives	21	5,588	2,146
Prepaid costs and accrued income		4,180	4,821
Total current receivables		**107,031**	**118,700**
Cash and cash equivalents	23	**93,257**	**85,008**
(Agreed credit TSEK 120,000 (120,000)			
Total current assets		**330,390**	**347,213**
TOTAL ASSETS		**525,284**	**568,996**

TSEK	Note	31 Dec 2012	31 Dec 2011
EQUITY AND LIABILITIES			
Equity	24		
Restricted equity			
Share capital		11,445	11,445
Statutory reserve		45,844	45,844
Total restricted equity		**57,289**	**57,289**
Non-restricted equity			
Retained earnings		78,035	112,211
Net profit/loss for the year		17,366	12,696
Total unrestricted equity		**95,401**	**124,907**
Total equity		**152,690**	**182,196**
Untaxed reserves	33	**131,403**	**135,802**
Provisions			
Provisions for pensions and similar obligations	27, 28	72,070	69,568
Guarantee commitments	28	16,450	14,700
Other provisions	28	6,500	6,500
Total provisions		**95,020**	**90,768**
Non-current liabilities			
Liabilities to credit institutions	25	0	7,500
Other	21	216	240
Total non-current liabilities		**216**	**7,740**
Current liabilities			
Liabilities to credit institutions	25	7,500	10,000
Accounts payable		59,022	58,363
Liabilities to Group companies		4,343	2,908
Other liabilities, including derivatives	21	9,678	16,192
Accrued costs and prepaid income	29	65,412	65,027
Total current liabilities		**145,955**	**152,490**
TOTAL EQUITY AND LIABILITIES		**525,284**	**568,996**
Pledged assets	30	80,707	80,855
Contingent liabilities	31	21,869	24,377

Parent Company Statement of Changes in Equity

		RESTRICTED EQUITY		NON–RESTRICTED EQUITY		
TSEK	**Note**	**Share capital**	**Restricted reserves**	**Retained earnings**	**Net profit/loss for the year**	**Total equity**
Opening balance as of 1 January 2011		**11,445**	**45,844**	**157,992**		**215,281**
Comprehensive Income						
Net profit for the year					12,696	12,696
Transactions with shareholders						
Dividends	37			–45,781		–45,781
Closing balance as of 31 December 2011		**11,445**	**45,844**	**112,211**	**12,696**	**182,196**
Opening balance as of 1 January 2012		**11,445**	**45,844**	**124,907**		**182,196**
Comprehensive Income						
Net profit for the year					17,366	17,366
Other comprehensive income for the year				–1,092		–1,092
Transactions with shareholders						
Dividends	37			–45,780		–45,780
Closing balance as of 31 December 2012		**11,445**	**45,844**	**78,035**	**17,366**	**152,690**

Parent Company Cash Flow Statement

TSEK	Note	2012	2011
Cash flow from operating activities			
Operating income before financial items		22,024	51,962
Depreciation	10	29,460	29,378
Adjustments for items not affecting cash flow	36	4,852	8,269
Interest received		8,284	4,060
Interest paid		–6,403	–7,460
Income tax paid		–12,395	–23,098
Cash flow from operating activities before working capital changes		**45,822**	**63,111**
Cash flow from working capital changes			
Increase / decrease in inventories		13,403	16,093
Increase / decrease in accounts receivable		19,271	5,064
Increase / decrease in accounts payable		659	4,023
Increase / decrease in operating liabilities		–8,423	–10,313
Total change in working capital		**24,910**	**14,867**
Cash flow from operating activities		**70,732**	**77,978**
Investing activities			
Investments in property, plant and equipment	17	–6,867	–10,660
Sales of property, plant and equipment	17	16	12
Decrease in other financial assets		148	941
Cash flow from investing activities		**–6,703**	**–9,707**
Financing activities			
Repayment of debt		–10,000	–10,000
Dividends paid		–45,780	–45,780
Cash flow from financing activities		**–55,780**	**–55,780**
Cash flow for the year		**8,249**	**12,491**
Cash and cash equivalents at beginning of year	23	**85,008**	**72,517**
Cash and cash equivalents at year-end	23	**93,257**	**85,008**

Notes

NOTE 1 GENERAL INFORMATION

On 26 February 2013, these consolidated accounts and annual report were approved by the Board for publication.

All amounts are in thousands of Swedish krona (TSEK), unless otherwise indicated. Figures in parentheses refer to the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The most important accounting principles applied in these consolidated accounts are presented below. These principles have been applied consistently to all years presented, unless otherwise indicated.

2.1 Basis for the preparation of the report

The consolidated accounts for the Ostnor Group have been prepared in accordance with IFRS as adopted by the EU, as well as RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. The consolidated accounts have been prepared in accordance with the cost method, and derivative instruments are measured at fair value through profit or loss. The major accounting principles applied in these consolidated accounts are presented below. These principles have been applied consistently to all years presented, unless indicated otherwise.

The Parent Company's financial statements are prepared in accordance with RFR 2, Accounting for Legal Entities and the Swedish Annual Accounts Act. In the case that the Parent Company applies different accounting principles than the Group, this is indicated separately at the end of this note.

The preparation of financial statements in accordance with IFRS requires the application of certain critical accounting estimates. Furthermore, management must make certain judgments about the application of the Group's accounting principles, see Note 4.

Standards, amendments and interpretations to existing standards that have not yet entered into force and have not been early adopted by Ostnor

In preparing the consolidated accounts as of 31 December 2012, several standards and interpretations have been published which have not yet entered into force and which are applicable for Ostnor. Below is a preliminary assessment of the effects from the standards deemed to be relevant for Ostnor:

- IAS 1, "Presentation of Financial Statements", amendment regarding other comprehensive income. The most important change in the amended IAS 1 is the requirement that items reported in other comprehensive income be presented in two groups. The distribution between these groups is based on whether or not the items could be reclassified into the income statement (reclassification adjustments). The amendment does not address the matter of which items are to be included in other comprehensive income. Ostnor intends to apply the new standard in the financial year beginning 1 January 2013.

- IFRS 13 "Fair Value Measurement" aims at more consequent and less complex fair value valuations by providing an exact definition and a common source in IFRS for valuations at fair value and associated disclosures. The requirements do not extend to the area of application for when the fair value should be applied but provides guidance regarding the manner in which it should be applied in areas where other IFRSs already require or allow valuation at fair value. Ostnor has not yet assessed the full effect of IFRS 13 on the financial statements. The Group intends to apply the new standard in the financial year starting on 1 January 2013.

- IFRS 9 "Financial Instruments" addresses the classification, valuation and accounting of financial liabilities and assets. IFRS 9 was published in November 2009 regarding financial assets and in October 2010 regarding financial liabilities and replaces the parts of IAS 39 which are related to the classification and measurement of financial instruments. IFRS 9 stipulates that financial assets are to be classified in two different categories: valued at fair value or valued at amortised cost. Classification is determined at initial recognition according to the company's business model and the characteristics in the contractual cash flows. For financial liabilities, there will be no major changes compared with IAS 39. The largest change addresses changes to liabilities which are valued at fair value. To such liabilities, the following is applied: the portion of the change in fair value which is attributable to the company's own credit risk is to be recognised in other comprehensive income instead of Net profit/loss, so long as this does not result in an accounting mismatch. Ostnor intends to apply the new standard no later than the financial year beginning on 1 January 2015 and has not yet evaluated the effects. The standard has not yet been adopted by the EU.

- IAS 19, "Employee benefits" was amended in June 2011 and should be applied, for annual periods beginning on or after 1 January 2013. IAS 19 stipulates among other items that in respect of defined benefit pension plans the company assesses the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The IAS 19 amendments eliminate the corridor approach. Actuarial gains and losses arising related to pension obligations and plan assets, should instead be charged or credited to equity in other comprehensive income in the period in which they arise. If these standards had been implemented in the financial year of 2012, this would have meant that Ostnor's pension obligation as of 31 December 31 2012 would have increased by MSEK 21.4, its provision for special employer's contribution would have increased by MSEK 4.6, and shareholders' equity would have decreased by MSEK 20.2.

- IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Ostnor intends to apply IFRS 10 for the financial year beginning on 1 January 2013 and has not yet evaluated the effects on the financial statements.

- IFRS 12 "Disclosures of Interests in Other entities" includes disclosure requirements for subsidiaries, joint arrangements, associated companies and "structured entities" which have not been consolidated. Ostnor intends to apply IFRS 12 in the financial year starting on 1 January 2013 and has not yet evaluated the effects on the financial statements. The standard has not yet been adopted by the EU.

2.2 Consolidated accounts

Subsidiaries comprise all the companies in which the Group has the right to govern financial and operating policies (controlling influence) in a manner normally associated with a shareholding of more than fifty percent of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method is used to account for the Group's business combinations. Consideration for the acquisition of a subsidiary comprises the fair value of the transferred assets, liabilities and the equity interests issued by the Group. The purchase consideration also includes the fair value of any assets or liabilities which are the result of an agreement regarding conditional consideration. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value on acquisition date. For each acquisition, the Group determines whether any non-controlling influence in the acquired company is recognised at fair value, or at the holding's proportionate share of the acquired company's net assets.

The amount by which the purchase consideration, any non-controlling influence, as well as fair value on the acquisition date of the previous shareholdings exceeds the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the amount is less than the fair value of the acquired assets, in the event of a so-called "bargain purchase", the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions and balance sheet items and unrealised gains and losses on transactions between Group companies are eliminated. The accounting principles for subsidiaries have been changed, where necessary, to ensure a consistent application of the Group's principles.

2.3 Segment reporting

Ostnor AB is not listed on the stock exchange and is thus not required to apply rules regarding segment reporting.

2.4 Translation of foreign currency

Functional currency and presentation currency

The various entities within the Group apply the respective local currency as the functional currency, defined as the currency used in the primary economic environment in which the entity mainly operates. In the consolidated accounts, Swedish krona (SEK) is used, which is the Parent Company's functional currency and the Group's presentation currency.

Transactions and balance sheet items

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the date of transaction. Exchange gains and losses resulting from the settlement of such transactions and the translation of monetary assets and liabilities denominated in foreign currencies at closing rate on the balance sheet date, are reported in operating income in the income statement.

Translation of foreign Group companies

The results and financial position of all Group entities having a functional currency other than the presentation currency are translated into the Group's presentation currency. Assets and liabilities for each of the balance sheets presented are translated from the foreign company's functional currency to the Group's presentation currency, Swedish krona, at the exchange rate prevailing on balance sheet date. Income and expenses for each of the income statements are translated to Swedish krona at the average rate existing at the time of each transaction. Translation differences arising from the translation of foreign operations are recognised in other comprehensive income.

2.5 Intangible Assets

Intangible assets under development

Expenses incurred in the research phase are expensed as incurred.

Expenses regarding development projects attributable to the construction and testing of new or improved products and projects for technology and platform development are recognised as intangible assets when they meet the following criteria:

- it is technically possible to finish the product so that it can be used,
- the company intends to finish the product and to use or sell it,
- there are conditions for using or selling the product,
- it can be shown how the product generates probable future economic benefits,
- adequate technical, financial and other resources to complete development and to use or sell the product are available, and
- the expenses attributable to the product during its development can be measured in a reliable manner.

Intangible assets are stated at acquisition cost less accumulated depreciation. The acquisition cost is the sum of the direct and indirect expenses incurred from the date on which the intangible asset complies with the above criteria. Capitalised expenditure is mainly generated internally and includes direct costs for work carried out and the directly attributable share of indirect costs. Depreciation begins when the asset is ready for use and is situated at the location and in the condition management intended, i.e. at the time when commercial production begins. Useful life is assessed based on the period during which the future benefits are expected to benefit the Company, i.e. as long as production is expected to take place. The useful life is usually not assessed to exceed five years and depreciation is carried out on a straight-line basis over this period. Depreciation is included in research and development costs.

Expenditure for research and development, which does not meet the above criteria, is written off as it arises. Expenses for development which have been previously written off are not recognised as an asset in subsequent periods.

Intangible assets – IT

Acquired software licenses, with a maturity of over one year, and expenses for software development which are expected to generate future economic benefits for the Group, are capitalised and depreciated over the estimated useful life. Software licenses are capitalised based on the costs incurred when the software in question was acquired, put into operation and adapted to the Group's operations. The estimated useful life is not expected to exceed 5 years and amortisation is applied on a straight-line basis over this period.

Expenses for the maintenance of software are expensed as incurred.

Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the acquired subsidiary's identifiable net assets at the time of acquisition. Goodwill arising in connection with the acquisition of subsidiaries is accounted for as an intangible asset. Goodwill is always considered to have an indefinite useful life and is, therefore, tested annually for impairment instead of being continuously written off. Goodwill is recognised at acquisition cost less any accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

2.6 Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost less depreciation. The acquisition cost includes expenses that are directly attributable to the acquisition of the asset and the Group's time used for the manufacturing of tools.

Additional costs are added to the asset's carrying amount or recognised as a separate asset, depending on what is appropriate, only when it is probable that the future economic benefits associated with the asset will accrue to Ostnor and the asset's acquisition cost can be measured in a reliable manner. The carrying amount of the replaced element is derecognised. All other repairs and maintenance are expensed in the statement of comprehensive income during the period they arise.

Each element of a tangible fixed asset with an acquisition cost that is significant in relation to the asset's total acquisition cost is depreciated separately. No depreciation is made on land.

Depreciation on other assets takes place on a straight-line basis as follows:

Industrial buildings	25 years
Other buildings	25–50 years
Land improvements	20–26 years
Plant and machinery	5–10 years
Equipment, tools, fixtures and fittings	3–10 years
Other fixed assets	20 years

The assets' residual value and useful life are reviewed at each reporting period and adjusted if necessary. An asset's carrying amount is immediately impaired to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and value in use.

Gains and losses on disposals of property, plant and equipment are determined by comparing the sale proceeds and the carrying amount and are recognised in other operating income and other operating expenses, respectively, in the statement of comprehensive income.

2.7 Impairment of non-financial fixed assets

Assets having an indefinite useful life, such as goodwill, or assets that are not yet ready for use, are not depreciated, but tested annually for impairment. Assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and its value in use. In assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2.8 Financial instruments

2.8.1 Classification

The Group classifies its financial assets and liabilities in the following categories: financial assets and liabilities measured at fair value through profit or loss, loan receivables and accounts receivable, and other financial liabilities. Classification depends on the purpose for which the financial asset or liability was acquired.

Financial assets and liabilities are measured at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives (forwards and interest rate swaps) are classified as held for trading unless they are designated as hedges. Ostnor applies hedge accounting for commodity derivatives. Capital insurances contracts are assets that Ostnor has designated as at fair value through remeasurements of the corresponding pension provision.

Loans receivable and accounts receivable

Loans receivables and accounts receivable are financial assets that are not derivatives with fixed or determinable payments and that are not quoted on an active market. They are included in current assets, except for items maturing more than 12 months after the balance sheet date, which are classified as fixed assets. The Group's "loan receivables and accounts receivable" consist of accounts receivable, cash and cash equivalents and the financial instruments that are recognised among other receivables.

Other financial liabilities

The Group's borrowings, accounts payable and the portion of other current liabilities which relates to financial instruments are classified as other financial liabilities.

2.8.2 Recognition and Measurement

Purchases and sales of financial assets are recognised on the transaction date, the date on which the Group commits to purchasing or selling the asset. Financial instruments are initially recognised at fair value plus transaction costs, which applies for all financial instruments not recognised at fair value through profit or loss. Financial assets and liabilities measured at fair value through profit or loss are initially recognised at fair value in the balance sheet, while attributable transaction costs are recognised in the income statement. Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred, and the Group has transferred all significant risks and benefits associated with the ownership. Financial liabilities are derecognised when the contractual obligation has been fulfilled or otherwise terminated.

Financial assets measured at fair value through profit or loss are, after the time of acquisition, carried at fair value. Loan receivables and accounts receivables as well as other financial liabilities are, after the time of acquisition, carried at amortised acquisition cost by applying the effective interest method.

Gains and losses arising from changes in fair value with regards to the category financial assets and liabilities measured at fair value through profit or loss (derivative instruments and endowment insurances), are accounted for in the results of the operations in the period in which they occur and are included in operating income or net financial items in the income statement, depending on the nature of the item undergoing financial hedging. Financial hedges of interest payments are recognised within net financial items and financial hedges of transactions within the business are reported within operating income. See section 2.8.5 below for accounting principles for commodity hedges.

2.8.3 Offsetting of financial instruments

Financial assets and liabilities are offset and recognised by a net amount in the balance sheet, only when there is a legal right to offset the recognised amounts and there is the intention to settle them by a net amount, or, simultaneously, realise the asset and settle the liability.

2.8.4 Impairment of financial instruments

Assets recognised at amortised cost (loans receivable and accounts receivable)

The Group assesses at each reporting period's end whether there is objective evidence that a need for impairment exists for a financial asset or a group of financial assets. A financial asset or group of financial assets has an impairment requirement and is impaired only if there is objective evidence of an impairment requirement as a result of one or more events occurring after the recognition of the asset, and that this event has an impact on the predicted future cash flows of the financial asset or group of financial assets that can be estimated in a reliable manner.

Impairment is calculated as the difference between the asset's carrying amount and the present value of predicted future cash flows discounted to the financial asset's original effective interest rate. The asset's carrying amount is impaired and the impairment charges are recognised in the consolidated income statement. If the impairment requirement decreases in a subsequent period and the decrease can be objectively attributed to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.8.5 Derivative instruments

Derivative instruments are initially recognised on the date a derivative contract is entered into and are measured at fair value both initially and subsequently. The gain or loss arising from remeasurement of the fair value for derivatives not designated as hedges is recognised in the income statement. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Hedging of commodity prices

The Group purchases brass (consisting of copper and zinc) for use in the production. The commodity price of brass is hedged using copper and zinc forwards. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within operating profit/loss.

When the forecast purchase of brass is recognized as inventory, the gains and losses previously deferred in equity are tranfered from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast purchase of brass is recognized in the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within the operating profit/loss.

The Group first entered into hedge accounting on January 1, 2012.

Hedging of variable interest payments

Ostnor secures interest payments through interest rate swaps in which floating interest payments are exchanged for fixed interest payments. The Group does not qualify for hedge accounting, which is the reason why changes in fair value are recognised in net financial items in the income statement.

Hedging of foreign currency transactions

Transactions denominated in EUR, USD and NOK are hedged financially through forward currency contracts. Ostnor does not qualify for hedge accounting. The changes in fair value are reported in the item other income and charges in the income statement, within operating income.

2.9 Inventories

Inventories comprise raw materials and supplies, work in progress and finished goods. Finished goods are recognised at the lower of acquisition cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal production capacity) including hedging gains and losses transferred from equity. Borrowing costs are not included. The acquisition cost is determined using the first-in, first out method (FIFO). Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Raw materials, components and other supplies held for use in the manufacturing of goods is not written down below their acquisition cost if the finished product in which they are included is expected to be sold at a price that equals or exceeds the acquisition cost.

2.10 Accounts receivable

Accounts receivable are amounts due from customers for products sold in the ongoing operations. If payment is expected within one year or sooner, they are classified as current assets. If not, they are reported as fixed assets.

Accounts receivable are recognised initially at fair value and, subsequently, at amortised cost by applying the effective interest method, less any provisions for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents are, in both the balance sheet and in the statement of cash flows, comprised of cash, bank balances and current investments.

2.12 Accounts payable

Accounts payable are obligations to pay for goods and services acquired in the ongoing operations from suppliers. Accounts payable are classified as current liabilities if they fall due within one year or sooner. If not, they are reported as non-current liabilities.

Accounts payable are recognised at nominal value. The carrying amount of accounts payable is assumed to be equal to its fair value, as this item is short-term in nature.

2.13 Current and deferred tax

Tax costs for the period include current and deferred tax. The current tax expense is calculated on the basis of the tax rules which, at balance sheet date, have been decided upon or substantively enacted in the countries in which the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is accounted for, using the balance sheet method, on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated accounts. The deferred tax is, however, not recognised if it arises from a transaction which constitutes an initial recognition of an asset or liability that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable income. Deferred income tax is calculated using the applicable tax rates adopted or enacted by the balance sheet date, and which are expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets on loss carry-forwards are recognised to the extent it is probable that future taxable profit will be available against which the deficit can be utilised.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to taxes charged by the same taxation authority on either the same taxable subject or different tax subjects, where there is an intention to settle balances through net payments.

2.14 Borrowings

Borrowings are initially recognised at fair value, net after transaction costs. Borrowings are subsequently recognised at amortised cost and any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the income statement, allocated over the term of the loan, by applying the effective interest method.

2.15 Remuneration to employees

Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the legal entity does not hold sufficient assets to pay all employee benefits relating to the employees' service in current or prior periods. A defined benefit pension plan is a pension plan that has no defined contributions. A special feature of the defined benefit plans is that these plans specify the pension benefit that an employee will receive after retirement, usually dependent on one or more factors such as age, seniority and salary.

The liability recognised in the balance sheet for defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, with adjustments for unrecognised actuarial gains and losses, as well as adjustments for unaccounted costs regarding service during previous periods. The defined benefit obligation is calculated annually by independent actuaries using the so-called projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rate for government bonds that are denominated in the currency in which the benefits will be paid, with maturities comparable to the current pension obligations.

Changes in the present value of obligations caused by changes in actuarial assumptions as well as differences between expected and actual return on plan assets are treated as actuarial gains or losses and are allocated over the employees' expected average remaining service period according to the so-called 'corridor' method.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions are paid. Contributions are recognised as personnel costs when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction of future payments can benefit the Group.

Termination benefits

Termination benefits are payable when an employee's employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for such benefits. The Group recognises severance pay when it is demonstrably committed to terminate employment according to a detailed formal plan without possibility of withdrawal. In the event that an offer was made to encourage voluntary redundancy, severance pay is calculated based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision when there is a legal obligation or an informal obligation due to past practices.

2.16 Provisions

Provisions are recognised when the Group has a legal or informal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be calculated in a reliable manner.

Provisions are valued at the present value of the amount expected to be required to settle the obligation. In making this valuation, a discount rate before tax is applied which reflects an actual market assessment of the time value of money and the risks associated with the provision. The increase to a provision attributable to the passing of time is reported as an interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of what is received or will be received for goods sold in the Group's operating activities. Revenue is recognised excluding VAT and discounts, as well as after elimination of intracompany sales. The Group's revenue is entirely attributable to sales of taps. Revenue from the sale of such taps is recognised when the risks and benefits associated with the ownership are transferred from the Group, when the Group no longer exercises effective control over the divested units, revenues and associated costs can be estimated reliably and it is probable that the economic benefits associated with the sale of the units accrues to the Group. Therefore, sales revenues are recognised on the basis of the price specified in the sales contract and as sales upon the delivery of products to customers in accordance with the terms of sale.

Assessments of discounts, for example, are based on historical results, taking into account the type of customer, type of transaction and particular circumstances in each individual case.

Interest income

Interest income is recognised allocated over the term, by applying the effective interest method.

2.18 Leasing

The Group holds leasing agreements regarding cars, trucks, machinery, office premises, servers and telephone switchboards.

Leasing, in which a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made during the leasing period are expensed in the income statement over the leasing period.

The Group leases certain tangible fixed assets. Leasing agreements in which the Group, in all material aspects, assumes all of the financial risks and receives all of the benefits associated with the ownership of the object are classified as finance leases. At the beginning of the lease period, financial leases are recognised at the lower of the leased object's fair value and the present value of minimum lease payments. Contracts that are classified as financial lease agreements in the Group refer to machinery.

Each lease payment is allocated between the amortisation of debt and financial expenses. The corresponding payment obligation, after the deduction of financial expenses, is included in the balance sheet items, borrowings (long-term or current). The interest portion of the financial costs is recognised in the income statement allocated over the leasing period so that each accounting period is charged an amount corresponding to the fixed interest rate for the recognised liability during the respective period. Fixed assets held in accordance with financial lease agreements are depreciated by applying the same useful life as for owned assets of a similar nature.

2.19 Statement of Cash Flows
The Statement of Cash flows is prepared in accordance with the indirect method. This implies that operating income is adjusted for transactions that have not resulted in cash payments during the period and for any income and expenses attributable to investing or financing activities' cash flows.

2.20 The Parent Company's accounting principles
In conjunction with the transition to IFRS reporting in the consolidated accounts, the Parent Company has changed to applying RFR 2, Accounting for Legal Entities.

The Parent Company applies different accounting principles than the Group as regards the following:

Presentation
The income statement and balance sheet follow the presentation of the Swedish Annual Accounts Act. The income statement is divided into two components, one comprising a standard income statement and one comprising a statement of comprehensive income. The statement of changes in equity follows the Group's presentation, but will also contain the columns stated in the Swedish Annual Accounts Act. The presentation form for the Parent Company has differences in designations, compared to the consolidated accounts, primarily relating to financial income and expenses, provisions, and items within equity.

Shares in subsidiaries
Shares in subsidiaries are recognised at acquisition cost less any impairment. The acquisition cost includes acquisition-related costs and any contingent consideration.

When there is an indication that shares in subsidiaries have decreased in value, an estimate of the recoverable amount is made. If this amount is lower than the carrying amount, impairment is made. Impairment losses are recognised in the items "Income from participations in Group companies".

Lease agreements
All lease agreements, whether financial or operational, are classified as operational lease agreements.

Intangible assets
Expenses for product development
All product development expenses and consulting expenses for the adaptation and installation of software licenses are expensed as incurred in the Parent Company.

Goodwill
Goodwill in the Parent Company refers to the acquisition of goodwill recognised in the Parent Company after a merger. Goodwill is written off on a straight-line basis over the estimated useful life of 20 years.

Segment reporting
Information is presented only for the net revenue breakdown by geographic markets.

Group contributions
Group contributions provided from Parent Company to subsidiary are recognised as an expense in the income statement.

Group contributions which the Parent Company receives from subsidiaries are recognised according to the same principles as standard dividends from subsidiaries, implying that the Group contribution is reported as financial income.

Guarantee commitments / Financial guarantees
The Parent Company has signed guarantee commitments for the benefit of subsidiaries. Such an obligation is classified in accordance with IFRS as a financial guarantee agreement. For these agreements, the Parent Company applies the relief rule in RFR 2 (IAS 39, p2), and, consequently, reports the guarantee commitment as a contingent liability. When the Parent Company deems it likely that a payment will be required to settle an obligation, a provision is made.

Pension obligations
The Parent Company's pension obligations are recognised in accordance with FAR RedR4. Certain pension obligations are covered through insurance taken out with insurance companies. Other pension obligations are not secured through insurance. The capital value of these consists of the present value of future liabilities and is calculated in accordance with actuarial principles. The capital value is recognised as a provision in the balance sheet. The interest portion of the pension liability's change is reported as financial costs. Other pension costs are charged to operating income.

Deferred income taxes
Amounts allocated to untaxed reserves constitute taxable temporary differences. However, due to the relationship between accounting and taxation, the deferred tax liability on untaxed reserves is recognised in a legal entity as part of the untaxed reserves. Also, the appropriations in the income statement are recognised including the deferred tax.

NOTE 3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors
Through its operations, the Group is exposed to a number of financial risks: market risks (substantial currency risk, interest rate risk and price risk), credit risk and liquidity risk. All these risks are managed in accordance with Ostnor's financial policy. The Group's overall strategy focuses on decreasing the potential, unfavourable effects on the Group's financial performance. The Group uses derivative instruments to decrease a certain amount of the risk.

a) Market risk

(i) Currency risk

Transaction risk
Transaction risk refers to the risk that the Group's net profit and cash flow is impacted due to changes in value of commercial flows in foreign currency following fluctuations in exchange rates. Ostnor's currency policy is to minimise the impact on the Group's performance of fluctuations in exchange rates against SEK by concentrating the currency exposure to the Parent Company, as well as by hedging a certain portion of the foreign currency used in purchases and sales through currency future contracts. Ostnor has primarily an inflow of NOK and a net outflow of EUR and USD. This means that the Group is continuously exposed to transaction risk. 50% of the contracted flows and / or forecasted flows during a rolling period of 12 months are financially hedged per currency. Financial exposure on the currency accounts held by Ostnor AB cannot, according to the policy, exceed the counter value of MSEK 5 per currency and total net exposure cannot exceed MSEK 10.

Translation risk
The Group is exposed to a risk when translating foreign subsidiaries' net assets to the consolidation currency, the Swedish Krona (SEK). Foreign subsidiaries exist in Denmark (DKK), Norway (NOK), Russia (RUB), Germany and Finland (EUR).

NOT 3 FORTS.

The Group is affected by the fact that the income statements in the foreign subsidiaries are translated into SEK. This exposure is not hedged.

Exchange rate differences reported in the income statement amount to:

	2012	2011
Other operating income/expenses	2,180	2,269
Net financial income	0	–746
Comprehensive income (translation difference)	–250	85
Total	**1,930**	**1,608**

The Group has the following translation exposure for accounts receivable and other receivables:

	2012	2011
NOK	13,099	14,763
DKK	6,490	5,804
EUR	8,213	10,510
USD	13	34
Other currencies	4,031	2,471
Total	**31,846**	**33,582**

The Group has the following translation exposure for accounts payable and other liabilities:

	2012	2011
NOK	3,912	3,261
DKK	219	320
EUR	9,574	16,860
USD	2,035	987
Other currencies	5,805	283
Total	**21,545**	**21,711**

The Group has the following translation exposure for cash and cash equivalents and bank overdraft facilities:

	2012	2011
NOK	8,659	10,828
DKK	4,711	4,103
EUR	2,408	4,837
USD	1,225	–102
Other currencies	1,898	1,921
Total	**18,901**	**21,587**

Forward currency contracts per currency

Local currency 1,000	Forecast flow 2013	Hedged 31 Dec 2012	Hedged 31 Dec 2011
EUR	–4,000	–2,000	–2,500
USD	–1,800	–900	–900
NOK	50,000	25,000	20,000

Sensitivity analysis operating profit/loss

TSEK	Total net flow	Effect on profit of a 10% change against SEK with a 50% hedge
EUR	–34,000	–1,700
USD	–12,000	–600
NOK	58,000	2,900

(ii) Interest rate risk

The Group has interest-bearing financial assets and liabilities whose fluctuations linked to market rates impact profit and cash flow from operating activities. Interest rate risk refers to the risk that changes in the general interest rates impact the Group's net profit negatively. The Group's interest-rate risk arises due to long-term borrowing. Borrowing undertaken at a variable interest rate exposes the Group to interest rate risk with regards to the cash flow, which is partly neutralised by cash assets with a variable interest rate. During 2012 and 2011, the Group's borrowing at variable interest rates was undertaken in SEK.

Ostnor's interest rate risk policy aims to reduce the negative impact of exchange rate fluctuations on the Group's profit. Investments are to be made at a fixed interest rate and with a term of a maximum of 1 year. When new loans are raised, the Board of Directors determines the manner in which the interest rate risk is to be managed. The interest rate risk is analysed with regards to new borrowings, leasing and variable interest rates. According to Ostnor's policy, interest rate risk is to be limited such that it does not have a negative effect on profit of over MSEK 1.

The Group manages the interest rate risk with regards to the cash flow by using interest swaps, with the financial implication that borrowings are converted from variable to fixed interest rates for a part of the borrowings. The Group usually raises long-term loans at a variable interest rate, and converts these into interest rate swaps at a fixed interest rate, which is lower than if the borrowing had been undertaken at a fixed interest rate at the initial agreement. The interest swaps mean that the Group agrees with other parties, at specified intervals, presently each quarter, to swap the difference between the interest rate amount, according to a fixed contract rate and the variable interest rate amount, calculated based on the contracted nominal amount.

The interest from interest-bearing liabilities to credit institutions is financially hedged, partly through interest swaps (variable to fixed interest rate) of MSEK 18 (35) of the interest bearing liability of approximately MSEK 35 (44). The Group is, consequently, exposed to a certain interest rate risk. Moreover, there is a risk that the bank may change its terms with consideration of the higher borrowing cost.

Sensitivity analysis

The Group has analysed its sensitivity to changes in the interest rate. The completed analysis shows that the effect on profit of an increase of 1 percent in the interest rate would imply a maximum increase in liquid assets of TSEK 1,020 (998), respectively, a decrease of TSEK 177 (89) regarding borrowing.

Interest attributable to provisions for pensions is not taken into account.

(iii) Raw material price risk

Of Ostnor's total costs for direct materials, approximately one third is comprised of the metal used in components produced or purchased by the Group. In all material aspects, the cost for raw metal materials refers to the alloy brass, which is comprised of about 60% copper and about 40% zinc. Ostnor, therefore, has a substantial risk exposure to changes in the prices of these metals. The consumption of brass is about 2,200 tonnes per year. Of this amount, about 1,000 tonnes come from the recycling of metal shavings and scrap metal in the Group's own production. The remaining 1,200 tonnes are purchased at market price.

Risk management regarding raw material prices is focused on the avoidance of speculation risks and attempts to predict the need for the coming year. This is undertaken through short delivery agreements and financial hedges covering approximately 75% of the needs for the coming year. Due to the uncertainty of volumes, the hedging level was reduced to 50-60% at year-end, which will be applied for forthcoming hedges.

For the coming year, Ostnor requires 300 tonnes of brass that are not covered by the financial hedging, which means that price changes on copper of 100 USD / tonne correspond to a change in the operating income of approximately TSEK 120 per year. The corresponding value for zinc is approximately TSEK 80 per year. Ostnor has, in recent years, seen large fluctuations in the market prices of metals, and for Ostnor, mainly in copper. In the longer term, over one year, Ostnor therefore has a substantial risk to manage. Ostnor's complete consumption of 1,200 tonnes, plus the approximately 700 tonnes of brass which are included in the components purchased externally, is, subsequently, exposed to the development of the metals market.

b) Credit risk

Credit risk or counterparty risk is the risk that the counterparty in a financial transaction cannot fulfil its obligations on the required date. Ostnor's credit risk includes bank balances, financial investments and accounts receivable. Ostnor's investment policy is to minimise credit risk by investing only in approved liquid instruments, to select counterparties with a high credit rating and to use instruments with a high level of liquidity. Investments can be undertaken in Swedish treasury bills or K1, respectively A1 papers for state companies, Swedish banks and Swedish municipalities.

The counterparty risk regarding bank assets and derivatives is very low, as Nordic commercial banks are used.

The predominant financial risk in the Group is the credit risk for outstanding accounts receivable. The Group's credit control means that before a credit is granted, a credit check is undertaken. For earlier customers, the present financial situation, as well as the historical performance, is analysed. In the case that credit information and the payment history shows deficiencies, the Group offers the client delivery after an advance payment has been received.

For the Group's credit losses, see note 22. No material credit risk exists.

c) Liquidity risk

Liquidity risk refers to the risk that the Group lacks the necessary liquid assets to fulfil its financial obligations. To assure sufficient payment capacity for the operations, the Parent Company is to make certain that liquid funds are available. The liquidity requirement is calculated by means of liquidity forecasts. Ostnor's strategy is to reduce external borrowing, minimise working capital and to create a liquidity reserve. The Group's liquidity reserve can be created from, among other things, confirmed credit facilities and is to amount to at least 10% of sales, as well as be sufficient to cover liquidity requirements for the coming 12 months, at a minimum.

As per 31 December 2012, the Group has liquid assets amounting to TSEK 101,191 (98,752) which consist of bank balances, including short-term investments. The Group has credit facilities and external borrowings. Future liquidity requirements, in general, regard accounts payable and other current liabilities. Future liquidity requirements are monitored through ongoing forecasts.

The Group has the following unutilised credit facilities:

	2012	**2011**
Variable interest:		
– maturity within one year (bank overdraft)	136,910	135,679
– maturity after more than a year	20,613	21,261
Fixed interest rate:		
– maturity within one year		
	157,523	**156,940**

The table below illustrates the contractual, undiscounted cash flows of the Group's financial liabilities and net adjusted derivative instruments, comprising financial liabilities, classified by the remaining contractual maturity as of the balance sheet date.

Per 31 December 2012	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Borrowings (excl. financial leasing)	7,500			
Liabilities regarding financial leasing	9,725	7,737	12,123	524
Derivative instruments	2,053	216		
Accounts payable and other liabilities	62,735			
	82,013	**7,953**	**12,123**	**524**

Per 31 December 2011	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Borrowings (excl. financial leasing)	10,000	7,500		
Liabilities regarding financial leasing	8,042	8,271	11,192	1,400
Derivative instruments	4,814	79	161	
Accounts payable and other liabilities	62,775			
	85,631	**15,850**	**11,353**	**1,400**

NOTE 3 FORTS.

3.2 Management of capital risk

The Group's objective regarding the capital structure is to ensure the Group's ability to continue operations, so that it can continue to generate a return on investment for its shareholders and benefits for other stakeholders, and to maintain an optimised capital structure to keep the costs of capital at a low level.

The Group assesses the capital on the basis of the debt/equity ratio. This key ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings (comprising the items short-term borrowings and long-term borrowings in the consolidated balance sheet), less cash and cash equivalents.

	2012	2011
Total borrowings (Note 25)	35,446	43,833
Pension commitments	78,316	72,539
Less: cash and cash equivalents (Note 23)	–101,991	–98,752
Net liability	**11,771**	**17,620**
Equity	**321,822**	**336,325**
Debt/equity ratio	**3.8%**	**5.2%**

3.3 Calculation of fair value

The carrying amount, after any possible impairment, of accounts receivable and other receivables as well as of accounts payable and other liabilities, is assumed to correspond to fair value, as these items are short-term in their nature.

The financial assets valued at fair value in the Group consist of derivative instruments. These instruments belong to level 2 in the fair value hierarchy, meaning that there is observable data for the asset or liability, either directly through price listings or indirectly though derived price listings, but for which there are no existing records of prices on active markets for identical assets or liabilities.

NOTE 4 CRITICAL ESTIMATES AND JUDGMENTS

Estimates of the values of balance sheet items and judgments in the application of the accounting principles are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the prevailing circumstances.

Critical accounting estimates and judgments

The Group undertakes estimations and makes assumptions regarding the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of liabilities within the next financial year are outlined below.

Impairment tests for goodwill

The Group tests annually whether there is any impairment of goodwill, in accordance with the accounting principle described in Note 2.5. Recoverable amounts for cash generating units are determined by calculating the value in use. These calculations require the use of estimates.

The testing of goodwill carried out as of 31 December 2012 did not indicate any impairment requirements. The interest rate of 10 year government bonds at year end, 1.5 per cent (1.6), is used as the discount rate. A change of 3% in the discount rate or a reduction of 3% in the operating margin would not change the results of the testing.

Product development projects

Ostnor capitalises costs attributable to product development projects to the extent such costs are deemed to meet the criteria in accordance with IAS 38, p57 (see 2.5 intangible assets). When a project moves from conception stage (pre-study phase) to the development stage, i.e. is a determined development project, the criteria in IAS 38, p57 (see 2.5 intangible assets, product development) are deemed to be satisfied. The decision has, thus, been made that expenditure arising from the development project is recognised as an asset.

Pension benefits

The present value of pension obligations is dependent on a number of factors determined on an actuarial basis, using a number of assumptions. The assumptions used in determining the net expenditure (revenue) for pensions include the discount rate. Any change in these assumptions will affect the pension obligations' carrying amount.

The Group determines the appropriate discount rate at the end of each year. This is the rate used to determine the present value of estimated future payments that are expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group takes into account the interest rates of first class corporate bonds denominated in the currency in which the benefits will be paid, and with maturities that match the projections for the pension obligation.

Other key assumptions relating to pension obligations which the management must make in conjunction with the actuarial calculation of pension obligations and pension costs depend on predicted annual increase in income, predicted staff turnover, predicted remaining term of service and predicted annual pension revaluations.

The valuation of loss carry-forwards

The Group tests annually whether any impairment requirement exists for deferred tax assets regarding tax loss carry-forwards. In addition, the Group is investigating whether it is appropriate to capitalise new deferred tax assets related to this year's tax loss carry-forwards. Deferred tax assets are recognised for tax loss carry-forwards when it is likely that these can be utilised against future taxable income and against taxable temporary differences. Ostnor has recorded deferred tax assets for loss carry-forwards that are available in Germany where it is probable that these loss carry-forwards can be utilised against future profits.

Unrecognised loss carry-forwards, as of 31 December 2012, amount to TSEK 1,000 (968), attributable to the Russian company.

Guarantee reserves

The Group continuously tests the value of guarantee reserves in relation to predicted requirements. A provision is made on the basis of historical statistics regarding faulty products. The guarantee reserve amounted to 1.9% of net sales as of as of 31 December 2012 (1.6%).

Provisions for the removal and restoration of land

It is probable that Ostnor may, in the future, be required to carry out land cleansing measures, which will require management to make significant assessments regarding costs for the removal and restoration of land. The cost estimate is based on the action plan and cost estimates that Ostnor has carried out at the present time. Should the actual amounts differ from these estimates, future results may be affected.

The provision, as per 31 December 2012, amounts to TSEK 6,500 (6,500) and refers to the cleansing of the Norra factory plot, which will be commenced in 2013.

NOTE 5 NON-RECURRING ITEMS

Non-recurring items

	2012	2011
Preparations for listing on the stock exchange	6,681	6,185
Expenses for a change of CEO	5,757	
Pension settlements etc. in tandem with staff downsizing	7,554	
Repayment of pensions premiums from FORA	–1,893	
Group total	**18,099**	**6,185**

NOTE 6 DISTRIBUTION OF NET SALES

Net sales are classified according to geographic market as follows:

GROUP	2012	2011
Nordic countries	788,638	846,059
Europe, excluding Nordic countries	53,144	60,889
Other markets	18,735	11,621
Group total	**860,517**	**918,569**

Net sales are classified according to type of income as follows:

GROUP	2012	2011
Sales of goods:	853,213	909,533
Sales of services	2,514	1,148
Other income	4,790	7,888
Group total	**860,517**	**918,569**

PARENT COMPANY	2012	2011
Sales of goods:	780,861	842,332
Sales of services	9,743	9,210
Other income	7,047	7,687
Parent Company total	**797,651**	**859,229**

NOTE 7 THE PARENT COMPANY'S SALES TO AND PURCHASES FROM GROUP COMPANIES

During the year, the Parent Company has invoiced the subsidiaries TSEK 125,862 (141,075) for goods and common Group services. The Parent Company's purchases from Group companies, amounting to TSEK 596 (879) refers to Group services.

NOTE 8 REMUNERATION TO AUDITORS

Audit assignment refers to the examination of the annual report and accounting records, as well as of the administration of the Board of Directors and Managing Director, other assignments which are the responsibility of the company's auditors to execute and providing advisory services or other assistance resulting from observations made during such an examination or the implementation of such other assignments. Any other assignment is classified as other assignments.

GROUP	2012	2011
PwC		
Audit assignment	476	503
Audit activities other than audit assignment	340	321
Tax consultancy services	74	167
Other services	726	1,988
Other auditors		
Audit assignment	271	229
Audit activities other than audit assignment		
Tax consultancy services	8	7
Other services	45	33
Group total	**1,940**	**3,248**

PARENT COMPANY	2012	2011
PwC		
Audit assignment	430	476
Audit activities other than audit assignment	340	321
Tax consultancy services	74	167
Other services	726	1,988
Parent Company total	**1,570**	**2,952**

NOTE 9 REMUNERATION TO EMPLOYEES, ETC.

GROUP	2012	2011
Salaries and other remuneration	183,046	179,373
Social security contributions	53,388	52,008
Pension costs – defined benefit obligations(note 26)	11,017	7,209
Pension costs – defined contribution plans	16,741	13,250
Group total	**264,192**	**251,840**

Salaries, other remuneration and social security contributions

	2012		2011	
	Salaries and other remuneration (of which bonuses)	Pension costs	Salaries and other remuneration (of which bonuses)	Pension costs
Members of the Board, Managing Directors and other senior management	13,597	4,799	12,883	3,311
	(0)		(0)	
Other employees	169,449	22,959	166,490	17,148
	(91)		(0)	
Group total	**183,046**	**27,758**	**179,373**	**20,459**

Allocation by gender of members of the Board and other senior management in the Group (incl. subsidiaries)

	2012		2011	
	Number on balance sheet date	Of whom men	Number on balance sheet date	Of whom men
Members of the Board	18	61%	19	58%
CEO and Other senior management	12	92%	12	92%
Group total	**30**		**31**	

PARENT COMPANY	2012	2011
Salaries and other remuneration	158,988	156,083
Social security contributions	50,836	49,319
Pension costs – defined benefit obligations	2,886	8,764
Pension costs – defined contribution plans	15,297	11,868
Parent Company total	**228,007**	**226,034**

Salaries, other remuneration and social security contributions

	2012		2011	
	Salaries and other remuneration (of which bonuses)	Pension costs	Salaries and other remuneration (of which bonuses)	Pension costs
Members of the Board, Managing Directors and other senior management	8,937	4,142	8,201	2,689
	(0)		(0)	
Other employees	150,051	14,041	147,882	17,943
	(0)		(0)	
Parent Company total	**158,988**	**18,183**	**156,083**	**20,632**

NOTE 9 CONT.

Average number of employees per country

	2012		2011	
	Average number of employees	Of whom women	Average number of employees	Of whom women
Sweden	413	125	456	138
Russia	6	3	5	3
Total, Parent Company	**419**	**128**	**461**	**141**
Subsidiaries				
Denmark	6	1	5	1
Finland	10	4	9	3
Norway	12	1	11	1
Germany	10	3	12	4
Russia	2	1	6	3
Total subsidiaries	**40**	**10**	**43**	**12**
Group total	**459**	**138**	**504**	**153**

Gender distribution in the Parent Company

	2012		2011	
	Number on balance sheet date	Of whom men	Number on balance sheet date	Of whom men
Members of the Board	8	88%	9	78%
CEO and Other senior management	6	83%	6	83%
Parent Company total	**14**		**15**	

NOTE 10 DEPRECIATION/AMORTISATION PER FUNCTION

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Cost of sales	25,407	24,300	18,151	18,281
Selling expenses	522	1,045	354	687
Administrative expenses	4,867	4,241	10,306	9,834
Research and development expenses	15,687	13,046	649	576
Total depreciation/amortisation	**46,483**	**42,632**	**29,460**	**29,378**

NOTE 11 OTHER OPERATING INCOME AND OPERATING EXPENSES

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Other operating income				
Gains on sales of tangible fixed assets	45		16	
Exchange rate differences	11,564	7,550	11,445	7,457
Accounting for government grants and disclosure of government assistance	34	70	34	70
Forward exchange agreements		967		967
Other operating income	1,491	1,694	1,475	1,633
Other operating income	**13,134**	**10,281**	**12,970**	**10,127**
Other operating expenses				
Exchange rate differences	–9,384	–5,281	–9,316	–4,813
Forward exchange agreements	–372		–372	
Other operating expenses		–273		–265
Other operating expenses	**–9,756**	**–5,554**	**–9,688**	**–5,078**

NOTE 12 OTHER GAINS AND LOSSES – NET

	GROUP		PARENT COMPANY	
	2012	**2011**	**2012**	**2011**
Provision for cleansing	0	3,500	0	3,500
Total	**0**	**3,500**	**0**	**3,500**

NOTE 13 FINANCIAL INCOME / FINANCIAL EXPENSES

	GROUP		PARENT COMPANY	
	2012	**2011**	**2012**	**2011**
Financial income				
Interest income on bank balances	1,679	1,989	1,513	1,881
Interest income from Group companies			124	161
Exchange gains	2,556	1,902	2,403	1,914
Fair value of gains on interest swaps	70	104		104
Other financial income	151		151	
Financial income	**4,456**	**3,995**	**4,191**	**4,060**
Financial expenses				
Interest expenses on borrowings	–4,426	–4,467	–3,581	–4,335
Interest expenses on financial leases	–613	–832		
Exchange losses	–2,556	–2,648	–2,176	–2,648
Fair value losses on interest swaps		–240		
Other financial expenses	–509	–530	–509	–226
Financial expenses	**–8,104**	**–8,717**	**–6,266**	**–7,209**

NOTE 14 INCOME TAX/TAX ON PROFIT FOR THE YEAR

	GROUP		PARENT COMPANY	
	2012	**2011**	**2012**	**2011**
Current tax:				
Current tax on profit for the year	–10,642	–16,784	–8,745	–14,958
Adjustments of previous years' current tax	35	–142	–587	–224
Total current tax	**–10,607**	**–16,926**	**–9,332**	**–15,182**
Deferred tax (see Note 18)	**8,524**	**–2,234**	**–1,607**	**7,160**
Income tax	**–2,083**	**–19,160**	**–10,939**	**–8,022**

Income tax on profit for the year differs from the theoretical amount which would have arisen on the utilisation of a weighted average tax rate for the financial results of the consolidated companies as follows:

	GROUP		PARENT COMPANY	
	2012	**2011**	**2012**	**2011**
Profit/loss before tax	34,701	64,909	28,305	20,718
Income tax calculated according to national tax rates applicable on profit in the respective country. 26.3% for the Parent Company.	26.5%	27.0%	26.3%	26.3%
Tax effect of:				
Income not subject to tax	–0.1%	–0.9%	–5.3%	–2.3%
Expenses not deductible for tax purposes	12.7%	2.6%	14.6%	12.6%
Change of tax rate	–22.2%		2.1%	
Adjustments without tax effect	–10.9%			
Tax charge attributable to previous years		0.2%	0.9%	0.3%
Adjustment attributable to previous years		0.6%		1.8%
Effective Tax	**6.0%**	**29.5%**	**38.6%**	**38.7%**

The weighted average tax rate for the Group is 26.5% (27.0%). The tax rate for the Parent Company amounts to 26.3% for all years.

NOTE 15 EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing the profit attributable to the shareholders of the Parent Company with the weighted average number of outstanding ordinary shares during the period.

	2012	2011
Profit attributable to the shareholders of the Parent Company	32,618	45,749
Weighted average number of outstanding ordinary shares	11,445,100	11,445,100
Earnings per share (SEK)	**2.85**	**4.00**

NOTE 16 INTANGIBLE ASSETS

GROUP	Intangible assets in development	Other intangible assets – IT	Goodwill	Total
As per 31 December 2010				
Acquisition cost	71,344	15,389	132,654	219,387
Accumulated amortisation	–19,601	–11,322	–39,837	–70,760
Carrying amount	**51,743**	**4,067**	**92,817**	**148,627**
Financial year 2011				
Opening carrying amount	51,743	4,067	92,817	148,627
Purchases/production	11,540	139		11,679
Write down			–213	–213
Amortisation	–12,471	–1,020		–13,491
Closing carrying amount	**50,812**	**3,186**	**92,604**	**146,602**
As per 31 December 2011				
Acquisition cost	82,884	15,528	132,288	230,700
Accumulated amortisation	–32,072	–12,342	–39,684	–84,098
Carrying amount	**50,812**	**3,186**	**92,604**	**146,602**
Financial year 2012				
Opening carrying amount	50,812	3,186	92,604	146,602
Purchases/production	14,616	52		14,668
Amortisation	–15,038	–1,176		–16,214
Closing carrying amount	**50,390**	**2,063**	**92,604**	**145,057**
As per 31 December 2012				
Acquisition cost	97,500	15,580	132,288	245,368
Accumulated amortisation	–47,110	–13,518	–39,684	–100,312
Carrying amount	**50,390**	**2,063**	**92,604**	**145,057**

Goodwill

PARENT COMPANY	31 Dec 2012	31 Dec 2011
As per 1 January		
Acquisition cost	105,832	105,832
Accumulated amortisation	–33,070	–26,456
Carrying amount	**72,762**	**79,376**
During the financial year		
Opening carrying amount	72,762	79,376
Amortisation for the year	–6,614	–6,614
Closing carrying amount	**66,148**	**72,762**

Impairment testing of goodwill

Goodwill is distributed between the Group's cash-generating units. Impairment of the remaining goodwill attributable to the acquisition in Finland has taken place during 2011, amounting to TSEK 213.

The recoverable amount for a cash-generating unit is determined based on a calculation of the unit's value in use. These calculations are based on expected future cash flows before tax, derived from financial budgets prepared according to Company management's strategy for the coming five-year period. Cash flows following this five-year period are extrapolated with the help of predicted growth. The growth rate does not exceed the long-term growth rate for the industry in which Ostnor is active.

These assumptions have been applied in the analysis of the cash-generating unit. Management has determined the budgeted operating margin based on earlier results and on Company management's expectations as regards the development of the market. The discount rate is applied before tax and reflects specific risks to which the cash-generating is exposed.

The impairment testing indicates no impairment requirements. See Note 4 for the sensitivity analysis.

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

GROUP	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Constructions in progress	Total
As per 31 December 2010					
Acquisition cost	117,311	428,554	104,164	5,631	655,660
Accumulated depreciation	–66,737	–352,399	–70,653	–	–489,789
Carrying amount	**50,574**	**76,155**	**33,511**	**5,631**	**165,871**
Financial year 2011					
Opening carrying amount	50,574	76,155	33,511	5,631	165,871
Purchases	1,604	9,562	4,286	4,358	19,810
Sales and disposals		–155	–110		–265
Reclassifications	2,570	1,913	594	–5,258	–181
Translation differences			–2		–2
Depreciation	–1,846	–17,627	–9,456		–28,929
Closing carrying amount	**52,902**	**69,848**	**28,823**	**4,731**	**156,304**
As per 31 December 2011					
Acquisition cost	121,485	438,671	108,894	4,731	673,781
Accumulated depreciation	–68,583	–368,823	–80,071	0	–517,477
Carrying amount	**52,902**	**69,848**	**28,823**	**4,731**	**156,304**
Financial year 2012					
Opening carrying amount	52,902	69,848	28,823	4,731	156,304
Purchases	396	10,263	2,479	4,055	17,193
Sales and disposals					
Reclassifications	40	1,448	2,528	–4,694	–678
Translation differences			–6		–6
Depreciation	–2,424	–17,643	–10,201		–30,268
Closing carrying amount	**50,914**	**63,916**	**23,623**	**4,092**	**142,545**
As per 31 December 2012					
Acquisition cost	121,921	450,382	113,895	4,092	690,290
Accumulated depreciation	–71,007	–386,466	–90,272		–547,745
Carrying amount	**50,914**	**63,916**	**23,623**	**4,092**	**142,545**

PARENT COMPANY	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Constructions in progress	Total
As per 31 December 2010					
Acquisition cost	117,311	381,708	100,680	5,631	605,330
Accumulated depreciation	–66,736	–332,595	–67,676		–467,007
Carrying amount	**50,575**	**49,113**	**33,004**	**5,631**	**138,323**
Financial year 2011					
Opening carrying amount	50,575	49,113	33,004	5,631	138,323
Purchases	1,604	2,179	2,519	4,358	10,660
Sales and disposals		–155	–111		–266
Reclassifications	2,570	1,913	594	–5,258	–181
Depreciation	–1,847	–11,608	–9,310		–22,765
Closing carrying amount	**52,902**	**41,442**	**26,696**	**4,731**	**125,771**
As per 31 December 2011					
Acquisition cost	121,485	385,131	102,930	4,731	614,277
Accumulated depreciation	–68,583	–343,689	–76,234		–488,506
Carrying amount	**52,902**	**41,442**	**26,696**	**4,731**	**125,771**
Financial year 2012					
Opening carrying amount	52,902	41,442	26,696	4,731	125,771
Purchases	396	875	2,219	4,055	7,545
Sales and disposals					
Reclassifications	40	1,448	2,528	–4,694	–678
Depreciation	–2,424	–10,963	–9,459		–22,846
Closing carrying amount	**50,914**	**32,802**	**21,984**	**4,092**	**109,792**
As per 31 December 2012					
Acquisition cost	121,921	387,359	106,583	4,092	619,955
Accumulated depreciation	–71,007	–354,557	–84,599		–510,163
Carrying amount	**50,914**	**32,802**	**21,984**	**4,092**	**109,792**

The item Plant and machinery includes leased assets which the Group holds on the basis of financial lease agreements as follows:

	2012	2011
Acquisition costs – capitalized financial leases	56,915	47,527
Accumulated amortisation	–25,801	–19,121
Carrying amount	**31,114**	**28,406**

The Group leases a number of machines on the basis of non-cancellable lease agreements. The terms of these leases are 7 years (see Note 32 Lease agreements).

NOTE 18 DEFERRED TAX

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Deferred tax expenses referring to temporary differences	–2,220	–3,033		–1,373
Deferred tax revenue referring to temporary differences	3,938	8,122	–1,298	8,533
Untaxed reserves	6,806	–7,323		
Total deferred tax in the income statement	**8,524**	**–2,234**	**–1,298**	**7,160**

Changes in deferred tax assets and deferred tax liabilities during the year which have been recognised in the income statement, without consideration for offsetting undertaken within the same tax jurisdiction, are stated below:

GROUP

Deferred tax liabilities	Buildings	Intangible assets	Derivative financial instruments	Inventories	Untaxed reserves	Other	Total
As per 1 January 2011	3,705	14,679	1,627	1,505	28,392	833	50,741
Recognised in the income statement	–3,251	–479	–1,627	–1,430	7,323	–472	64
As per 31 December 2011	**454**	**14,200**	**0**	**75**	**35,715**	**361**	**50,805**
Recognised in the income statement	495	–2,660	0	0	–6,806	–948	–9,919
As per 31 December 2012	**949**	**11,540**	**0**	**75**	**28,909**	**–587**	**40,886**

Deferred tax assets	Buildings	Intangible assets	Derivative financial instruments	Inventories	Untaxed reserves	Other	Total
As per 1 January 2011	473	5,070	2,630	1,176	291	185	9,825
Recognised in the income statement	0	–1,331	–920	–597	863	–185	–2,170
As per 31 December 2011	**473**	**3,739**	**1,710**	**579**	**1,154**	**0**	**7,655**
Recognised in the income statement	–77	330	–280	–317	–711	0	–1,055
As per 31 December 2012	**396**	**4,069**	**1,430**	**262**	**443**	**0**	**6,600**

PARENT COMPANY

Deferred tax liabilities	Buildings	Intangible assets	Derivative financial instruments	Inventories	Untaxed reserves	Other	Total
As per 1 January 2011	3,705	0	1,600	1,503	0	475	7,283
Recognised in the income statement	–3,705	0	–1,600	–1,503		–475	–7,283
As per 31 December 2011	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Recognised in the income statement							
As per 31 December 2012	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Deferred tax assets	Buildings	Intangible assets	Derivative financial instruments	Inventories	Untaxed reserves	Other	Total
As per 1 January 2011	473	1,275	2,630	0	291	0	4,669
Recognised in the income statement	0	–66	–920	0	863		–123
As per 31 December 2011	**473**	**1,209**	**1,710**	**0**	**1,154**	**0**	**4,546**
As per 1 January 2012	473	1,209	1,710	0	1,154	0	4,546
Recognised in operating profit	–77	–230	–280	0	–1,019	0	–1,606
Recognised in other comprehensive income					308		308
As per 31 December 2012	**396**	**979**	**1,430**	**0**	**443**	**0**	**3,248**

NOTE 19 PARTICIPATIONS IN GROUP COMPANIES

PARENT COMPANY	2012	2011
Opening acquisition cost	8,178	8,178
Closing carrying amount	**8,178**	**8,178**

The Parent Company has participations in the following subsidiaries:

					CARRYING AMOUNT	
Name	**Corporate Identity Number**	**Registered offices**	**Share of equity**	**Number of shares**	**2012**	**2011**
Ostnor Danmark A/S	CVR nr 12758081	Copenhagen, Denmark	100%	40	6,489	6,489
Ostnor Norge AS	980347745	Oslo, Norway	100%	5,000	537	537
Ostnor Finland Oy	FO–nr 1796012–0	Helsinki, Finland	100%	10	924	924
Mora GmbH	HRB 4708	Hamburg, Germany	100%		225	225
Mora Armatur Ltd	5067847410978	St Petersburg, Russia	100%		3	3
Total					**8,178**	**8,178**

The share of the votes corresponds with the share of capital for all companies.

NOTE 20 FINANCIAL INSTRUMENTS BY CATEGORY

GROUP

Assets in the balance sheet	Financial assets held for sale	Financial assets measured at fair value through profit or loss	Loans and receivables	Total
31 Dec 2011				
Accounts receivable			109,070	109,070
Other receivables	5	4,595	2,461	7,061
Derivative instruments		662		662
Cash and cash equivalents			98,752	98,752
Total	**5**	**5,257**	**210,283**	**215,545**
31 Dec 2012				
Accounts receivable			103,805	103,805
Other receivables	5	4,452	5,791	10,248
Derivative instruments		253		253
Cash and cash equivalents			101,992	101,992
Total	**5**	**4,705**	**211,588**	**216,298**

GROUP

Liabilities in the balance sheet	Financial liabilities measured at fair value through profit or loss	Other financial liabilities	Total
31 Dec 2011			
Borrowing (excl. financial leases)		17,500	17,500
Liabilities attributable to financial leases		26,333	26,333
Accounts payable – trade		62,743	62,743
Other liabilities		32	32
Derivative instruments	5,054		5,054
Total	**5,054**	**106,608**	**111,662**
31 Dec 2012			
Borrowing (excl. financial leases)		7,500	7,500
Liabilities attributable to financial leases		27,947	27,947
Accounts payable – trade		62,687	62,687
Other liabilities		48	48
Derivative instruments	2,269		2,269
Total	**2,269**	**98,182**	**100,451**

NOTE 21 DERIVATIVE INSTRUMENTS

	2012		2011	
GROUP AND PARENT COMPANY	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward currency contracts	162	596	370	407
Forward cover of raw materials	91	1,503	292	4,407
Interest swaps		170		240
Total	**253**	**2,269**	**662**	**5,054**
Short-term portion	**253**	**2,053**	**662**	**4,814**

Derivative instruments are classified as current assets or current liabilities as the maturities of derivative instruments is under 12 months.

(a) Forward currency contracts

The nominal amount for outstanding forward currency contracts amounted, at 31 December 2012, to TSEK 52,119 (52,136). Gains and losses on forward currency contracts, per 31 December 2012, are reported in operating income as other operating income/other operating expenses (Note 11).

(b) Forward cover of raw materials

	2012			2011		
	Tonnes	**Nominal value of outstanding derivatives**	**Market value, 31 Dec 2012**	**Tonnes**	**Nominal value of outstanding derivatives**	**Market value, 31 Dec 2012**
Copper	493	26,967	25,556	582	34,261	30,929
Zinc	349	4,833	4,784	388	5,854	5,070
	842	**31,800**	**30,340**	**970**	**40,115**	**35,999**
Change in value			–1,460			–4,116,
Effect on net profit/ loss for the year:						
Other operating income			25			
Financial instruments, brass			0			–10,303

Hedge accounting was introduced on 1 January 2012.

(c) Interest swaps

The nominal amount for outstanding interest swap agreements amounted, at 31 December 2012, to TSEK 17,700 (34,900).
As per 31 December 2012, fixed interest rates varied between 2.51% and 2.67% (2.51% and 2.67%). Variable interest is based on STIBOR.
Gains and losses on interest swaps are reported under financial items – net (Note 13).

NOTE 22 ACCOUNTS RECEIVABLE

GROUP	**2012**	**2011**
Accounts receivable	105,327	112,430
Less: allocation for impairment of accounts receivable	–1,522	–3,360
Accounts receivable – net	**103,805**	**109,070**

As per 31 December 2012, after consideration for the provision for doubtful debts, accounts receivable of TSEK 26,510 (24,329) were overdue. The overdue receivables were attributable to a number of clients with no previous record of difficulties in making payments.

The maturity analysis of these accounts receivable is stated below:

	2012	**2011**
1–30 days	25,782	23,992
31–60 days	675	316
> 61 days	53	21
Total overdue accounts receivable	**26,510**	**24,329**

Changes in the provision for doubtful debts are as follows:

	2012	**2011**
As per 1 January	**3,360**	**6,199**
Allocation for impairment of accounts receivable	735	1,263
Receivables written off during the year as non-recoverable	–1,562	–2,713
Reversed unutilised amount	–1,011	–1,389
As per 31 December	**1,522**	**3,360**

Provisions for the respective reversals of reserves for doubtful debts are included in the item selling expenses in the income statement. The maximum exposure to credit risk as per the balance sheet date is represented by the carrying amounts of accounts receivable as above. No collateral or other guarantees have been provided for the accounts receivable outstanding as per the balance sheet date.

NOTE 23 CASH AND CASH EQUIVALENTS/CASH AND BANK BALANCES

Cash and cash equivalents in the balance sheet and the cash flow statement include following items:

GROUP	2012	2011
Current investments	59,717	29,815
Cash and bank funds	42,274	68,937
Group total	**101,991**	**98,752**

PARENT COMPANY	2012	2011
Current investments	59,717	29,815
Cash and bank funds	33,540	55,193
Parent Company total	**93,257**	**85,008**

NOTE 24 SHARE CAPITAL AND OTHER CONTRIBUTED CAPITAL

PARENT COMPANY	A-shares	B-shares	Number of shares (thousands)	Share
As per 31 December 2010	22,890	91,561	114,451	11,445
As per 31 December 2011	2,289,000	9,156,100	11,445,100	11,445
Conversion	–228,800	228,800	11,445,100	
Redemption	–457,900		–457,900	–458
New share issue	457,900		457,900	458
As per 31 December 2012	**2,060,200**	**9,384,900**	**11,445,100**	**11,445**

Class A shares entitle the holder to ten votes per share and Class B shares entitle the holder to one vote per share.
All shares issued by the Parent Company have been paid in full.

NOTE 25 BORROWING

GROUP	2012	2011
Long-term		
Bank loans		7,500
Liabilities attributable to financial leases (see Note 32)	18,580	18,492
Short-term		
Bank loans	7,500	10,000
Bank overdraft facility (Agreed credit TSEK 137,310 (137,838))	0	0
Liabilities attributable to financial leases (see Note 32)	9,366	7,841
Total borrowings	**35,446**	**43,833**

The credit facility is subject to a restriction regarding a minimum of 25% of the equity/assets ratio.

PARENT COMPANY	2012	2011
Long-term		
Bank loans		7,500
Short-term		
Bank loans	7,500	10,000
Bank overdraft facility (Agreed credit TSEK 120,000 (120,000))	0	0
Total borrowings	**7,500**	**17,500**

NOTE 26 PENSION COMMITMENTS, THE GROUP

GROUP	2012	2011
Commitments in the balance sheet for:		
Defined benefit pension benefits	78,315	72,538
Recognised in the income statement attributable to:		
Costs for defined benefit plans (incl special employer's contribution)	11,017	7,209

Defined benefit plans

Within the Group there are defined benefit plans in Sweden and Norway, as part of which employees are entitled to remuneration after they have terminated their employment, based on their salary level when they left the company and the period of service.

Pension commitments are guaranteed through provisions in the balance sheet report in combination with pension credit insurance.

GROUP	2012	2011
Present value of commitments for funded plans	9,782	7,688
Unreported actuarial gains	–2,364	–738
Fair value of plan assets	–7,224	–6,339
Net debt attributable to commitments for funded plans	**194**	**611**
Present value of commitments for unfunded plans	97,158	91,957
Unreported actuarial losses	–19,037	–20,030
Net liability in the balance sheet	**78,121**	**71,927**

Changes in commitments for defined benefit plans during the year are as follows:

GROUP	2012	2011
At beginning of year	99,645	80,686
Employment during the current year	5,380	3,430
Interest expenses	3,820	3,285
Actuarial gains(+)/losses(–)	393	14,257
Exchange rate differences	10	98
Remuneration paid	–2,309	–2,111
At year-end	**106,939**	**99,645**

Changes in the fair value of plan assets during the year are as follows:

GROUP	2012	2011
At beginning of year	6,338	6,078
Expected rate of return on plan assets	258	244
Actuarial losses(–)/gains(+)	–808	234
Exchange rate differences	86	–478
Employer charges	1,350	260
At year-end	**7,224**	**6,338**

The amounts recognised in the income statement attributable to defined benefit plans are as follows:

GROUP	2012	2011
Current service cost	6,055	3,440
Interest expenses	3,820	3,285
Expected rate of return on plan assets	–360	–339
Special employer's contribution	1,502	823
Total	**11,017**	**7,209**

The total cost of TSEK 11,017 (7,209) is included in the items Cost of sales, Selling expenses, Administrative expenses, Research and Development expenses and Financial items.

	2012	2011
Actual return on plan assets:	3.6%	4.0%

For 2012, expected return is reported.

The most important assumptions applied are as follows:

	2012	2011
Discount rate, %	3.5	3.5–4.0
Expected rate of return on plan assets, %	3.6	5.4
Expected rate of salary increases, %	3.0	3.0–4.0
Annual adjustments to pensions, %	2.0	1.3–2.0

Life expectancy
Assumptions regarding life expectancy are based on publicly-available statistics and experience in each respective country.

The average number of years of remaining life expectancy from the retirement age of 65 is, as per the balance sheet date, as follows:

	2012	2011
Men	23	23
Women	25	25

Plan assets consist of the following:

GROUP	2012	2011
Shares	462	406
Interest-bearing securities	5,310	4,614
Property	1,206	1,115
Other	246	203
Total	**7,224**	**6,338**

NOTE 27 PENSION COMMITMENTS, PARENT COMPANY

The Company's pension plans are stated in the description provided in Note 3 for the Group.

Specification of amounts recognised in the balance sheet:

	2012	2011
Present value of commitments for unfunded plans (according to Swedish principles)	67,395	64,710
Net liabilities in the balance sheet (–) (excluding untaxed reserves attributable to pension commitments)	**67,395**	**64,710**

Specification of changes in net liabilities reported in the balance sheet attributable to pensions:

	2012	2011
Net liabilities at beginning of year attributable to pension commitments	64,710	56,979
Own pension costs recognised in the income statement	5,097	9,842
Pension benefits paid	–2,412	–2,111
Net liability as at year-end	**67,395**	**64,710**

The net liability as above is recognised, in its entirety, under the item Provisions for pensions and similar obligations in the balance sheet.

Provisions for pensions are distributed as follows:

	2012	2011
Statutory provisions for pension liabilities		
– FPG/PRI pension liabilities	67,395	64,710
– Other	4,675	4,858
Non-statutory provisions for pension liabilities	0	0
Total provisions for pensions	**72,070**	**69,568**

NOTE 27 CONT.

Specification of expenses and income attributable to pensions during the period:

	2012	2011
Own pensions		
Expenses for earning of pensions, etc.	2,323	7,104
Interest expenses (estimated discount effect)	2,774	2,738
Effect on profit of redemption of obligations, etc.	0	0
Expenses for own pensions excl. taxes	**5,097**	**9,842**
Insured pensions		
Insurance premiums or equivalent	3,515	718
Reported net expenses attributable to pensions, excl. taxes	**8,612**	**10,560**

The reported net expenses are distributed between items in the income statement as follows:

	2012	2011
Cost of sales	1,954	2,971
Selling expenses	2,129	3,227
Administrative expenses and research and development expenses	1,755	1,624
Financial items	2,774	2,738
Reported net expenses	**8,612**	**10,560**

The actuarial calculations are based on the following principal assumptions:

Discount rate 3.5% (3,5).

The assumptions have been calculated based on salary levels applicable on the respective balance sheet dates.

The expected payments for the next year attributable to defined benefit pension plans amount to TSEK 2,575.

NOTE 28 PROVISIONS

GROUP	Guarantees	Removal and cleansing of land	Special employer's contribution pension commitments	Other	Total
As per 1 January 2011	**14,500**	**10,000**	**2,792**	**0**	**27,292**
Recognised in the income statement:					
– Additional provisions	200				200
– Reversed unutilised amount		–3,500			–3,500
Utilised during the year			–1,040		–1,040
As per 31 December 2011	**14,700**	**6,500**	**1,752**	**0**	**22,952**
As per 1 January 2012	**14,700**	**6,500**	**1,752**	**0**	**22,952**
Recognised in the income statement:					
– Additional provisions	1,750		851		2,601
– Reversed unutilised amount					
Utilised during the year					
As per 31 December 2012	**16,450**	**6,500**	**2,603**		**25,553**

GROUP

Provisions consist of:	2012	2011
Long-term portion	25,553	22,952
Total	**25,553**	**22,952**

PARENT COMPANY	Guarantees	Cleansing of land	Pension commitments	Other	Total
As per 1 January 2011	**14,500**	**10,000**	**62,827**	**0**	**87,327**
Recognised in the income statement:					
– Additional provisions	200		7,731		7,931
– Reversed unutilised amount		–3,500	–990		–4,490
Utilised during the year					
As per 31 December 2011	**14,700**	**6,500**	**69,568**	**0**	**90,768**
As per 1 January 2012	**14,700**	**6,500**	**69,568**	**0**	**90,768**
Recognised in the income statement:					
– Additional provisions	1,750		2,502	0	4,252
– Reversed unutilised amount					
Utilised during the year					
As per 31 December 2012	**16,450**	**6,500**	**72,070**	**0**	**95,020**

PARENT COMPANY

Provisions consist of:	2012	2011
Long-term portion	95,020	90,768
Total	**95,020**	**90,768**

Guarantees
The Group tests the value of reserves in relation to estimated requirements on an ongoing basis. Reservations are made based on historical statistics regarding faulty products. The guarantee reserve comprised 1.9% (1.6) of net sales as per 31 December 2012. The guarantee periods are from 2 to 5 years.

Removal and cleansing of land
The provision refers to the expenses likely to be payable by Ostnor in the future for the removal and cleansing of land. The estimated expenses are based on the current plan of action which Ostnor has established and the predicted costs associated with this plan. Should the actual expenses deviate from the estimated expenses, profits in the future may be impacted.

NOTE 29 ACCRUED EXPENSES AND DEFERRED INCOME

GROUP	2012	2011
Accrued salaries	4,393	5,232
Accrued holiday pay	21,697	21,213
Accrued social security contributions	7,860	8,220
Accrued interest expenses	13	35
Other items incl. customer bonuses and discounts	46,363	43,100
Group total	**80,326**	**77,800**

PARENT COMPANY	2012	2011
Accrued salaries	4,158	4,787
Accrued holiday pay	19,607	19,339
Accrued social security contributions	7,596	7,981
Accrued interest expenses	13	35
Other items incl. customer bonuses and discounts	34,038	32,885
Parent Company total	**65,412**	**65,027**

NOTE 30 PLEDGED ASSETS

GROUP AND PARENT COMPANY	2012	2011
Relating to provisions for pensions and similar commitments		
– Other long-term receivables	4,447	4,595
Relating to liabilities to credit institutions		
– Property mortgages	17,750	17,750
– Floating charges	58,510	58,510
Group and Parent Company total	**80,707**	**80,855**

In tandem with extending the company's credit insurance with Försäkringsbolaget PRI Pensionsgaranti for the company's pension liability, collateral has been pledged for this policy. This security consists of excess collateral in a chattel mortgage, and the excess collateral in a mortgage deed on real estate.

NOTE 31 CONTINGENT LIABILITIES

GROUP	2012	2011
Other contingent liabilities	1,348	1,294
Group total	**1,348**	**1,294**

PARENT COMPANY	2012	2011
Contingent liabilities for the benefit of other Group companies	20,521	23,083
Other contingent liabilities	1,348	1,294
Parent Company total	**21,869**	**24,377**

NOTE 32 LEASING AGREEMENTS

Financial leases
The Group's financial lease agreements refer to machinery. No machines are sub-leased.

Obligations to pay future leasing fees are reported as current and non-current liabilities. Minimum leasing fees are distributed between interest expenses and repayment of the outstanding liability. Variable fees are recognised as an expense during the period in which they arise. Interest levels vary according to Stibor 1 month or 3 months.

Future minimum leasing fees for non-cancellable financial lease agreements applicable at the end of the reporting period mature as follows:

GROUP	2012	2011
Within one year	9,366	7,841
Between one and five years	16,556	17,951
More than five years	2,024	541
Group total	**27,946**	**26,333**

Operating leases
The Group's and the Parent Company's operating leases refer, primarily, to trucks, cars, office premises, servers and telephone exchanges. No sub-leasing takes place. Trucks are leased for a period of five or six years. Cars are normally leased for a period of three years. Leases for cars can be redeemed at any point during the term of the lease. Agreements for cars, office premises, servers and telephone exchanges are automatically extended of the conditions for termination are not met.

Future minimum leasing fees for non-cancellable operating lease agreements applicable at the end of the reporting period mature as follows:

GROUP	2012	2011
Within one year	7,405	7,356
Between one and five years	14,469	9,628
More than five years	0	161
Group total	**21,874**	**17,145**

Expenses for operating leases in the Group during the financial year amounted to TSEK 13,511 (13,705).

PARENT COMPANY	2012	2011
Within one year	4,762	4,029
Between one and five years	8,285	4,383
More than five years	0	0
Group total	**13,047**	**8,412**

Expenses for operating leases in the Parent Company during the financial year amounted to TSEK 8,288 (7,779).

NOTE 33 UNTAXED RESERVES

PARENT COMPANY	2012	2011
Accumulated difference between reported depreciation and depreciation according to plan:		
– Buildings and land improvements	19,124	19,058
– Plant and equipment	30,348	32,740
Tax allocation reserve	81,931	84,004
Parent Company total	**131,403**	**135,802**

NOTE 34 INCOME FROM OTHER SECURITIES AND RECEIVABLES ACCOUNTED FOR NON CURRENT ASSETS

PARENT COMPANY	2012	2011
Exchange rate differences	–137	–11
Fair value loss on interest swaps	70	–240
Parent Company total	**–67**	**–251**

NOTE 35 APPROPRIATIONS

PARENT COMPANY	2012	2011
Difference between recorded depreciation and depreciation according to plan	2,327	–14,986
Transfer to tax allocation reserve	–11,827	–18,958
Dissolution of tax allocation reserves	13,900	6,100
Parent Company total	**4,400**	**–27,844**

NOTE 36 OTHER NON-CASH ITEMS

GROUP	2012	2011
Gains/losses on sales of tangible fixed assets	–45	265
Pension provisions	5,593	3,035
Other provisions	2,601	–4,340
Derivative instruments	616	4,392
Other	–344	–164
Group total	**8,421**	**3,188**

PARENT COMPANY	2012	2011
Gains/losses on sales of tangible fixed assets	–16	265
Pension provisions	2,502	6,741
Other provisions	1,750	–3,300
Derivative instruments	616	4,392
Other	–	171
Parent Company total	**4,852**	**8,269**

NOTE 37 TRANSACTIONS WITH RELATED PARTIES

Priveq owned until November 2012 just under 30% of the shares in Ostnor and is assessed to have exercised a controlling influence over Ostnor. Other related parties are all subsidiaries within the Group and senior executives, i.e. Board and management, as well as their family members. Erik Eriksson, CEO of Mattsson Metal AB, is a member of the Board of Ostnor. Mattsson Metal is, consequently, identified as a related party.

The following transactions have occurred with related parties:

(a) Sales of goods

	2012	2011
Sales of goods:		
– Mattsson Metal AB	597	465
Total	**597**	**465**

In addition to the above, goods have been sold to related parties for insignificant amounts, in accordance with current employee purchase policy.

(b) Purchase of goods and services

	2012	2011
Purchases of goods:		
– Mattsson Metal AB	2,263	2,255
Purchases of services:		
– Related parties to Board members (employees of the Company)	968	953
Total	**3,231**	**3,208**

Goods and services have been bought and sold to related parties under normal commercial conditions.

(c) Remuneration to senior management

Employees in senior management positions have received the following remuneration:

	2012	2011
Salaries and other short-term remuneration	9,632	8,806
Remuneration during termination period	3,832	
Remuneration on completion of employment	4,142	2,689
Total	**17,606**	**11,495**

Guidelines

The Chairman and members of the Board are remunerated in accordance with the decision of the Annual General Meeting.

Remuneration to the CEO and other senior management consists of basic salary, variable remuneration, other benefits and pensions. Other senior management is defined as the five people plus the CEO who comprise Group Management.

The distribution between basic salary and bonus must be established in proportion to the executive's responsibilities and powers. For the CEO, the variable will be a maximum of 50% of basic salary. For other senior executives, the variable remuneration is capped at 25–35% of basic salary. The level of variable remuneration is based on performance in relation to established targets.

Pension benefits and other benefits for the CEO and other senior executives form part of total remuneration.

Conditions for the CEO

The CEO of the Parent Company has a defined contribution pension plan with an annual pension equal to 30% of basic salary. As concerns notice of termination of employment, a notice period of 12 months from the Company and 6 months from the CEO will apply. Upon termination by the Company, the CEO is entitled to salary and other benefits for 12 months, and a severance payment equivalent to 12 monthly salaries.

Remuneration to other senior executives

For other senior executives there are customary pension commitments within the framework of the general pension plan. In addition, additional pension contributions of 5% of basic salary will be made.

Bonus

The CEO's bonus is based to 60% on consolidated operating income and to 40% on Group cash flow. The bonus amount for 2012 corresponded to 0% of basic salary (0).

For other senior executives, bonuses are based to 60% on consolidated operating income and to 40% on Group cash flow. The bonus amount for other senior executives for 2012 corresponds to 0% of basic salary (0).

NOTE 37 CONT.

Remuneration and other benefits 2012

	Basic salary/ Board fees	Variable remu- neration*	Other benefits **	Pension costs	Other remu- neration	Total
Chairman of the Board Christer Lenner	429					429
Board member Erik Eriksson	110					110
Board member Magnus Hardmeier	110					110
Board member Hans Åke Norås	310					310
Board member Mats Hermansson	110					110
Board member Pernilla Wigren	110					110
Board member Eva-Lotta Kraft (until May 2012)	60					60
Board member Johnny Alvarsson (from May 2012)	70					70
CEO Håkan Olson (until May 2012)	922	0	158	1,023	3,832	5,935
CEO Claes Seldeby (from June 2012)	1,072	0	61	346		1,479
Other senior executives (5 people)	5,634	0	476	2,773		8,883
Total	**8,937**	**0**	**695**	**4,142**	**3,832**	**17,606**

Remuneration and other benefits 2011

	Basic salary/ Board fees	Variable remu- neration*	Other benefits **	Pension costs	Other remu- neration	Total
Chairman of the Board Christer Lenner	383					383
Board member Erik Eriksson	117					117
Board member Magnus Hardmeier	197					197
Board member Hans Åke Norås	197					197
Board member Torbjörn Wallin (until May 2011)	37					37
Board member Mats Hermansson	117					117
Board member Pernilla Wigren	117					117
Board member Eva-Lotta Kraft (from May 2011)	70					70
CEO Håkan Olson	2,004	0	159	676		2,839
Other senior executives (5 people)	4,962	0	446	2,013		7,421
Total	**8,201**	**0**	**605**	**2,689**	**0**	**11,495**

Remuneration is stated exclusive of social security contributions.

For 2012, the Chairman, Christer Lenner, has, in addition to Board fees, received SEK 264,000 (210,000) for extra work and travel expenses. Remuneration for extra work has also been paid to the Board members Hans Åke Norås SEK 200,000 (70,000) and Magnus Hardmeier SEK 0 (70,000).

* Variable remuneration refers to bonuses recorded as an expense.
** Other benefits are in the form of a company car.

NOTE 38 EVENTS AFTER THE BALANCE SHEET DATE

New accounting standards pursuant to IAS 19 Employee Benefits, should be applied, effective 1 January 2013. If these standards had been implemented in the financial year of 2012, this would have meant that Ostnor's pension provision as of 31 December 31 2012 would have increased by MSEK 21.4, its provision for special employer's contribution would have increased by MSEK 4.6, and shareholders' equity would have decreased by MSEK 20.2.

Allba invest has acquired shares of the owners who in the autumn announced that they wanted to sell and holds 3.5 percent of the shares. Members of the Board and Management have increased their net holdings of shares.

The consolidated income statement and balance sheet will be presented for adoption at the annual general meeting held on 7 May 2013.

The Board of Directors and the CEO confirm that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, and provide a true and fair view of the Group's financial position and results. The annual report has been prepared in accordance with generally accepted accounting principles and provides a true and fair view of the Parent Company's financial position and results.

The administration report for the Group and the Parent Company provides a true and fair view of the development of the Parent Company's and the Group's operations, financial positions and results, and also describes material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Mora, 26 February 2013

Christer Lenner
Chairman of the Board of Directors

Claes Seldeby
CEO

Erik Eriksson
Board member

Johnny Alvarsson
Board member

Mats Hermansson
Board member

Hans Åke Norås
Board member

Pernilla Wigren
Board member

Kenneth Östlund
Employee representative

Staffan Gryting
Employee representative

Our audit report was submitted on 12 March 2013.

Öhrlings PricewaterhouseCoopers AB

Magnus Brändström
Authorised Public Accountant

Audit Report

To the annual general meeting of Ostnor AB (publ.) Corporate Identity Number 556051-0207

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Ostnor AB (publ.) for the year 2012. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 28–69.

Responsibilities of the Board of Directors and the CEO for the annual accounts and consolidated accounts

The Board of Directors and the CEO are responsible for the preparation and fair presentation of annual accounts in accordance with the Annual Accounts Act and for the preparation and fair presentation of consolidated accounts in accordance with international financial reporting standards, IFRS, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the CEO determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinion

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and cash flows for the year then ended, in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and of its financial performance and cash flows for the year then ended, in accordance with IFRS, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual general meeting adopt the income statements and the balance sheets for the parent company and for the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the CEO of Ostnor AB (publ.) for the year 2012.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the CEO are responsible for administration under the Swedish Companies Act and that the corporate governance statement has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to assess whether the proposal is in accordance with the Swedish Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the CEO is liable to the company. We also examined whether any member of the Board of Directors or the CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinion

We recommend to the annual general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year. A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Mora, 12 March 2013
Öhrlings PricewaterhouseCoopers AB

Magnus Brändström
Authorised Public Accountant

History

Frost Matts Mattsson grew up in the village of Östnor, just outside Mora, in the mid 19th century. At that time, there was a long tradition of crafts, above all the casting of brass. Items as diverse as buckles, mountings and motifs, Mora Clocks and sewing machines were all made.

Frost Matts became a founder (founding brass) and, in 1865, registered a small foundry where he principally worked on clock wheels for Mora Clocks. When the Mora Clock found itself in a crisis due to growing competition, a new source of income was needed.

In 1876, Frost Matts made his first faucet, a brass item for a hand basin. Being industrious, it was in his nature to involve other villagers in his new project. The operations grew, and when Frost Matts died in 1914, his legacy to his sons, Karl and Anders, was a small factory, FM Mattsson AB, with around 20 employees.

1865
FM Mattsson founded

1876
First faucet cast

FM Mattsson founded

19th century

1915

1920

1927
Mora Armatur founded

Mora Armatur founded

20th century

1935

1967

1968
Mora Armatur produces Sweden's first single-lever mixer

1972
Mora Armatur produces Sweden's first thermostat mixer

In 1927, Karl established another fittings company, Mora Armatur AB. Both faucet companies progressed in parallel, spurring each other on in healthy competition, contributing to the success of both brands over the years. FM Mattsson and Mora Armatur came to completely dominate the Swedish market for sanitary fittings.

In 2003, Ostnor AB was created. In 2007 FM Mattsson and Mora Armatur were merged with Ostnor Production AB into Ostnor AB. All of the operations in Sweden were, thereby, gathered into one common legal entity, Ostnor AB.

1981
FM Mattsson the first to use ceramic seals

1985
FM Mattsson produces the first soft closing single-lever mixer faucet

1988
FM Mattsson produces the first frost-proof garden faucets

1989

1993
FM Mattsson produces the first safety mixer

1999
Mora Armatur wins Stora Energipriset 1999 ('The Great Energy Prize')

2002
Merger decision, Ostnor formed

2007
The two companies cease to exist separately

2008

2011

Merger decision, Ostnor formed

21st century

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