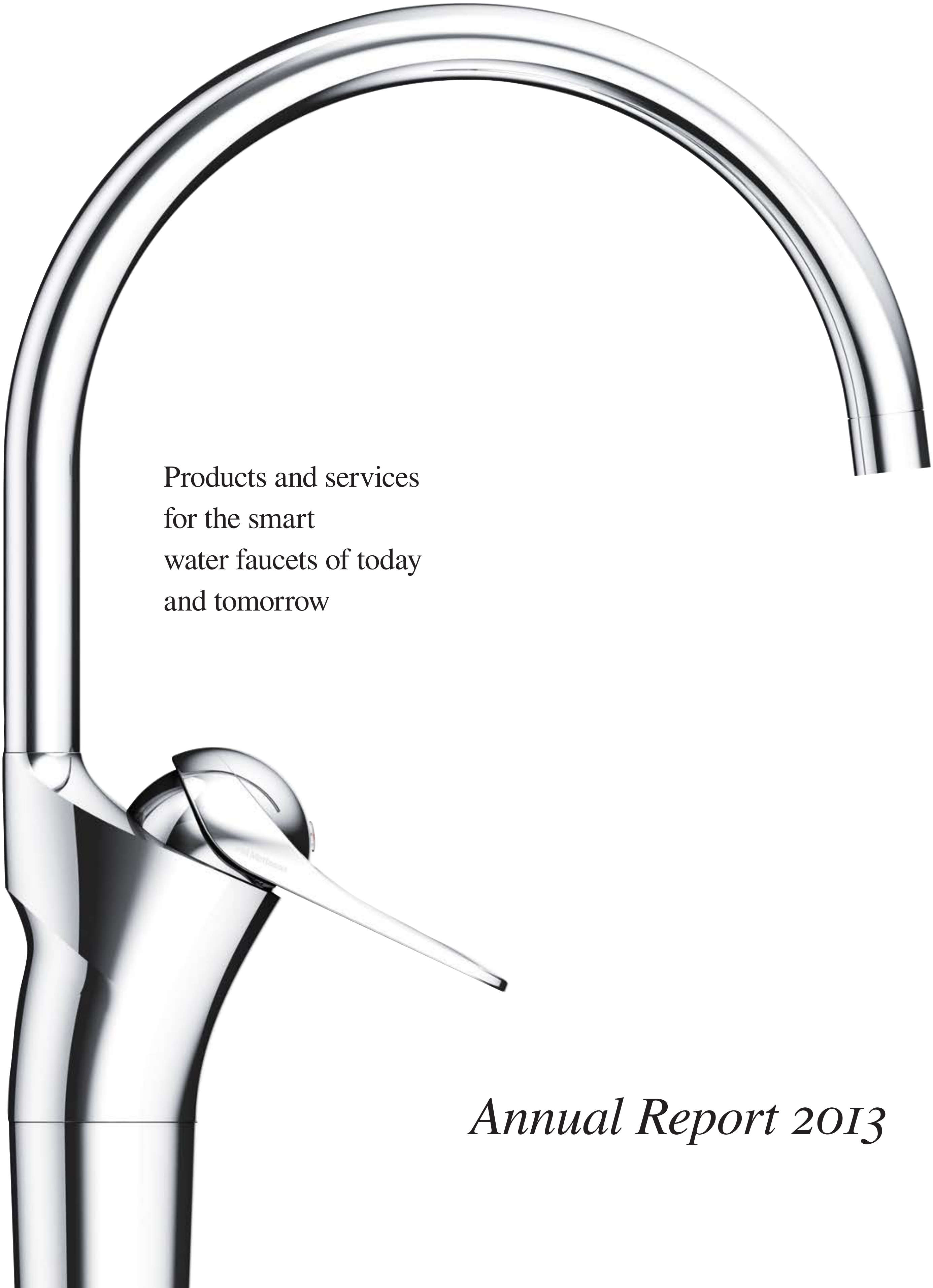
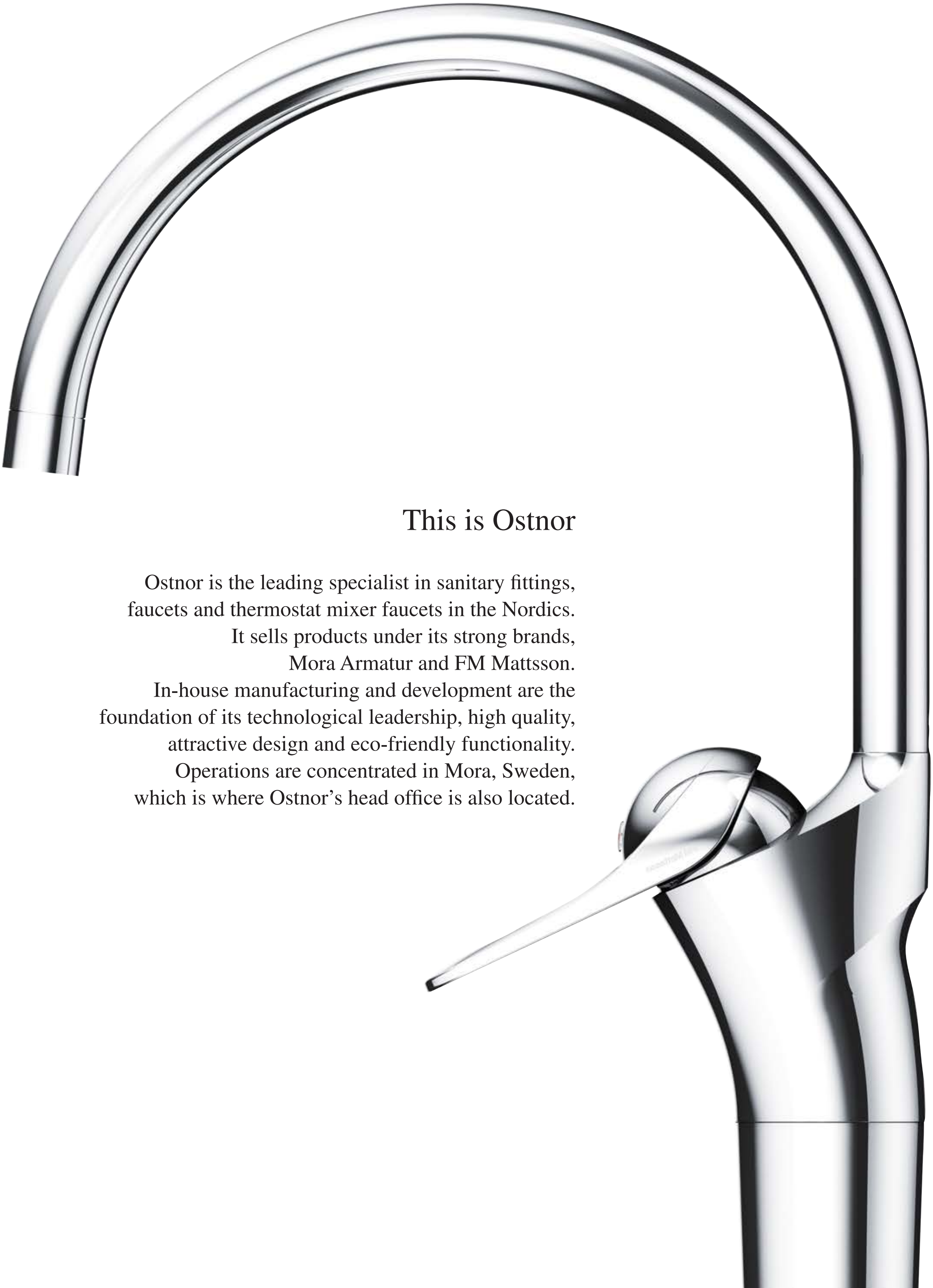
ØSTNOR



Products and services
for the smart
water faucets of today
and tomorrow

Annual Report 2013



This is Ostnor

Ostnor is the leading specialist in sanitary fittings, faucets and thermostat mixer faucets in the Nordics. It sells products under its strong brands, Mora Armatur and FM Mattsson. In-house manufacturing and development are the foundation of its technological leadership, high quality, attractive design and eco-friendly functionality. Operations are concentrated in Mora, Sweden, which is where Ostnor's head office is also located.

It is possible to produce faucets with attractive design and high quality, that conserve water and energy, and consider the environment.

It's what Ostnor does every day.

A strong portfolio and market coverage

With its attractive design, high product quality, leading-edge technology and eco-smart functionality, Ostnor offers a product range with broad-based market coverage in the mid and premium segment, through its brands Mora Armatur and FM Mattsson. Ostnor maintains its lead through a brisk rate of product development and frequent launches of new, innovative products. Strong brands and products with high customer value put Ostnor in the right position for good profitability.

Growing interest in design

Consumers' growing interest in furnishing and design is common knowledge. In the wake of this trend, there is clearly growing awareness that consumers are gaining more influence over the choice of components when building and refurbishing homes. A growing interest in design and premium quality, which is increasing the premium product share of the total market, is a clear trend.

Leading position in the Nordics

Ostnor possesses two brands, Mora Armatur and FM Mattsson, which confer it with leadership on the Nordic market. Ostnor is the market leader in Sweden and Iceland, the second largest in Finland and Norway, and has well-established positioning in Denmark. One of its targets is to challenge the market leader so that it is at least in a strong second position in every Nordic country.

Sustainable innovation

Access to clean water is one of the major challenges in many parts of the world, in the West and developing economies. Ostnor is an innovation leader with eco-smart products that optimize the conservation of water and energy, responsible materials choices, as well as consistent environmental thinking throughout production.

Production excellence

Ostnor's production facility in Mora, Sweden integrates many years of tradition with state-of-the-art technology and process know-how. Ostnor ensures efficiency through value-adding and effective processes, continuous improvement of its purchasing function and aggressive investments in optimized IT support.

The driving force of the sector's structural transformation

Ostnor is active on a market that is in an exciting structural transformation, in which Ostnor can play an active part. With its well-established position of strength, Ostnor can develop strategic alliances with store chains and premium kitchen and bathroom suppliers, and make consolidating investments in complementary brands with a local presence. It can increase volumes, sharpen competitiveness and ensure profitability through proactive initiatives.

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Very strong positioning

Ostnor has achieved demonstrably strong earnings and profitability gains, which are a clear consequence of internal enhancements that is made. With our strong market positioning and product portfolio, we have the potential to achieve positive progress in the coming years.

Ostnor has achieved demonstrably strong earnings and profitability gains, which are a clear consequence of internal enhancements we've achieved. With our strong market positioning and product portfolio, we have the potential to achieve positive progress in the coming years. Ostnor continued to perform well in 2013, on a fairly poor market. Although clearly, sales did decrease by 4.3 percent to MSEK 824, profit almost doubled to MSEK 70. This profit improvement is a direct consequence of a root-and-branch rationalization of production and purchasing. We have also been highly successful in cutting costs right across our business.

Our production facility has been modernized, and utilizes far-reaching flow thinking. We have automated routines, increased our purchasing efficiency, and executed a large number of small improvements, which are having a positive overall effect.

A good base for continued progress

However, we didn't succeed in achieving growth in the year, one of our primary strategic cornerstones. But considering the state of the economy, this is far from surprising. The demand on Ostnor's markets was poor through the year. Activity was down in new construction and the ROT (construction, renovation, conversion and extension) sector, on Ostnor's main geographical markets. Some improvement of economic conditions is apparent for 2014. The Swedish National Institute for Economic Research and other forecasters regard this as a continued recession, albeit milder.

The fact that we didn't grow doesn't mean we have been inactive. In fact, the work we have conducted has been successful by creating the right prospects for growth when the market normalizes and goes more positive. With a number of measures, we've laid a good foundation for positive progress.

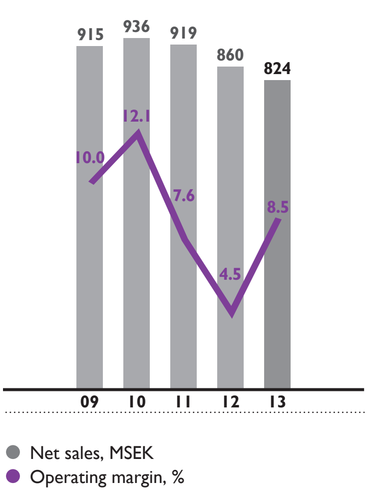
Investments in technology and design

We continued to invest in our strong brands, and developed all-new products that satisfy customers' future demands. Our products are maintaining our renowned high design quality, and we're way ahead of our competitors in our feature segments of environmental adaptation and water and energy conservation. We executed several key product launches in the year, and we have many more in our pipeline for 2014 and the following years. With our strong brands and contemporary, well-designed and environmental product portfolio, our positioning is strong.

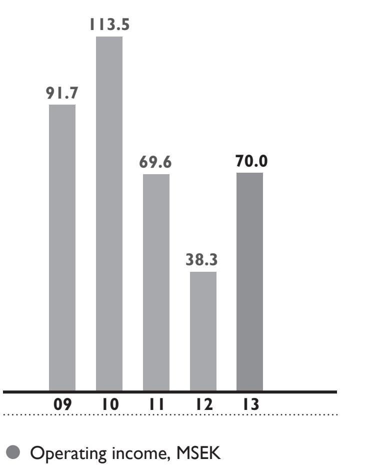
It's also worth noting that the good profitability and internal efficiency we've achieved have given us the drive to play a more active role in the sector's structural development. The prime drivers of consolidation in our sector are efficiency and economies of scale. There are currently many competitors with great products out there, but their market shares are low, and their profitability poor. This is where Ostnor has an opportunity to become an attractive business partner. Our production facility has high capacity and we have the potential to increase profitability further if we can scale up production.

We are now continuing to work on strengthening the market positioning of Mora Armatur and FM Mattsson. The new sales organization implemented last year is working well. A number of new marketing concepts for selected customer segments were developed successfully in the year. Our experiences are positive, and work on finding new models is continuing.

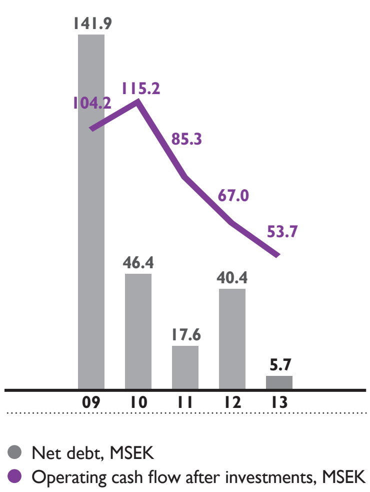
NET SALES AND OPERATING MARGIN



OPERATING INCOME



NET DEBT AND CASH FLOW AFTER INVESTMENTS



We also sharpened our focus on selected segments and target groups, where our positioning improved.

We consolidated our sales resources outside Sweden, and put a sharp sales focus on our organization.

Leadership and people

Ostnor is continuing to work on a structured footing with clearly communicated and well-founded values. We launched our 'Leadership for High Performance' document last year, and I'm seeing a clear connection between the positive performance of our operation, and our goal-oriented focus on leadership and our people.

Ostnor now has two strong brands whose distinctive character is getting ever clearer. We have a great product portfolio packed with exciting upcoming news. Our finances are strong, we have effective and scalable production and a skilled and motivated workforce. Overall, we have good potential for Ostnor to keep performing positively. Accordingly, I'd like to close by addressing each of Ostnor's employees directly, and thank them for their commitment and great performance over the past year. We've got a lot of exciting things to look forward to together.

Claes Seldeby, CEO and President

THE YEAR IN BRIEF

- Net sales were MSEK 823.7 (860.5)
- Operating income was MSEK 70.0 (38.3)
- Profit after tax was MSEK 51.7 (32.6)
  Earnings per share were SEK 4.51 (2.85)
- The operating margin was 8.5 percent (4.5)
- Cash flow after investments remains strong and was MSEK 53.7 (67.0)
- The Board of Directors proposes a dividend of SEK 3.0 per share (2.50)
- Manufacture in China was relocated to Mora, Sweden
- Ostnor opened a sales office in Hong Kong

KEY RATIOS

Group, MSEK	2013	2012	2011
Net sales	823.7	860.5	918.6
Operating income	70.0	38.3	69.6
Profit after financial items	67.5	34.7	64.9
Operating margin, %	8.5	4.5	7.6
Total assets	673.7	669.4	692.3
Equity/assets ratio, %	50	45	49
Cash flow after investments	53.7	67.0	85.3
Return on capital employed, %	16	9	16
Return on equity, %	16	10	14
Average number of employees	452	459	504

Business concept, goals and strategies

VISION

Ostnor's vision is to achieve leadership as a global premium vendor of sanitary fittings on the basis of our Swedish origins.

BUSINESS CONCEPT

To develop, manufacture and supply sanitary fittings and associated concepts and services with high customer value. Ostnor's offering to the market and customers is based on attractive design, eco-friendly and health-friendly products, coupled with high quality and innovation.

FINANCIAL TARGETS

Organic net sales growth of 5 to 8 percent per year (over a business cycle)

5-8%
ORGANIC GROWTH

An EBIT margin of 12 percent (over a business cycle)

12%
OPERATING MARGIN

Annual dividend should be a minimum of 40 percent of profit after tax, but the equity/assets ratio should not fall below 30 percent after dividends

40%
ANNUAL DIVIDEND

An equity/assets ratio of 40 percent

EQUITY/ ASSETS RATIO
40%

STRATEGIES

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

Growth

Continuing to develop, advance and clearly position the Mora Armatur and FM Mattsson brands is the foundation of Ostnor's growth strategy. Ostnor will offer the market a broad-based, competitive range with high customer value. Ostnor will employ strategic partnerships and specific growth strategies for each geographical market depending on its initial position and competitive status. Primarily, growth will be achieved organically. Growth-creating acquisitions may be considered to strengthen its presence on existing markets.

Clearly positioned brands, market breadth and a competitive range

Efficiency

Effective production and high capacity make Ostnor's growth scalable, enabling increased profitability. Work on continuously rationalizing operations permeates the whole organization. Flexible working methods and continuous improvements to processes and purchasing will increase productivity and improve capacity utilization. IT support is a high priority for enabling optimal follow-ups and process measurability. Ostnor still harbors improvement potential in logistics and purchasing, to further reduce throughput times and increase precision of deliveries received.

Continuous improvements of processes and purchasing

Technology and design

Ostnor will be an innovative leader, offering products at the cutting edge of technology. Its products should exceed customers' high expectations. It ensures attractive design with high customer value by employing in-house designers and partnering with selected external designers. Ostnor prioritizes a high rate of innovation, short development lead-times and a high launch rate. This enables technology leadership in electronics, energy and water saving, integrated technology and component technology. Eco-friendly and health-friendly products are priority segments of technological development where Ostnor will defend its market leadership.

An innovative leader with eco-friendly and health-friendly products

Leadership and people

Ostnor's strategies require its organization to work well at every level. Ostnor puts a high priority on developing an attractive workplace, where competent people enjoy their work and progress. Ostnor's people at all levels maintain, realize and apply its collective core values based on high Customer Value, Commitment and Respect. Leadership development is a high priority, and our leadership focuses on motivating, inspiring and promoting good performance to ensure that our people get the best possible potential to do good work.

Focusing on customer value, commitment and respect

The Nordics are Ostnor's home market

THE MIXER FAUCET MARKET

Ostnor primarily operates on the European mixer faucet market, i.e. the market for kitchen, basin and bath and shower mixer faucets. This market is part of the kitchen and bathroom sanitary fittings market.

Most of Ostnor's sales are in the Nordic countries. Ostnor estimates the value of the Nordic mixer faucet market at SEK 2.3 billion, and expects the market to be in modest growth through the next three years.

Demand on the Nordic market decreased in 2013. Sales performance in Sweden began down somewhat on 2012, with some recovery in the third quarter.

Renovations and extensions are a key segment

That part of the building market designated as ROT (construction, renovation, conversion and extension) is the prime determinant of progress on the mixer faucet market. This includes sales of mixer faucets that replace existing products. In the Nordics, this segment represents some 85 percent of all mixer faucet sales. New construction is the second key factor for market progress.

Progress of the housing market and housing prices affect the market indirectly. When prices are rising, new construction and household willingness to execute ROT projects rises, because investing in homes is profitable, and their value can be expected to increase more than the build cost.

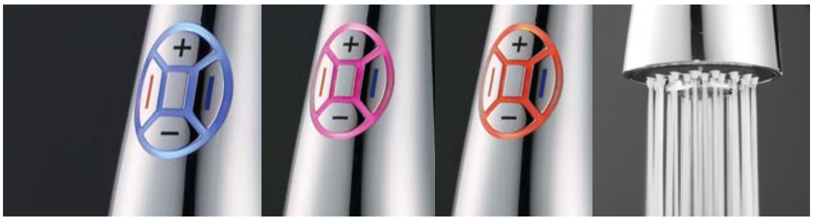
Participants on the market

Manufacturers selling mixer faucets under proprietary brands are the market's primary supply source. There are also a number of companies that purchase mixer faucets and market them on a white-label basis. Market participants are often localized, but there is a cluster of global players. There has been some consolidation in recent years, with several acquisitions conducted.

Distribution

In the Nordics, and especially Sweden, wholesalers have very strong positioning, and maintain inventories and offer logistics solutions for customers. They supply the professional and project market with mixer faucets and sanitary fittings, as well as consumer channels like plumbing stores and builders' merchant superstores. A number of building supply chains purchase mixer faucets and sell them on a white-label basis. Increasingly, they are also offering complete solutions including assembly for consumers and the project market. On some markets, wholesalers sell mixer faucets on a white-label basis.

e-commerce and DIY stores are other attractive new sales channels that have appeared on the market. Their offerings are often integrated, with store chains also operating online stores.



Mora Styxx–adding a new dimension to kitchens, with one-hand temperature control, water pressure and spray pattern control, and an LED water temperature display.

PREMIUM, MID AND ECONOMY

The mixer faucet market can be considered on the basis of quality, functionality and design, which is usually reflected in pricing:

The premium segment

Mixer faucets that are contemporary and innovative, with special functionality, and perceived as unique. Purchasers are often consumers and professionals that are lifestyle driven, contemporary and design-conscious, and are often leaders of some form.

Mid segment

Good quality mixer faucets that match the needs of broad customer groups.

Economy

Lower-quality mixer faucets with simpler functionality, priced below the market average. These products are often unbranded.

Focus on design and the environment

The mixer faucet market follows kitchen and bathroom trends, with increasingly, products viewed as lifestyle items. Accordingly, these mixer faucets are gaining increasing status as furnishing items that should suit a specific style. Design is becoming a more important factor for influencing purchasing patterns.

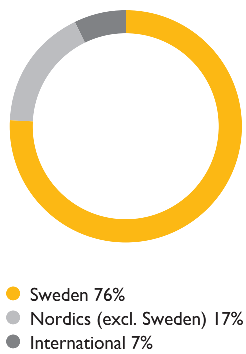
If the client is a construction firm involved in building or renovating a residential property, the construction firm or architect may be the party deciding on the type of mixer faucet to be used. But consumers and consumer trends are getting a growing influence over mixer faucet choices on this type of project too.

Environmental issues are also having a greater impact in choices of mixer faucet. One-fifth of the energy consumed by a family house is for hot water, and the share is higher in apartments. There is growing awareness that energy consumption can be cut significantly by using new, resource-efficient water faucets in kitchens, basins and showers. On projects, the total environmental impact of the building is becoming a more important factor, as it is in eco-friendly buildings with low energy consumption. In Sweden, all new housing, for letting and sale has to carry an official energy statement.

In 2012, the Swedish Energy Agency introduced an objective accreditation system indicating how much energy a mixer faucet consumes. This system is intended to aid purchasers, installers, climate advisers and consumers. There are similar systems in other European countries.

THE SWEDISH MARKET LEADER

SALES BY REGION



Ostnor is the clear market leader in Sweden, where 76 percent of total sales are generated, with both Mora Armatur and FM Mattsson enjoying very strong positioning.

Ostnor is well established in the Nordics and the second-largest player in Finland and Norway, which is Ostnor's second-largest market. The Nordics provide 17 percent of sales.

Ostnor addresses selected markets outside Sweden and the Nordics. 7 percent of sales are to other export markets.

Differentiation for broad market coverage

Ostnor intends to further advance its positioning in the Nordic countries and its status as a niche player on selected non-Nordic markets through its strong brands, Mora Armatur and FM Mattsson.

Brand strength is one of the group's most valuable assets. Mora Armatur and FM Mattsson are well-established brands Nordic wide, with by far the highest brand recognition in Sweden, as well as highly satisfied customers, with CSI levels of 77 and 79 respectively.

Brand strategy

In the past few years, both brands has evolved to optimize breadth and market coverage, and access new, attractive customer segments. This means protecting and further advancing FM Mattsson's already very strong status in the mid segment, while Mora Armatur gradually migrates to the premium segment, and the upper portion of the mid segment. FM Mattsson will be the leading mixer faucet brand in the Nordics through its strong position with professionals, and associated with safety, sustainability and functionality, while Mora Armatur should also adopt clear positioning in the consumer segment, and be associated with design, modernity and originality.

Nordic main market

Ostnor is the market leader in Sweden and Iceland, the second-largest player in Finland and Norway, and enjoys well-established positioning in Denmark. In the Nordics, the company is well represented in existing sales channels and a priority supplier for the largest wholesalers and installers. Both brands are well established, have relationships lasting many years and stable customer bases. An initiative to develop relationships with consumers was conducted in the year, when exposure solutions were prepared in partnership with one of the largest building supply chains in the Nordics.

Because direct sales to consumers are getting more important, Ostnor has enhanced its sales point communication and created closer and more integrated collaboration with resellers to develop this business. New packaging with clear and more comprehensive consumer information was introduced in early-2014.

Eight out of ten consumers conduct online research, so both brands focus on digital communication in parallel using sales-oriented informative websites and apps.

An internationalized niche strategy

Ostnor also sells its products in Australia, Belgium, the Netherlands, Russia, the UK and Germany. In 2013, International generated 7 percent of Ostnor's sales. In these markets, Ostnor is a fast-moving niche player with low market shares and a sales strategy focusing on specific customer segments.

These include Ostnor enjoying strong positioning in the healthcare sector, with special solutions for nursing homes and hospitals. Safety, functionality and hygiene standards are especially high in this competence-intensive market, and Ostnor asserts itself well here. Ostnor also has a niche in housing adaptations, where design is also in demand. Ostnor utilizes this successfully in markets including Germany and Australia. The two basic mixer faucet types for healthcare are soft-closing single-lever mixer faucets for kitchens and bathrooms and safety mixer faucets with scald protection for baths and showers.

Ostnor focuses its initiatives on projects on several markets, including the construction of sports facilities and public swimming pools, where Ostnor supplies changing rooms and showers. A new sales office was opened in Hong Kong in 2013, to address the large Chinese market on site, a market where Scandinavian design and quality are highly sought after.

Care in every context

Ostnor's broad product portfolio includes products with high technical performance, electronic content, design and eco-friendliness. The company's long tradition and demonstrable innovative capabilities ensures care in every context, and its products are associated with high quality.

The EcoSafe® concept is an important component of both brand identities. EcoSafe represents environmental awareness throughout product life-cycles. This includes a reduced environmental burden in production facilities, intelligent materials choices and energy-smart functionality that generates energy and water savings. The ambition for both brands is to increase consumer knowledge of the high environmental and financial savings potential.

EasyClean No PVC Mora Eco

THE MORA MMIX BATHROOM CONCEPT

The Mora MMIX Bathroom concept–a big seller that is entirely lead free from 2014 onwards. The unique EcoSafe environmental concept is the foundation of development work which focuses on complete product life-cycles including production, energy consumption in use and recycling.

DEVELOPING CONSUMER EXPOSURE

Ostnor developed a partnering program with one of the major Nordic builders' merchant chains in the year. This program, which addresses Sweden initially, includes exposure solutions displaying Mora Armatur and FM Mattsson side by side in store, including clear consumer information on environmental arguments and safety to facilitate the right purchasing decisions.

This concept brings greater potential to communicate directly with consumers to clarify the clear purchasing arguments apart from design, that should figure in mixer faucet purchases. The focus is on eco-smart functionality, and mixer faucets and sanitary fittings being a component of a pressurized system where Ostnor products are a safe choice.

This program, which has been very well received, and achieved big sales gains, also includes collective sales activities and campaign initiatives, advertising and training for store staff. The roll-out of this program in other Nordic countries is continuing in 2014.

Mora Armatur–contemporary Scandinavian design to use every day

The objective for every product is that “under its innovative and stylish exterior all the necessary technology should be present–and a feeling of precision.”

Mora Armatur is the challenger that is gradually accumulating positioning as an international premium brand. This expansion is a component of Ostnor’s strategy to create profitable growth and is designed to expand the potential market by addressing demand from increasingly conscious consumers and purchasers that want products with innovative design under well-known brands. Systematic and goal-oriented work is ongoing to migrate Mora Armatur so it is perceived as a lifestyle brand that attracts customer groups like architects, interior designers and consumers with a passion for design.

The current range addresses the mid and premium segments. Products feature high quality and high perceived value, and should offer the best of Scandinavian design and Swedish engineering through innovation excellence and environmental awareness. Marketing and communication is designed to reflect the care and time devoted to production in relation to the time –quality time–the consumer enjoys close to the product in the kitchen and bathroom. Each product should be perceived as embodying “a feeling of precision under its innovative and stylish exterior–and all the necessary technology.”

Ostnor has increased its launch rate in recent years, which has had a positive impact on sales and attitudes to the brand. The product range 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.” The popular Mora MMIX series, in lead-free brass, was launched in January 2014.

Mora MMIX

PREMIUM

A premium brand is often part of a chosen lifestyle based on personal commitments. Mora Armatur should offer higher quality and perceived value, with pricing that underscores this positioning.

OFFERING

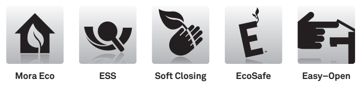
“Contemporary Scandinavian design–to use every day.” This offering is a pledge to everyone we want to attract and do business with.

FOR

Mora Armatur primarily addresses lifestyle-oriented, contemporary and design-conscious individuals, who are often leaders of others.

mora® ARMATUR

Mora Cera



CONSIDERATION AND QUALITY TIME

The new Mora Cera, launched in early-2013, is the largest and most extensive launch that Mora Armatur has ever undertaken. This series is a full range of kitchen, shower and basin mixer faucets that achieve high energy and water savings. Using the latest advances in energy technology, achievements include halving water consumption in showers, without compromising comfort.

Functionality and quality underpin the well-considered design and its organic form. The result is a series of mixer faucets with a precise design language and major financial and environmental benefits. Simply put, Mora Cera is packed with desirable features for kitchens and bathrooms: consideration and quality time. This series has had a big market impact, reflected in factors including increased sales.

FM Mattsson
–intelligent, everyday design

FM Mattsson is the leading brand in the Nordics with market leadership in Sweden and well-established status with high potential to expand volumes in the other Nordic countries. The brand offers intelligent, everyday design for a larger audience.

FM Mattsson's strong position in Sweden is based on long-term and close customer relationships with real estate companies, the construction sector and installation professionals.

The brand has secure status as the safe choice and is well-established among plumbers thanks to its firmly routed reputation for installation safety, innovative technical solutions, robust product quality, safe and eco-smart functionality, as well as functional design. FM Mattsson's firsts include ceramic seals and frost-proof garden faucets, plus two globally unique solutions: soft-closing single-lever mixer faucets and safety mixers.

The product range is very deep, and with its associated connectors and other installation products, covers most faucet needs in housing and public buildings. The offering is backed by a service and support organization. FM Mattsson also has special sanitary fittings for the disabled and care sectors, which attract international interest, as well as garden faucets and heated towel rails.

As interest from end-customers has grown, FM Mattsson has increased the design content of its range. Its design philosophy builds on functional design and sustainable, smart solutions to everyday problems. Faucets are a utility item that are part of everyday life. Accordingly, faucets should be beautiful but simple and solid. They should also be discreet and not demand the attention, and there should be no unnecessary functions that are merely decorative.

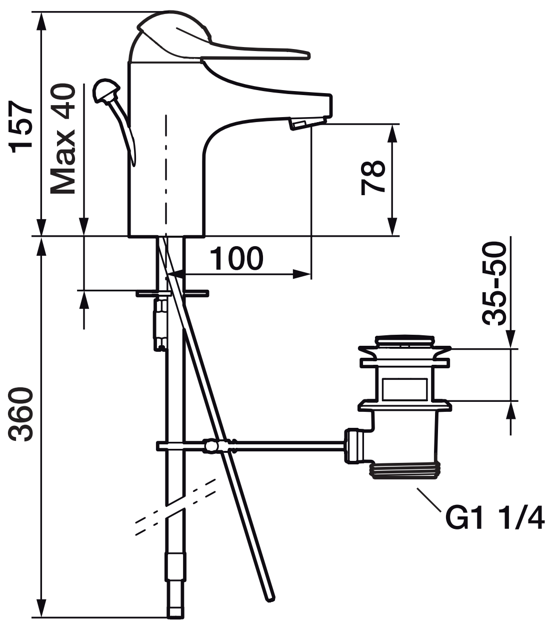
FM MATTSSON 9000E

The new FM Mattsson 9000E series has been awarded the highest rating, class A, by the Swedish Energy Agency. Its intelligent functionality includes an ecoflow limiter, cold starting and soft closing, which enable this mixer faucet to cut energy and water consumption by up to 50 percent.

FM Mattsson

FM Mattsson 9000E Flexi

5 ÅRS TRYCK GARANTI · soft closing · ecosafe · cold start



OUR MOST EXACTING CUSTOMERS SPEND AS MUCH TIME UNDER THE KITCHEN COUNTER AS ABOVE IT

FM Mattsson is marketed as the plumber's choice, with as many as eight out of ten consumers seeking professional recommendations. Very often, professionals recommend FM Mattsson.

This campaign is part of Ostnor's strategy to increase its presence with consumers and other target groups, and to advance FM Mattsson's positioning as the safe choice:

"When developing our products, we know they have to match what we call plumber's quality. This is about the installed and ready product guaranteeing a long life, high safety, optimal comfort, and should also be climate smart and good looking. So, after over 100 years in the business, we've got every reason to be thankful for plumbers' exacting standards and loyalty."

RÖRMOKARENS VAL · ANNO 1865 · FM MATTSSON

Functionality and design in focus in product development

Ostnor's brands are associated with the environment and health-friendly products at the leading edge of technology, and a strong design content. The company's objective is to be best in class, developing the best products on the mixer faucet market in terms of new materials, electronics, as well as environmental, energy and water savings.

Ostnor's research and development has two main elements: function and design. New functionality is produced through continuous technological development in electronics, energy and water saving, integrated technology and component technology. Research and development work intensified further in the year.

The new product Mora Cera, a complete mixer faucet series, including kitchen, basin and thermostat mixer faucets, as well as showers, was launched in February 2013. Work on an all-new lead-free alloy continued, and the Mora MMIX was launched in lead-fruit brass in January 2014.

Design is getting more important

Design is a key factor for Ostnor's ambitions in terms of increasing its presence with consumers and its international expansion. There is a clear trend of consumers gaining increasing influence over the choice of mixer faucet, which means that aesthetic values are decisive.

Design work is conducted on a goal-oriented and structured footing. The company has designers in-house, and established collaborations with external designers. Ostnor also partners closely with universities and institutes of further education. An MSc program in advanced product design at the Umeå Institute of Design in the year involved students mapping the developmental potential in plumbing installers' working environments linked to design and problem solving close to products, and work on developing the kitchen faucets of the future with new functionality and value-added for users.

Shorter lead-times

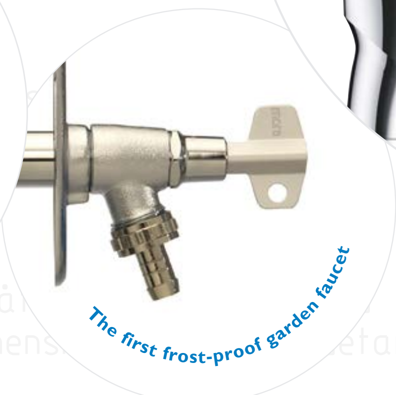
As consumer influence grows, product life-cycles are getting shorter, and gaining visibility with new products is becoming more important. Accordingly, development work is being organized actively towards launching more product series, and phasing out old ones. Ostnor follows up key performance indicators like the rate of innovation and launch precision continuously, with clear improvements achieved in the short and long term. For example, the average time to market for a product has been cut by over half since 2007. A new cross-functional lean working method, to further reduce lead-times, was introduced in 2013.

Nearly 150 years have passed since Frost Matts Mattsson cast the first mixer faucet and laid the foundation of today's Ostnor. The tradition of crafts, know-how and dedication of skilled employees has been refined since then, through research and contemporary manufacturing technology. Ostnor is renowned for its technological innovation and globally unique solutions, including the following:

1865 **Frost Matts Mattsson founds FM Mattsson**

1968 **The first single-lever mixer**
1972 **The first thermostat mixer**
1981 **The first to use ceramic seals**
1985 **The first soft-closing mixer faucet**
1993 **The first frost-proof garden faucet**
1993 **The first safety mixer faucet**
1994 **Launch of Temp Ess energy-saving system**
1999 **More Armatur wins Sweden's 'Great Energy Prize'**

19TH CENTURY **20TH CENTURY**



2007	**Mora Izzy C+ carbonated water from a faucet**
2008	**Launch of EcoSafe environmental concept**
2012	**Mora Tronic Compact with control unit–electronic showerhead with control unit for automatic anti-legionnaire's disease rinsing**
2014	**FM Mattsson 9000E Tronic/Mora MMIX Tronic–a new technology platform for sensor-controlled touch-free mixer faucets combined with new zinc casing technology**
2014	**Launch of lead-free mixer faucets**

21ST CENTURY

Focusing on lean production

In the year, Ostnor sharpened its competitiveness through continued rationalization of its production facility and focus on lean production.

CONTINUOUS IMPROVEMENT

Ostnor has been engaged in a continuous development and change process since 2008 to rationalize its production facility at Mora, Sweden. This improvement work is based on Ostnor's Production System (OPS), its own model for progressively implementing lean production. Lean production is enabling Ostnor to increase its utilization of resources and minimize waste, while maintaining its quality standards.

The implementation of Ostnor's production systems continued in 2013, with a total of 1,570 improvement measures executed. Work on reducing the costs associated with quality defects continued, through channels including a sharper focus on "right from me," 6-Sigma projects and improved failure mode effect analysis (FMEA) to identify potential risks before starting up new product series.

NEW FLOW ORGANIZATION

Ostnor's production organization has been rationalized by realigning from a function to flow organization, with production being divided into three flows: the foundry, the component flow and the assembly flow. Each flow has a number of people associated with it, such as production managers, technicians, planners, as well as service and maintenance staff. This working method is designed to increase efficiency of production and enhance communication between different working groups.

The 'Daily Control' concept was further defined, covering three stages, which in combination, offer a clear view of production each day. Stage one is a morning meeting for all working teams, where safety, quality, delivery, productivity, disruptions and daily planning are discussed. In stage two, the complete flow of all work teams is summarized. Stage three covers the whole facility, and offers a full overview of production status for the day. The objective of this concept is to improve production flow and efficiency, and to identify and resolve problems quickly, thus avoiding faults.

MORE EFFECTIVE SUPPLY CHAIN

Inventory levels continued to reduce thanks to the supply chain concept implemented in production in 2012, involving raw materials and semi-finished goods being delivered to workstations at shorter intervals. This concept was refined in 2013 to cover more groups of production. The development collaboration with customers and suppliers also continued with the aim of optimizing logistics solutions, thus shortening lead-times from order to delivery.

Productivity in 2013 was stable despite lower volumes. This was achieved through channels including using contract staff and flexible working-hours including seasonal working, meaning that working hours were extended by a half-hour per day for 16 weeks in the spring, and correspondingly shortened in the fall. This was piloted in 2012 and introduced on a permanent basis in 2013, which resulted in staffing being better adapted to variations in capacity utilization and Ostnor's potential for rapid adaptation to volume changes improving.

Ostnor's Production system

Ostnor's Production system and the application of Lean Production are the foundation of Ostnor's improvement work. Methods employed include 5S, Kaizen, SMED (single-minute exchange of die) and 6-Sigma, all of which are designed to enhance process efficiency. The principles behind Ostnor's Production system can be summarized in six points:

- **Standardized working methods** mean that everyone uses the best method known for doing work, and that repeat 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.

FM Mattsson 9000E

To further enhance its Lean initiatives and quality, these segments were integrated into the new Operational Excellence organization in the fall, which is part of management. Work was simultaneously expanded to cover the whole company instead of as previously, production only. The breadth and approach of this new working method has brought synergies and increased efficiency.

Production plant

Ostnor's production takes place at a proprietary plant in Östnor, a few kilometers north west of Mora, in central Sweden. The facility is state-of-the-art and 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. Core manufacture is also automated. Our state-of-the-art foundry provides high capacity with limited staffing, the potential for reduced cost of defects and energy savings.

Ostnor has the potential to increase production at existing premises.

Ostnor invested in assembly equipment, an electrical discharge machine, test equipment, ventilation systems, casting cells and server environments in the year.

RELOCATION OF PRODUCTION FROM CHINA TO MORA

Work on onshoring most of the production that has been outsourced to manufacturers in China commenced in 2012. The main reason for the relocation was to improve quality-assurance and increase the flexibility of production through shorter lead-times. This production transfer was possible through the rationalization conducted in the Swedish operation in recent years. The combination of rationalization with a big increase in salary levels in China meant that it is now more profitable to manufacture in Sweden. Since spring 2013, the lion's share of all production, from casting to assembly, has been conducted at Ostnor's production facility in Mora, Sweden. New production needs are continuously analyzed to ensure a profitable manufacturing process. Purchasing from external suppliers primarily consists of plastic and ceramic components, as well as electronic components.

Sustainability and environmental awareness

By working systematically and methodically on sustainability issues at all levels of its organization, Ostnor contributes to sustainable development that protects the environment, people and wider society.

CORPORATE SOCIAL RESPONSIBILITY

Ostnor should endeavor to achieve corporate responsibility in all parts of its business. The combination of a stable and profitable business with good relationships with the company's stakeholders creates the potential for responsible business from financial, social and environmental perspectives.

Ostnor's operations affect, and are affected by, a number of stakeholders. The company has identified five main stakeholders for the group: customers and consumers, employees, suppliers and other business partners, owners and investors, as well as wider society. Good relationships and ongoing dialogue with stakeholders are a prerequisite for ensuring the company works on the right issues in the sustainability segment.

Customers and consumers

To enable Ostnor to sell its products, it needs customers and consumers that want the company's products. The majority of its customers are wholesalers, as well as some resellers and construction developers. Consumers are private individuals that are also the end-users of the company's products. The intervening level consists of other important users and partners such as installers, consultants and housing corporations.

Maintaining an active dialogue with the company's customers and consumers helps Ostnor to continuously improve its products based on their wants and needs. Dialogue with wholesalers and resellers is primarily through personal customer encounters and sales meetings. The dialogue with consumers is primarily conducted through web pages and various surveys.

Employees

Ostnor's employees are the company's most important asset. By maintaining a safe working environment, having effective leadership, offering the potential of influence and development and promoting good performance, Ostnor creates an attractive workplace. This enables the company to hire, retain and develop competent employees.

Ostnor conducts an extensive customer satisfaction survey each year designed to offer an impression of how employees experience their working situations and to identify areas of improvement.

Owners and investors

Long-term sustainable economic value growth is decisive for Ostnor to succeed in attracting owners that are willing to invest in its operations, and thus, are one of the prerequisites for responsible business.

Regular and transparent external communication and the potential for dialogue ensures that Ostnor is aware of its owners' wishes and demands on the company. The primary dialogue channel is through the company's financial reports, press releases, website and the AGM.

Society

Ostnor is a major employer in the Municipality of Mora, Sweden, and the company's operations and actions have a big influence on local society. The company should comply with laws, ordinances and standards, and participate actively in societal progress.

Mora Armatur is a friend of international charity WaterAid, which is an example of its social commitment. Water is a precondition of human health and livelihood, and is in shortage for most of the world's population. As the largest manufacturer of mixer faucets in Sweden, it is natural for Ostnor to contribute to more people gaining access to clean water.

Suppliers

Ostnor has a total of some 500 suppliers in Europe and Asia. A minority of them represent the majority of the company's purchasing. Ostnor maintains continuous dialogue with most of its suppliers. Audits are conducted on the suppliers of most direct material, which primarily review technical capabilities, as well as environmental issues. Ostnor is gradually downscaling its supplier base, engaging in closer collaborations with fewer suppliers, which is expected to generate mutual benefits. The selection process considers factors including supplier openness and willingness to interact, and their ambitions in the environmental segment.

Ostnor's most significant purchasing is input goods to production, such as brass, zinc castings and plastic components.

WaterAid

Mora Armatur's engagement as a friend of international charity WaterAid is an example of social commitment.

CORE VALUES

Clear core values that guide the company's in its conduct towards all stakeholders is fundamental to Ostnor's operations and corporate culture. Core values are a collective platform for all employees to work from in their daily activities. This should permeate the whole company and build on three key concepts: customer value, commitment and respect.

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 potential 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.

SAVINGS POTENTIAL

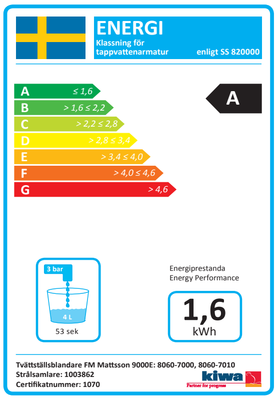
"Energy-efficient faucets for kitchens, basins and showers can reduce energy consumption significantly. By changing three old single-lever mixer faucets in a house for modern, resource-efficient single-lever replacements, you can reduce energy consumption for hot water by up to 40 percent. If a household were to save half this, 20 percent, this would generate an annual energy saving of 2-3 billion kWh per year, equivalent to the total energy consumption of 100,000 electrically heated family houses."

The Swedish Energy Agency

40%

ENERGY CLASSIFICATION OF KITCHEN AND BASIN MIXER FAUCETS

Ostnor has developed a classification and accreditation system for kitchen and basin mixer faucets in a sector-wide collaboration involving sector colleagues, construction firms, the Swedish National Housing Board and the Swedish Energy Agency, which is based on standard laboratory tests and certification rules. The accreditation is of the same type as for white goods and heating systems. The intention is for consumers, purchasers, installers and climate advisers to get impartial assistance in selecting energy-efficient drinking water fittings, to save money and the environment.



ENVIRONMENTAL RESPONSIBILITY

Caring for the environment is high on Ostnor's agenda. Through proactive and systematic environmental work, Ostnor will contribute to lasting sustainable development. This means operations should be conducted with the minimum possible environmental impact, and that Ostnor is working to develop products that help save water and energy. The objective is for Ostnor to be the producer most strongly associated with eco-friendly and health-friendly products.

To achieve this goal, Ostnor needs to be forward-looking, use resources effectively and focus on product development. Ostnor thinks and acts end to end on the environment–from suppliers and production to distribution and customers.

Those segments that are top priorities for Ostnor from an environmental perspective are the conservation of resources, reducing hazardous compounds, land decontamination and offering products that are energy-efficient and maintain a high standard from an environmental perspective.

Transportation has been identified as an area of improvement.

Conservation of resources

Ostnor puts a big emphasis on conserving resources and reducing the environmental impact of production. Its focus is on the utilization of raw materials, consumption of energy and CO2 emissions, 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.

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 concept, where one important principle 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.

Reducing hazardous compounds

Ostnor is working actively to reduce compounds that are being phased out in the company's products, and in its manufacturing process. The development of a new product range with lead-free mixer faucets is a top priority. The combination of greater interest from the market and customers with new European regulations, such as the Ecodesign Directive and 4MS collaboration is driving this technology shift.

Land decontamination

Surveys have indicated that parts of the land surrounding Ostnor's plants are contaminated to some extent. Core samples have indicated high metal content due to long-term industrial usage. In 2013, some 85 percent of the Norra plant's surroundings were decontaminated, with the remainder scheduled for decontamination in 2014.

Product development and product usage

Ostnor has had the long-term priority of environmental consideration in product development. Back in the 1970s, way before climate change became a widespread issue, Ostnor decided to work on a long-term and methodical footing to achieve more sustainable progress in eco-technology.

Ostnor's EcoSafe® concept is central to the marketing of its products and is based on environmental awareness end to end in product chains. This is about activities including reducing the environmental impact of its plant, intelligent materials choices, and energy-smart functionality.

Ostnor is continuously developing its processes and products to satisfy the regulatory and market standards prevailing, and all its products are accredited according to applicable environmental and health standards. This is especially important for kitchen and bathroom mixer faucets, because drinking water is classified as food and legally regulated at national and EU level.

People using FM Mattsson or Mora Armatur mixer faucets save energy and water. The long useful lives of products contribute to a low life-cycle cost and reduced consumption of finite resources.

ENVIRONMENTAL MANAGEMENT SYSTEMS

Ostnor's objective is to satisfy or exceed the applicable standards of environmental legislation and other environmental standards. 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 (ISO 14001) and quality (ISO 9001). Det Norske Veritas conducts 1–2 inspections of the company per year to ensure that its operations continuously satisfy the requirements of standards.

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.

FM Mattsson 9000E

5 ÅRS TRYCK GARANTI | soft closing | ecosafe | cold start | eco flow | easy to use | B energiklass

INTELLIGENT ACCREDITATION SYSTEM

Ostnor's target is to be the provider most strongly associated with the environment and health-friendly mixer faucets in the world. On its market, the company conducts itself to raise the level of knowledge of its consumers and users, and influence them to make environmentally appropriate choices. To clarify these choices, it uses an accreditation system that demonstrates which functionality each mixer faucet contains.

The EcoSafe concept is applied by Mora Armatur and FM Mattsson. It represents eco-friendly and recyclable products, and is based on environmental awareness end to end in the product chain, through reduced environmental impact in its production plant, intelligent materials choices and energy-smart functionality, for example.

The FM Mattsson 9000E II in the image has been enabled with a range of smart functionality, including an ecoflow limiter to 5 liters/minute, so it has the highest energy classification–class A. It also has cold start, so that when the faucet is opened with the lever straight ahead, only cold water emerges. This avoids drawing hot water unnecessarily. Soft close means the faucet closes with a small delay, avoiding pressure spikes in pipe work, increasing the useful life of both the faucet and pipe work.

SOME OF THE POSITIVE ENVIRONMENTAL EFFECTS OF OSTNOR'S RANGE:

- 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. Mora Armatur's and FM Mattsson's marketing puts a big emphasis on increasing consumer awareness of the major salving potential this implies, in environmental and financial terms.

iPhone

Android

Mora Armatur's mobile app includes an energy calculator that computes the savings of changing an old faucet for a more energy-efficient replacement.

Employees and leadership

Clear and effective leadership and competent employees are critical to Ostnor's success. Accordingly, Ostnor pursues leadership development as an active issue and advances its positioning as an attractive employer, where people enjoy working and develop. The average number of employees at year-end was 452, compared to 459 in the previous year, at seven offices in six countries. Most employees, 412 at year-end, are stationed in Sweden.

LEADERSHIP FOR HIGH PERFORMANCE

Well-developed leadership that motivates and inspires people is an important component of Ostnor's strategy and ensures that its employees get the best possible prospects of doing a good job. Ostnor's leadership should proceed from the company's core values and promote high performance at all levels of its organization.

Leadership development is a high priority in Ostnor, and is based on the company's leadership standard 'Leadership for High Performance', consisting of guidelines and support for developing managers and staff. The standard was introduced in 2012 and covers a number of aspects of leadership such as communication, decision-making, availability, improvement work, as well as occupational health and safety. Annual surveys clarify the need for competence development in the leadership segment.

Two leadership seminars were conducted in 2013, one focused on lean leadership and one on the FISH! philosophy, a training concept that supports managers in their work on creating staff commitment and motivation with the aid of practical tools.

An attractive employer

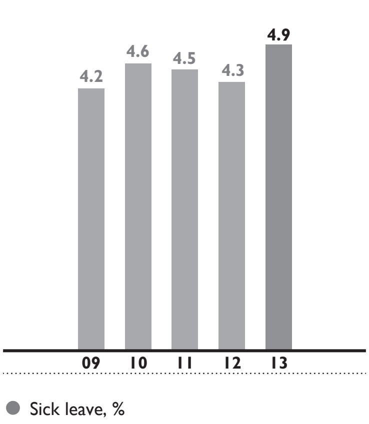
Ostnor endeavors to be an attractive employer with a strong employer brand. The company should be positioned with strong leadership and commitment for its employees. It puts a high priority on its people's continued education and competence development. Competence mapping and regular employee appraisal interviews should create the opportunity for onward progress within the company based on operational needs, with the target of all employees having individual development plans.

Competitive terms are another important part of hiring and retaining competent staff. All employees have variable compensation and/or are offered staff benefits such as keep-fit subsidies, free access to the company's gym, health advice, free health checks every third year and other subsidized health-related services. With competence mapping and appraisal, Ostnor ensures structured access to resources and competence across all functions.

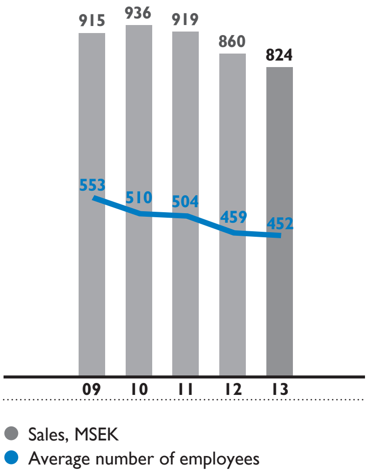
A succession planning system was introduced in 2013, starting at senior management level. The system means that there should be an appointed successor or replacement for most management positions across the company, for the short and long term.

Staff turnover reduced in 2013, and is at its lowest for five years, which suggests good employee satisfaction at the workplace, and Ostnor's efforts to be an attractive employer are paying off.

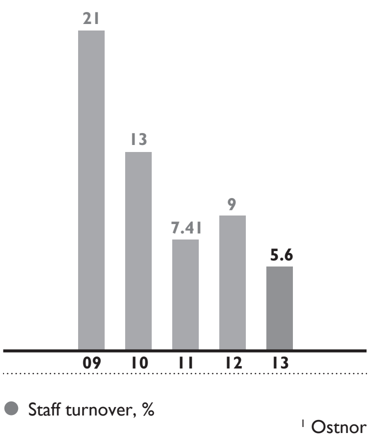
SICK LEAVE [1]



SALES/AVERAGE NUMBER OF EMPLOYEES



STAFF TURNOVER [1]



[1] Ostnor AB

Lars Andersson,
Incoming Freight/Forklift Driver, employed since 1981

"I receive, stock and label goods from our suppliers. After over 30 years with the company, I still enjoy working with great colleagues and having benefits like flextime and keep-fit subsidies. As our safety representative, I also make a contribution to the company's progress."

Annika Borgenstrand,
Creative Graphic Designer, employed since 2011

"I work on the graphic design of brochures, advertising, packaging and store materials. My duties are stimulating, and my colleagues are committed. Ostnor provides me with an attractive and creative environment, where everyone's working towards the same target and gets the opportunity to make progress."

Lena Runberg,
Logistics and Chief Safety Representative, employed since 2004

"I provide assembly staff with items and stock finished products. The fact that Ostnor works on continuous improvement contributes to a good workplace. After ten years, I still get to take on a lot of challenges, and we're always launching new products which is great fun!"

Employee satisfaction survey

Work on creating an attractive and well-functioning workplace is evaluated in an annual satisfaction survey for all employees. The results of this survey are then discussed in dialogue between managers and staff in the various functions and working groups. This dialogue is intended to produce constructive proposals to improvement activities.

2013 was the first time the employee satisfaction survey was conducted in the other Nordic countries. The results of this year's employee satisfaction survey were better overall, or consistent with, the previous year's survey, and resulted in 164 proposals for improvement activities that are being implemented.

One example of the employee satisfaction survey producing actual results is the implementation of a management training workshop called Det utmanande samtalet ('The Challenging Conversation') where over two days, all our managers took training in holding appraisal interviews and other challenging encounters. This training package was executed as a result of the employee satisfaction survey 2012 indicating that many employers had not had an annual appraisal interview with their first-line managers.

A good, safe working environment

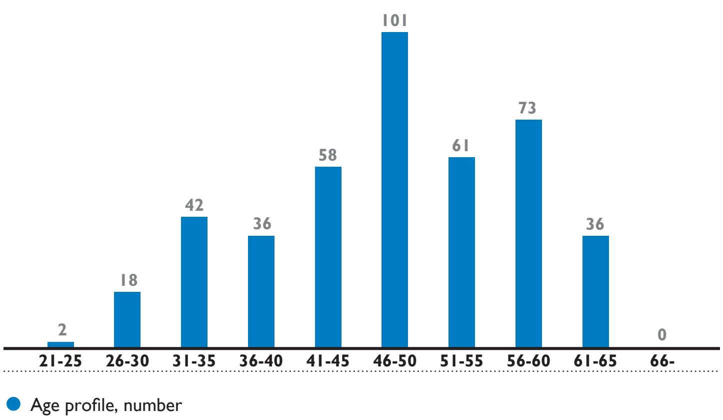
Ostnor worked actively to ensure a safe physical working environment and healthy working conditions where no one should be exposed to sexual harassment or discrimination due to sex, race, religion, age, disability, sexual orientation or ethnic background, for example.

To ensure good occupational health and safety, Ostnor has developed Skyddskommittépulsen ('Health Committee Pulse') –a new forum replacing traditional health committee activities and part of the company's work on rationalizing processes through the lean working method. The company and unions hold weekly meetings to consider health and safety issues and document potential risks, incidents and accidents. The Health Committee Pulse has resulted in many questions in systematic occupational health on safety work addressed actions more effectively than before.

Samverkanspuls ('collaboration pulse'), is a forum where the 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.

A new system for reporting incidents and accidents was implemented in 2013. All managers undertook training in running the system. The company's equal opportunities group produced a company-wide equal opportunities plan in the year. This group, consisting of representatives of the company and unions, works preventatively against harassment and for equal opportunities for both sexes. A salary auditing process was recently executed, and the results indicated no gender-based salary discrepancies.

AGE PROFILE 2013 [1]



DIVISION BETWEEN THE SEXES [1]

[1] Ostnor AB

Corporate governance

Corporate governance means the regulations and structure in place to govern and manage the operations of a limited company in an effective and controlled manner. Ostnor's corporate governance relates to how operations are governed, managed and controlled with the aim of creating value for the company's shareholders and other stakeholders. Ultimately, corporate governance is intended to satisfy shareholders' requirements for returns, and to give all stakeholders satisfactory and accurate information on the company and its development.

Internal and external regulations are the foundation of governance of Ostnor AB (publ), called the company below.

External regulations	Internal regulations
Swedish Companies Act	Articles of Association
Swedish Annual Accounts Act	Rules of procedure of the Board of Directors
Other relevant legislation	The Board of Directors' instructions for the CEO
The Swedish Code of Corporate Governance	Policies, guidelines, instructions and core values

Because Ostnor is not listed on NASDAQ OMX Nordic or another regulated marketplace, it is not subject to the Swedish Code of Corporate Governance (The Code), although Ostnor applies most of the Code's rules.

Shareholders

The total number of Ostnor shares is 11,445,100 of which 2,045,900 class A shares with 10 votes, and 9,399,200 class B shares with one vote each. As of year-end 2013, Ostnor had 163 shareholders Ostnor has been a CSD-registered company since autumn 2003, which means its share register is maintained by Euroclear. The company has also been a public limited company since the 2011AGM.

The company's largest shareholders, which represent at least one-tenth of the number of votes for all the shares of the company, are stated on page 73 of the Annual Report.

Annual General Meeting

Shareholders exercise their right to decide over the company's affairs at the Annual General Meeting (AGM), which is the company's chief decision making body. The AGM is held yearly within six months of the end of the financial year. The AGM elects the company's Board of Directors and Auditors. The AGM also adopts the company's Income Statement and Balance Sheet, and matters regarding dividends, discharge from liability for Board members and Chief Executive Officer and determining fees for Directors and Auditors. The AGM also considers other matters that are mandatory according to the Swedish Companies Act and the Articles of Association.

The company publishes the date of the AGM as soon as the Board has reached a decision on this, although by no later than coincident with the Third-quarter Interim Report. Information on location and date is uploaded to the company's website. Shareholders recorded in the share register maintained by Euroclear on the record date, and that have notified the company of their intention to participate on time, are entitled to participate in shareholders' meetings and vote for their shareholdings. All information on the company's shareholders' meetings, such as notification of participation, entitlement to have matters included in the notice convening the meeting, minutes etc., are available for download from the company's website.

The company's ambition is for the AGM to be a satisfactory body for shareholders, and accordingly, its objective is for the whole Board, representatives of the Nomination Committee, the Chief Executive Officer and other members of management, as well as Auditors, to always attend the AGM.

Extraordinary General Meetings (EGM) are convened when the Board of Directors or Auditors consider them necessary.

AGM 2013

The AGM 2013 was held on 7 May 2013 in Mora, Sweden. The complete minutes of the AGM are available from the company's website. The most important resolutions of the AGM 2013 follow:

- Adoption of the Income Statement and Balance Sheet of the parent company and Income Statement and Balance Sheet of the group.
- To pay dividend of SEK 2.50 per share to shareholders in accordance with the Board of Directors' proposal
- Election of the Board of Directors and Chairman
- Adoption of guidelines for appointing a Nomination Committee.
- Adoption of guidelines for remuneration for senior executives.

OVERVIEW OF GOVERNANCE OF OSTNOR

External regulations

- Swedish Companies Act
- Swedish Annual Accounts Act
- Other relevant legislation
- Swedish Code of Corporate Governance

Internal regulations

- Articles of Association
- Rules of procedure for the Board of Directors
- Board of Directors' instructions for the CEO
- Policies, guidelines, instructions and core values

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

AGM 2014
The AGM will be held on 14 May 2014 at 5.00 p.m. at Best Western Mora Hotell & Spa in Mora, Sweden.

Nomination Committee

The Nomination Committee is the AGM's body for consulting on AGM resolutions in matters of election and fees with the aim of creating good supporting data for the Meeting to consider these matters. The duty of the Nomination Committee is to submit proposals to the AGM on:

- Chairman of the AGM
- Number of Board members
- Remuneration to the Board of Directors and Auditor
- Chairman of the Board and other members
- Auditor
- Proposals for amendments to guidelines for appointing a Nomination Committee

The company has not adopted any specific age limit for Board members, nor any time limit to how long a Director can serve on the Board. The Auditor's appointment is a matter submitted to the AGM annually. In accordance with the principles adopted by the AGM 2013, three shareholders' representatives have been appointed. The Nomination Committee has the following members:

- Nicholas Jacobsson, Chairman (nominated by Ostnor's largest shareholder Tibia)
- Lena Hermansson (nominated by former largest shareholder of Mora Armatur)
- Agneta Eriksson (nominated by former largest shareholder of FM Mattsson)

Information on how shareholders can submit proposals to the Nomination Committee as provided on the company's website.

Board of Directors

Size and composition
According to the Articles of Association, the Board of Directors should consist of between four and 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 Board of Directors is elected annually at the AGM. The AGM in 2013 resolved that the Board of Directors should consist of seven members elected by the AGM. The AGM resolved to re-elect Christer Lenner as Chairman of the Board and to re-elect Johnny Alvarsson, Erik Eriksson, Mats Hermansson, Hans Åke Norås and Pernilla Wigren, as well as to elect Lars-Erik Blom.

Chairman of the Board
The Chairman of the Board should ensure that the Board of Directors' work is conducted in accordance with the stipulations of the Articles of Association, the Swedish Companies Act, rules and ordinances, and the rules of procedure of the Board of Directors.

The Chairman maintains ongoing contact with the Chief Executive Officer to monitor the company's operations and be responsible for other Board members receiving the information and documentation necessary to enable them to conduct their duties on the Board.

The Chairman is responsible for appraising the work of the Board of Directors, and also participates in appraisal of the group's senior executives, and to represent the company on ownership issues.

Chairman of the Board Christer Lenner is not an employee of the company and does not have any assignments for the company apart from his Chairmanship of the company.

Work of the Board of Directors
The Board of Directors bears ultimate responsibility for the company's organization and administration and should also take decisions on strategic issues. The ambition of the Board of Directors has been to devote particular attention to establishing the overarching targets of operations and decide on strategies to achieve them. In addition, the Board continuously evaluates the executive management to ensure the company's governance, management and control. The Board of Directors works to put systems for monitoring and control of its financial position in place, and for verification of compliance with laws and other regulations.

In 2013, the Board of Directors held seven meetings, one of which was following election. Minutes were taken by the secretary of the Board of Directors at these meetings, who is also the company's Chief Financial Officer.

Data for meetings were sent to all members for each meeting, which were then held in accordance with the approved agenda for the meeting. Other executives participate at Board meetings to submit reports. At its meetings in the financial year, the Board of Directors considered the fixed items on its agenda for each board meeting such as business conditions, financial reporting and investments. Other issues discussed in 2013 included strategy, market progress, product development and addressing foreign countries. In addition, matters regarding

BOARD OF DIRECTORS IN 2013

	Function	Indepedence [2]	Attendance	Fees
Christer Lenner	Chairman	Yes	7/7	231,000
Johnny Alvarsson	Member	Yes	7/7	120,000
Lars Erik Blom [1]	Member	No	4/5	70,000
Erik Eriksson	Member	No	7/7	120,000
Mats Hermansson	Member	No	7/7	120,000
Hans Åke Norås	Member	Yes	7/7	120,000
Pernilla Wigren	Member	Yes	7/7	120,000
Staffan Gryting	Employee representative	–	6/7	–
Kenneth Östlund	Employee representative	–	5/7	–

[1] Lars Erik Blom elected at the AGM on 7 May 2013
[2] Independent of major shareholders

annual financial statements, interim reports, budgets and forecasts are considered at designated Board meetings.

Written instructions regulate the division of duties between the Board of Directors and Chief Executive Officer, which formalize internal division of responsibility, decision-making processes in the company, company signatories, the agenda of Board meetings and the Chairman's duties. These instructions are evaluated yearly.

Directors' fees are resolved by the AGM. The AGM 2013 approved the Nomination Committee's proposal of total Directors' fees of SEK 900,000. These fees should be divided with SEK 180,000 to the Chairman of the Board and SEK 120,000 to each of the other members. The AGM also resolved that the Chairman of the Board would be entitled to remuneration for actual time spent on work in addition to work on the Board of Directors until the AGM 2014 of up to SEK 100,000. No Directors' fees are payable to employees of the group.

The AGM 2013 resolved to identify and co-opt another member to the Board of Directors. The Nomination Committee was assigned to lead this process. Hans Linnarsson was appointed as the co-opted Board member in November 2013, and received fees of SEK 25,000 in 2013.

Board members are entitled to invoice their fees to the company at an amount corresponding to Directors' fees and the legislated additional social security contributions and VAT with the aim of achieving full cost and tax neutrality for the company. This would require such Board member to conduct a business activity, either as part of a consulting practice, or as a sole proprietorship, and the member to have at least three Directorships.

Audit Committee

The Board of Directors has decided against establishing an audit committee, with instead, the whole Board of Directors being responsible for the group having satisfactory processes for internal control and accurate, high-quality financial reporting, and that external communication is open, impartial and relevant. Coincident with the third-quarter financial statement and the annual financial statement, the company's Auditors attend the Board meeting to report on how the company's accounting, administration and financial controls are functioning. The Chief Executive Officer and Chief Financial Officer submit formal reports at these Board meetings to enable Board members to establish a dialogue with the Auditor without participation of managers of the company.

Remuneration Committee

The Board of Directors has appointed a Remuneration Committee that will consist of the chairman and two members elected by the AGM. Its duty is to consult on the Chief Executive Officer's salary and other employment terms for decision by the Board of Directors. The AGM resolution regarding the guidelines for remuneration for senior executives are the basis of this work. The committee should receive and approve agreements that the CEO makes with senior executives of the company. Minutes are taken at all meetings of the Remuneration Committee, with these minutes presented to the Board coincident with an oral report coincident with the Board of Directors making decisions. In 2013, the members of the Remuneration Committee were Christer Lenner (Chairman), Lars Erik Blom and Erik Eriksson. Mats Hermansson is a co-opted member.

The Remuneration Committee held two meetings in 2013, which all members attended.

Chief Executive Officer and Management

CEO's duties

The Chief Executive Officer is appointed and dismissed by the Board and his work is appraised continuously by the Board of Directors. The Board of Directors approved the instructions for the CEO, which have now been adopted, at its meeting on 14 June 2013, which included the following main segments:

- Preparing a business plan
- Monitoring compliance with the objectives, policies and strategic plans the Board of Directors has adopted
- Ensuring that financial reporting reflects the group's overall financial position and results of operations and other circumstances of material significance
- Ensure that Management has the appropriate competence and composition to manage operations in the direction the Board of Directors has decided

Claes Seldeby was appointed Chief Executive Officer on 25 May 2012. Mr. Seldeby has no shareholdings or partnerships in entities that the company has significant business relationships with.

Remuneration for senior executives

It is important that there is a clear correlation between remuneration and the group's financial targets in the short and long term. The company should be able to offer competitive and market terms that enable the company to hire and retain the right senior executives. The criteria for establishing remuneration should be based on the significance of duties and the employee's competence experience and performance

Remuneration should consist of the following components:

- Basic salary
- Variable remuneration
- Pension benefits
- Other benefits and conditions on termination.

Other senior executives means the six people that make up Group Management with the Chief Executive Officer.

The AGM 2013 adopted guidelines implying that variable remuneration should be based on individual targets. Variable remuneration should be maximized at 50 percent of basic salary for the Chief Executive Officer and a maximum of 35 percent of basic salary for other senior executives.

Pensions should be defined contribution to create predictability. For the Chief Executive Officer, premiums are a maximum of 30 percent of basic salary. For other senior executives, customary pension commitments apply within the auspices of the national pension plan. Further pension premiums are also provisioned at 5 percent of basic salary.

There is a notice period of 12 months between the company and the Chief Executive Officer of the Parent Company for termination by the company and six months for termination by the Chief Executive Officer. On termination by the company, the Chief Executive Officer is entitled to salary and other employment benefits for 12 months and severance pay corresponding to 12 months' salary.

Auditor

The AGM 2013 appointed audit firm Öhrlings PricewaterhouseCoopers AB (PwC) as Auditor. Authorized Public Accountant Magnus Brändström is Auditor in Charge. Magnus Brändström is also the Auditor of Scandic, Dometic, Acando and Addnode. In addition to the audit, the company appointed PwC in the tax segment for various accounting issues. PwC is liable for verifying its independence for decisions, and for providing impartial consulting for Ostnor in addition to auditing. Information on fees to the audit firm are stated in Note 8. Audit fees to other Auditors primarily consist of legislated audits of minor group subsidiaries.

Internal audit

The group has a simple legal and operational structure and established governance and internal control systems. Against this background, the Board has decided against conducting a dedicated internal audit.

Internal controls over financial reporting

The Board of Directors' responsibility for internal controls and governance is formalized by the Swedish Companies Act and the Swedish Annual Accounts Act, with the Swedish Code of Corporate Governance also applied.

Ostnor endeavors to conduct operations as efficiently as possible. Financial reporting should be reliable and reflect the company's operations accurately and be prepared in accordance with applicable laws and ordinances.

The company has chosen to adopt the COSO definition of internal controls as the base of its work on internal controls. COSO stipulates that internal controls have five components: control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

The base of internal controls over financial reporting is the control environment, which includes the culture that the Board and Management communicates and works from. Primarily, the control environment consists of an organizational structure, responsibilities and authorizations, management philosophy, ethical guidelines and the company's policies, guidelines and processes. Decision paths, authorizations and responsibilities that are clearly defined and communicated between different levels of the organization, control documents in the form of policies and guidelines covering all significant segments, and offering guidance to senior executives of the group, are an important component of the control environment.

An important part of the Board's work is to formulate and approve a number of fundamental policies, guidelines and frameworks. These include the Board of Directors' rules of procedure, instructions for the CEO, investment policy and financial policy. The purpose of these policies includes creating the foundation of good internal control. All policies are reviewed yearly and adopted by Management or the Board of Directors. The Board of Directors also endeavors for its organizational structure to provide clear roles, responsibilities and processes that enable effective management of operational risks and enables the achievement of targets.

Risk assessment

Through its operations, the company is exposed to various types of risk. Structured risk assessment enables identification of the material risks that affect internal controls over financial reporting. The company works continuously on risk analysis, where the risks of misstatement in the financial reporting of significant income statement and balance sheet items are analyzed. Other risks relating to financial reporting of the risk of fraud, losses or misappropriation of assets. The Board of Directors continuously evaluates the Group Management's risk management process. This work includes judging which preventative measures should be taken to reduce the company's risks.

Control activities

The risk of misstatements in financial reporting is reduced through good internal controls over financial reporting with a particular focus on critical segments defined by the Board of Directors. The purpose of control activities is to discover, prevent and correct inaccuracies and discrepancies in reporting.

Information and communication

The company has a communication policy that includes guidelines for internal and external communication from the company. The purpose of this policy is to ensure compliance with all external and internal communication obligations, and to maintain good communication with staff.

Monitoring

There is monthly monitoring of all profit centers, companies and at group level. Monitoring is usually against budget, the previous year and most recent forecast. Forecasts are prepared three times a year for internal use. These results are analyzed by the accounting and finance function, and managers responsible for profit centers. The Chief Financial Officer reports to the Chief Executive Officer, who submits monthly financial reports to the Board of Directors. The Board of Directors continuously evaluates the information provided by Group Management.

OSTNOR'S ORGANIZATION

Senior Executives

Claes Seldeby
CEO
Employed in 2011
Born in 1969
B.Sc. (Econ.)
Class B shares: 20,500

Anna-Carin Bjelkeby
CFO
Employed in 2013
Born in 1966
B.Sc. (Econ.)
Shareholding: 0

Niclas Brandshage
Sales Director
Employed in 1999
Born in 1967
B.Sc. (Econ.)
Class B shares: 200

Stephan Degner
Head of Operational Excellence
Employed in 2012
Born in 1971
Graduate in Industrial Engineering & Management
Shareholding: 0

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

Mats Westman
Director of Production
Employed in 2008
Born in 1957
Senior high school graduate
Shareholding: 0

Shareholdings as of 31 December 2013

Board of Directors

Christer Lenner
Chairman of the Board since 2009
Born in 1947
Engineering and marketing qualifications
Other assignments: Chairman of Scanmast AB, Scanhold AB, AB Nybrogrus and Mattsson Metal AB. Director of the Siljan Group, Gunnebo Industrier AB, Mora Trading C Lenner AB, Stenbåkkan Konsult AB and Västerviks Företagsgrupp Ekonomisk Förening.
Class B shares: 40,600 through companies

Johnny Alvarsson
Director since 2012
Born in 1950
B.Sc. (Eng.), management studies. CEO and President of Indutrade AB
Other assignments: Chairman of Manava Konsult AB and Director of VBG Group
Class B shares: 10,000

Lars Erik Blom
Director since 2013
Born in 1960
B.Sc. (Econ.). CEO of LK Finans AB
Other assignments: Chairman of Lagerstedt & Krantz AB (LK), Teknikmagasinet Sweden AB and Deltra Kravek AB. Director of Järntorget Byggintressenter AB, Connecting Capital AB, ITS Nordic AB and Temperatur Sensitive Solutions AB (TSS).
Class A shares: 22,890 through companies, Class B shares: 91,561 through companies

Erik Eriksson
Director since 2003
Born in 1959
Senior high school technology graduate. CEO of Mattsson Metal AB
Other assignments: 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: none
Class A shares: 61,600, Class B shares: 103,600

Hans Åke Norås
Director since 2009
Born in 1944
B.Sc. (Econ.)
Other assignments: Chairman of Proplate AB, Proplate Oxelösund AB and Hasselkobbens ek. förening. Director of CNN Clarhäll Norås & Norås Consulting AB, Norped AB and Söderbergföretagen J AB and deputy Board member 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
Other assignments: Director of Almi Företagspartner GävleDala AB and H.B.V förening u.p.a.
Class B shares: 1,000

Staffan Gryting
Employee representative (IF Metall) since 2005
Born in 1968
IF Metall
Shareholding: 0

Kenneth Östlund
Employee representative (Unionen) since 2012
Born in 1966
Unionen
Shareholding: 0

Shareholdings as of 31 December 2013

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.

Financial information

CONTENTS

Administration Report 2013

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

GROUP

The Board of Directors and Chief Executive Officer of Ostnor AB (publ.) corporate identity number 556051-0207, with registered office in Mora, Sweden, hereby present the Annual Accounts and Consolidated Accounts for the financial year 2013.

Operations

Background

The group conducts product development, manufacturing and sales of sanitary fittings under the strong and well-established brands FM Mattsson and Mora Armatur. Ostnor's product portfolio includes kitchen, shower and bathroom mixer faucets and accessories.

Ostnor's vision is to achieve leadership as a global premium vendor of sanitary fittings on the basis of our Swedish origins.

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 76 percent (75) of group sales are in Sweden and 17 percent (17) are in the other Nordic countries. In Sweden, Ostnor has strong positioning with customers in the dominant wholesale sector. Ostnor also has a non-Nordic export share of 7 percent (8).

FM Mattsson was founded in 1865 and its first faucet was cast in 1876. Mora Armatur AB was founded in 1927. The two faucet manufacturers then developed in the parallel. FM Mattsson AB and Mora Armatur AB merged to form the Ostnor Group in 2003. FM Mattsson is positioned in the mid segment in terms of price, and Mora Armatur in the mid and premium segments.

The Group has some 450 employees in 7 countries.

Market progress

Ostnor's markets generally featured declining demand in 2013. Sales in Sweden were somewhat more hesitant in the early part of the year compared to 2012. A recovery in the third quarter reduced the discrepancy between the years. Net sales on Ostnor's main markets fell by 4.3 percent in 2013 as a result of reduced activity in new construction and the construction, renovations, conversion and extension sector, termed the 'ROT' sector in Sweden. Market growth is driven by new construction and the construction, renovation, conversion and extension sector, including on several of Ostnor's other priority markets. Sales in Finland made positive progress in 2013 while Norway and Denmark were slightly weaker.

Design and product development

Ostnor engaged in intensive development work in 2013. Mora Cera 2, 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 2013. Further new product launches in kitchen, basin, thermostat mixer faucets and showers are scheduled for 2014.

Production

The implementation of Ostnor's Production system (OPS), an application of Lean, continued in the year. This included the implementation of 1,570 (1,815) suggested improvements. Ostnor implemented a new organizational structure focusing on flow groups and the daily control concept was developed further. Seasonally-adjusted working hours and an element of externally hired staff improved Ostnor's ability to rapidly adapt to changing volumes. The focus remained on reducing costs associated with quality defects. Ostnor's collaboration with customers and suppliers to optimize logistics solutions and reduce lead-times from order to delivery continued.

Swedish Prime Minister Fredrik Reinfeldt visited Ostnor in Mora in June. The visit was occasioned by the transfer of Ostnor's production in China to the Mora production facility from spring 2013.

Ostnor made investments in assembly equipment, an electrical discharge machine, test equipment, ventilation systems, casting cells and server environments.

Sales and marketing organization

The work to increase the efficiency of Ostnor's marketing and sales continued in the year. In Denmark, a new CEO was appointed in June. New CEOs for Germany and Norway were recruited in the year and both took up their positions at the beginning of 2014.

Ostnor initiated the closure of its Russian operations in 2013, a process that it expects to complete in 2014.

Net sales and profit

Key ratios

	Full year	
MSEK	**2013**	**2012**
Net sales	823.7	860.5
Operating income	70.0	38.3
Operating margin, %	8.5%	4.5%
Profit/loss after financial items	67.5	34.7
Cash flow after investments	53.7	67.0
Return on equity, %	15.7%	10.2%
Earnings per share	4.51	2.85

Net sales amounted to MSEK 823.7 (860.5), a decrease of 4.3 percent year on year. In volume terms, sales decreased by 4.0 percent year on year, explained by continued hesitant demand on most of the company's markets. December was a poor month in the sector.

Exchange rate fluctuations had a negative effect on met sales of MSEK 5.2.

Operating income was MSEK 70.0 (38.3), corresponding to an operating margin of 8.5 percent (4.5). The profit gains are due to increased productivity in the production and product development processes. In addition to the rationalizations taking place, Ostnor has reduced costs across most functions.

Ostnor continues to actively pursue cost control in order to offset fluctuating sales. Ostnor continued its market and new product development initiatives in 2013.

Non-recurring costs were 0 (18.1) (see Note 5).

The group's depreciation and amortization was a total of MSEK 44.2 (46.5), of which the amortization of intangible assets was MSEK 16.1 (16.2).

Profit before tax was MSEK 67.5 (34.7). Net financial income was influenced by exchange rate effects.

The tax expense for 2013 was MSEK 15.8 (2.1).

FINANCIAL POSITION

MSEK	2013	2012
Cash flow from operating activities	93.3	88.6
Cash flow from investment activities	-39.6	-21.6
Cash flow from financing activities	-41.7	-63.8
Total cash flow	12.0	3.2
Cash and cash equivalents at the end of the period	114.0	102.0
Equity/assets ratio, %	49.8	45.1
Net debt	5.7	40.4
Debt/equity/assets ratio	1.7	13.4

Cash flow from operating activities was MSEK 93.3 (88.6). Tax paid was MSEK 10.4 (13.7). Net investments affected cash flow by MSEK -39.6 (-21.6). Group cash and cash equivalents including short-term investments were MSEK114.0 (102.0) at year-end. Interest-bearing net debt was MSEK 5.7 at year end, against MSEK 40.4 in December 2012. Debt amortization including finance leases occurred according to plan was MSEK 13.1 (18.1). Dividends of MSEK 28.6 (45.8) were paid.

Total assets were MSEK 673.7 (669.4) at year-end. Inventories were MSEK 138.0 (136.6). Current receivables were MSEK 126.6 (125.9), of which accounts receivable–trade were MSEK 105.5 (103.8).

The equity/assets ratio was 49.8 percent (45.1).

Equity was MSEK 335.7 (301.7) at the end of the period, corresponding to SEK 29.33 per share (26.36). Return on equity was 15.7 percent (10.2).

Financial instruments–brass derivatives

Derivatives were measured at fair value, level 2, according to quoted prices on the LME and quoted exchange rates as of year-end. Effected hedges had a negative impact on operating income of MSEK 3.8 (3.6).

Investments

The Group's total investments in property, plant and equipment were MSEK 16.8 (7.8). In addition, Ostnor leased assets for MSEK 4.0 (9.4). Group investments in intangible assets were MSEK 20.0 (14.7), mainly the capitalization of development expenses.

Employees

At the end of the period, the number of full-time employees was 450 (459). The average number of employees in the period was 452 (459).

Risks and uncertainty factors

The Ostnor Group's operations are exposed to operating and strategic risk, as well as financial risk. Operating and strategic risks include business and liability risk and financial risk includes liquidity, interest rate and currency risk. Ostnor continuously seeks to identify and assess the risks the company is exposed to. One of the key operating risks Ostnor has identified is the 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. For purchased components, Ostnor seeks to secure contracts with a low frequency of price changes.

A description of the Group's financial risk management is in Note 3.

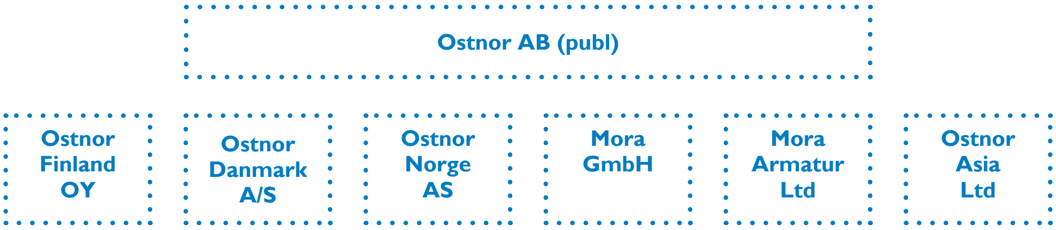
Environmental impact and sustainable development

Ostnor conducts operations requiring permits in accordance with the Swedish Environmental Code. The company monitors developments and prioritizes climate and environmental aspects in order to minimize risks and so it can proactively satisfy new regulatory requirements. 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. Part of the estate around the Norra plant was decontaminated in 2013. There is a review of environmental issues and sustainability on pages 18–21.

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 763.1 (797.7), of which goods exports were MSEK 134.9 (144.3). Operating income was MSEK 48.8 (22.0). The parent company's investments in property, plant and equipment amounted to MSEK 16.8 MSEK (6.9).



GROUP STRUCTURE

The Consolidated Accounts 2013 include the Swedish parent company and wholly owned subsidiaries • Ostnor Finland OY, Finland • Ostnor Danmark A/S, Denmark • Ostnor Norge AS, Norway • Mora Gmbh, Germany • Mora Armatur Ltd, Russia • Ostnor Asia Ltd, China

Guidelines for remuneration to senior executives

The Annual General Meeting 2013 decided on guidelines for remuneration to senior executives. These guidelines are reproduced in Note 36.

Corporate governance

As Ostnor is not a listed company, there is no regulatory requirement to adopt the Swedish Corporate Governance Code. Ostnor has chosen to voluntarily apply large elements of the Swedish Corporate Governance Code.

Subsequent events

There were no significant events after the end of the financial year.

Proposed appropriation of profits

The Board of Directors is proposing a dividend of SEK 3.00 (2.50) per share to be paid to shareholders registered on the record date of 19 May 2014, and that the remainder of non-restricted equity is carried forward. The amounts below are denominated in SEK:

Amount payable as dividends to shareholders	34,335,300.00
Carried forward	59,033,966.78
Total non-restricted equity in parent company	93,369,266.78

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 49.8 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 2013, as well as the financial position at the end of the financial year on 31 December 2013, are stated in the following Income Statement and Balance Sheet with accompanying Notes.

Consolidated Income Statement

TSEK	Note	2013	2012
Net sales	6	823,696	860,517
Cost of sales	9, 10	-559,597	-585,971
Gross profit/loss		**264,099**	**274,546**
Selling expenses	9, 10	-157,014	-178,733
Administrative expenses	8, 9, 10	-13,579	-33,189
Research and development expenses	9, 10	-27,856	-27,653
Other operating income	11	9,522	13,134
Other operating expenses	11	-5,134	-9,756
Operating income	5	**70,038**	**38,349**
Financial income	12	3,026	4,456
Financial expenses	12	-5,552	-8,104
Financial items–net	12	**-2,526**	**-3,648**
Profit before tax		**67,512**	**34,701**
Income tax	13	-15,842	-2,083
Profit/loss for the year		**51,670**	**32,618**
Earnings per share (in SEK per share)			
Earnings per share	14	**4.51**	**2.85**

Consolidated Statement of Comprehensive Income

TSEK	2013	2012
Net profit for the year	**51,670**	**32,618**
Items not reversed to Income Statement		
Actuarial pensions	13,920	-392
Translation differences	-477	-250
Tax attributable to other comprehensive income	-3,169	184
Items that are reclassifiable to profit or loss		
Hedging of brass	945	-1,400
Tax attributable to other comprehensive income	-207	308
Other comprehensive income for the year, net of tax	**11,012**	**-1,550**
Total comprehensive income for the year	**62,682**	**31,068**

Total comprehensive income is attributable to the Parent Company's shareholders.

Consolidated Balance Sheet

TSEK	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets			
Intangible assets	15		
Intangible assets under development		55,225	50,390
Other intangible assets–IT		1,146	2,063
Goodwill		92,604	92,604
Total intangible assets		**148,975**	**145,057**
Property, plant and equipment	16		
Land and buildings		48,490	50,914
Plant and machinery		53,152	63,916
Equipment, tools, fixtures and fittings		24,092	23,623
Construction in progress		8,971	4,092
Total property, plant and equipment		**134,705**	**142,545**
Financial non-current assets			
Financial assets available for sale		2	2
Other receivables	19	4,051	4,715
Total financial non-current assets		**4,053**	**4,717**
Deferred tax receivables	17	7,375	12,466
Total non-current assets		**295,108**	**304,785**
Current assets			
Inventory			
Raw materials and consumables		11,294	9,699
Goods in progress		75,302	72,339
Finished goods and commodities		51,378	54,607
Total inventories		**137,974**	**136,645**
Accounts receivable	19, 21	105,468	103,805
Tax receivables		10,962	10,691
Other receivables	19	3,159	5,920
Prepaid expenses and accrued income		6,922	5,274
Derivative instruments	19, 20	100	253
Cash and cash equivalents	19, 22	114,006	101,991
Total current assets		**378,591**	**364,579**
TOTAL ASSETS		**673,699**	**669,364**

Consolidated Balance Sheet cont.

TSEK	Note	31 Dec 2013	31 Dec 2012
EQUITY			
Equity attributable to the Parent Company's shareholders	23		
Share capital		11,445	11,445
Reserves		10,077	-935
Retained earnings including comprehensive income for the year		314,216	291,159
Total equity		**335,738**	**301,669**
LIABILITIES			
Non-current liabilities			
Borrowings	19, 24	14,550	18,580
Derivative instruments	19, 20	0	216
Deferred tax liabilities	17	44,964	40,886
Pension obligations	25	101,214	111,612
Provisions	27	16,400	22,949
Total non-current liabilities		**177,128**	**194,245**
Current liabilities			
Borrowings	19, 24	8,056	16,867
Accounts payable	19	69,697	62,687
Current tax liabilities		977	1,090
Derivative instruments	19, 20	568	2,053
Other liabilities	19	10,980	10,427
Accrued expenses and deferred income	28	70,555	80,326
Total current liabilities		**160,833**	**173,450**
TOTAL EQUITY AND LIABILITIES		**673,699**	**669,364**
Pledged assets	29	80,194	80,707
Contingent liabilities	30	1,415	1,348

Consolidated Statement of Changes in Equity

TSEK	Note	Equity	Reserves	Retained earnings	Total equity
Opening balance as of 1 January 2012		**11,445**	**615**	**324,265**	**336,325**
Effect of amended accounting principle for reporting defined benefit pension plans				-19,944	-19,944
Adjusted opening balance as of 1 January 2012		**11,445**	**615**	**304,321**	**316,381**
Comprehensive income					
Profit/loss for the year		-	-	32,618	32,618
Other comprehensive income			-1,550		-1,550
Total comprehensive income			**-1,550**	**32,618**	**31,068**
Transactions with shareholders					
Dividends	36			-45,780	-45,780
Closing balance as of 31 December 2012		**11,445**	**-935**	**291,159**	**301,669**
Opening balance as of 1 January 2013		**11,445**	**-935**	**291,159**	**301,669**
Comprehensive income					
Profit/loss for the year				51,670	51,670
Other comprehensive income			11,012		11,012
Total comprehensive income		**-**	**11,012**	**51,670**	**62,682**
Transactions with shareholders					
Dividends	36	-	-	-28,613	-28,613
Closing balance as of 31 December 2013		**11,445**	**10,077**	**314,216**	**335,738**

Consolidated Statement of Cash Flows

TSEK	Note	2013	2012
Cash flow from operating activities			
Operating income before financial items		70,038	38,349
Amortization	10	44,171	46,482
Other non-cash items	35	-1,838	8,421
Interest received		2,756	4,233
Paid interest		-5,535	-7,814
Income taxes paid		-10,389	-13,710
Cash flow from operating activities before changes in working capital		**99,203**	**75,961**
Cash flow from changes in working capital			
Increase/decrease in inventories		-1,329	15,939
Increase/decrease in operating receivables		-297	2,981
Increase/decrease in operating liabilities		-4,262	-6,250
Total changes in working capital		**-5,888**	**12,670**
Cash flow from operating activities		**93,315**	**88,631**
Cash flow from investing activities			
Investments in intangible assets	15	-20,025	-14,668
Investments in property, plant and equipment	16	-20,456	-7,127
Sales of property, plant and equipment	16	187	45
Investments of other financial non-current assets		664	151
Cash flow from investing activities		**-39,630**	**-21,599**
Cash flow after investing activities		**53,685**	**67,032**
Cash flow from financing activities			
Repayment of debt		-13,057	-18,013
Dividend paid		-28,613	-45,780
Cash flow from financing activities		**-41,670**	**-63,793**
Decrease/increase in cash and cash equivalents		**12,015**	**3,239**
Cash and cash equivalents at beginning of year	22	101,991	98,752
Cash and cash equivalents at year-end	22	**114,006**	**101,991**

Parent Company Income Statement

TSEK	Note	2013	2012
Net sales	6, 7	763,084	797,651
Cost of sales	9, 10	-566,162	-591,588
Gross profit/loss		**196,922**	**206,063**
Selling expenses	9, 10	-103,631	-125,937
Administrative expenses	8, 9, 10	-21,852	-37,846
Research and development expenses	9, 10	-27,028	-23,538
Other operating income	11	9,445	12,970
Other operating expenses	11	-5,042	-9,688
Operating income		**48,814**	**22,024**
Income from financial items			
Income from participations in Group companies		0	4,023
Income from other securities and receivables that are accounted for as non-current assets	33	253	-67
Financial income	12	2,831	4,191
Financial expenses	12	-4,523	-6,266
Total income from financial items		**-1,439**	**1,881**
Income after financial items		**47,375**	**23,905**
Appropriations	34	-11,291	4,400
Tax on profit/loss for the year	13	-10,240	-10,939
Net profit/loss for the year		**25,844**	**17,366**

Parent Company Statement of Comprehensive Income

TSEK	2013	2012
Profit/loss for the year	**25,844**	**17,366**
Hedge accounting of brass contract	945	-1,400
Tax attributable to other comprehensive income	-208	308
Total comprehensive income	**26,581**	**16,274**

Parent Company Balance Sheet

TSEK	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	15	59,534	66,148
Total intangible assets		***59,534***	***66,148***
Property, plant and equipment	16		
Land and buildings		48,489	50,914
Plant and machinery		26,402	32,802
Equipment, tools, fixtures and fittings		23,145	21,984
Construction in progress and advance payments		8,971	4,092
Total property, plant and equipment		**107,007**	**109,792**
Financial non-current assets			
Participations in Group companies	18	8,263	8,178
Receivables from Group companies		2,570	3,077
Deferred tax receivables	17	1,365	3,248
Other non-current receivables		3,939	4,451
Total financial non-current assets		**16,137**	**18,954**
Total non-current assets		**182,678**	**194,894**
Current assets			
Inventory			
Raw materials and consumables		11,294	9,699
Goods in progress		75,182	72,339
Finished goods and commodities		46,294	48,064
Total inventories		**132,770**	**130,102**
Current assets			
Accounts receivable		83,333	76,067
Receivables from Group companies		7,625	10,522
Tax receivables		10,961	10,674
Other receivables including derivatives	20	3,160	5,588
Prepaid expenses and accrued income		6,427	4,180
Total current receivables		**111,506**	**107,031**
Cash and cash equivalents (Agreed credit TSEK 120,000 (120,000))	22	**102,237**	**93,257**
Total current assets		**346,513**	**330,390**
TOTAL ASSETS		**529,191**	**525,284**

Parent Company Balance Sheet cont.

TSEK	Note	31 Dec 2013	31 Dec 2012
EQUITY AND LIABILITIES			
Equity	23		
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		67,525	78,035
Net profit/loss for the year		25,844	17,366
Total unrestricted equity		**93,369**	**95,401**
Total equity		**150,658**	**152,690**
Untaxed reserves	32	**142,693**	**131,403**
Provisions			
Provisions for pensions and similar obligations	26, 27	74,881	72,070
Guarantee commitments	27	16,300	16,450
Other provisions	27	100	6,500
Total provisions		**91,281**	**95,020**
Non-current liabilities			
Liabilities to credit institutions	24	0	0
Other	20	0	216
Total non-current liabilities		**0**	**216**
Current liabilities			
Liabilities to credit institutions	24	0	7,500
Accounts payable		66,214	59,022
Liabilities to group companies		6,418	4,343
Other liabilities including derivatives	20	8,351	9,678
Accrued expenses and deferred income	28	63,576	65,412
Total current liabilities		**144,559**	**145,955**
TOTAL EQUITY AND LIABILITIES		**529,191**	**525,284**
Pledged assets	29	80,194	80,707
Contingent liabilities	30	21,263	21,869

Change in Parent Company Equity

TSEK	Note	RESTRICTED EQUITY Share capital	 Restricted reserves	NON-RESTRICTED EQUITY Retained earnings	 Net profit/loss for the year	Total equity
Opening balance as of 1 January 2012		**11,445**	**45,844**	**124,907**		**182,196**
Comprehensive income						
Profit/loss for the year					17,366	17,366
Other comprehensive income				-1,092		-1,092
Transactions with shareholders						
Dividends	36			-45,780		-45,780
Closing balance as of 31 December 2012		**11,445**	**45,844**	**78,035**	**17,366**	**152,690**
Opening balance as of 1 January 2013		**11,445**	**45,844**	**95,401**		**152,690**
Comprehensive income						
Profit/loss for the year					25,844	25,844
Other comprehensive income				737		737
Transactions with shareholders						
Dividends	36			-28,613		-28,613
Closing balance as of 31 December 2013		**11,445**	**45,844**	**67,525**	**25,844**	**150,658**

Parent Company Cash Flow Statement

TSEK	Note	2013	2012
Cash flow from operating activities			
Operating income before financial items		48,814	22,024
Depreciation	10	26,150	29,460
Adjustment for items not affecting cash flow	35	-2,227	4,852
Interest received		2,814	8,284
Interest paid		-4,506	-6,403
Income tax paid		-8,852	-12,395
Cash flow from operating activities before working capital changes		**62,193**	**45,822**
Cash flow from working capital changes			
Increase/decrease in inventories		-2,668	13,403
Increase/decrease in accounts receivable		-1,504	19,271
Increase/decrease in accounts payable		7,191	659
Increase/decrease in operating liabilities		-3,947	-8,423
Total change in working capital		**-928**	**24,910**
Cash flow from operating activities		**61,265**	**70,732**
Investing activities			
Investments in property, plant and equipment	16	-16,786	-6,867
Sales of property, plant and equipment	16	187	16
Investments in subsidiaries		-85	0
Decrease in other financial assets		512	148
Cash flow from investing activities		**-16,172**	**-6,703**
Financing activities			
Repayment of debt		-7,500	-10,000
Dividends paid		-28,613	-45,780
Cash flow from financing activities		**-36,113**	**-55,780**
Cash flow for the year		**8,980**	**8,249**
Cash and cash equivalents at beginning of year	22	**93,257**	**85,008**
Cash and cash equivalents at year-end	22	**102,237**	**93,257**

Notes

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES

The consolidated accounts have been prepared in accordance with the International Accounting Standards Board (IASB) and the interpretation statements issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the EU Commission for application in the EU. The Council for Financial Reporting's recommendation RFR 1 Supplementary Accounting Rules for Groups has also been applied.

The Parent Company applies the same accounting principles as the Group except in the cases listed below under "Parent Company accounting principles."

The annual accounts and consolidated accounts were approved for issue by the Board on and CEO on 26 February 2014. The Consolidated Statement of Comprehensive Income, Statement of Financial Position and the Parent Company Income Statement and Parent Company Balance Sheet will be subject to the approval of the AGM on 14 May 2014.

Basis for the preparation of the Parent Company and Consolidated accounts

Valuation principles applied when preparing the financial reports

Assets and liabilities are reported at historical cost with the exception of certain financial assets and liabilities that are measured at fair value. Financial assets and liabilities that are measured at fair value comprise derivative instruments and financial assets held for sale.

Functional and presentation currency

The Parent Company's functional currency is Swedish krona, which is also the presentation currency for the Parent Company and for the Group. This means that the financial statements are presented in Swedish kronor (SEK). All amounts, unless otherwise indicated, are rounded to the nearest thousand (TSEK). Figures in brackets relate to the previous year.

Estimates and assessments in the financial statements

The preparation of financial statements in accordance with IFRS requires the Board and management to make estimates and judgments that affect the company's profit and financial position and other information provided. The judgments and assumptions are based on historical experience and are reviewed regularly. Judgments made by Management in the application of IFRS that have a significant impact on the financial statements and estimates made that could lead to material restatements in future financial statements are described in more detail in Note 4.

Amended accounting policies 2013

The amended accounting policies resulting from amendments to IFRS with effect from January 1, 2013 applied by the group are described below. Other amendments to IFRS with effect from 2013 inclusive have not had any significant effect on the consolidated financial statements.

From 1 January 2013, the Group applies IFRS 13 "Fair Value Measurement," a new consistent measurement of fair value and more stringent disclosure requirements. The new disclosure requirements are reviewed in Note 25. In connection with producing IFRS 13, a requirement in IAS 36 was introduced relating to the disclosure of recoverable value in annual goodwill impairment testing. However, this requirement has been removed from IAS 36 from 2014 inclusive, this removal of a requirement is applied prospectively.

From 1 January 2013, the Group applies amended IAS 19, "Employee benefits" on amended reporting of actuarial gains and losses. The amendment is attributable to the reporting of defined benefit pension plans. The new principles are applied to reporting retroactively and the opening balance as of 1 January 2012 has been restated.

The Group also applies the amended IAS 1 Presentation of Financial Statements (recognition of items in other comprehensive income). This amendment means that items in 'other comprehensive income' have been divided into two categories; items that have been reclassified, or are reclassifiable to net profit/loss for the year and items that are not reclassifiable to net profit/loss for the year. Items that have been reclassified include gains/losses on cash flow hedges. Items that cannot be reclassified include revaluations of defined benefit pension plans.

In addition, a number of changes were made to IFRS within the framework of IASB's annual improvement project. None of these changes affected the Group's financial statements.

Amended accounting principles 2014 and beyond

A number of new or amended standards and interpretation statements become effective in 2014 and beyond and have not been applied prospectively in the preparation of these financial statements. From 1 January 2014, the Group applies IFRS 10–12. IFRS 10 Consolidated Financial Statements replaces IAS 27 with regard to the regulations governing the consolidated accounts and SIC 12 with regard to whether a company should be included in the consolidated accounts, IFRS 10 contains a model to be applied when judging whether controlling interest exists. IFRS 11 Joint Arrangements largely implies two changes, judging whether a joint arrangement is a joint business or joint venture and that the proportionate consolidation method no longer applies to joint ventures. IFRS 12 Disclosure of Interest in Other Entities results in an increased number of disclosures for subsidiaries, collaborations and associated companies and in relation to structured entities that are not consolidated.

Classification of current and non-current items

In the Ostnor Group, assets and liabilities are divided into current and non-current items. Non-current assets and non-current liabilities consist essentially of amounts that are expected to be recovered or paid after more than twelve months from the reporting date. Current assets and current liabilities consist essentially of amounts that are expected to be recovered or paid within twelve months of the reporting date.

Consolidated accounts (principles of consolidation)

The consolidated accounts include all entities that are under the controlling influence of the parent company. Controlling influence means to have a direct or indirect right to formulate a company's financial and operational strategies for the purpose of ensuring economic rewards.

Ostnor applies the acquisition method when preparing the consolidated accounts.

This method means that the acquisition of a subsidiary is treated as a transaction in which the Group indirectly acquires the assets of the subsidiary and takes over its liabilities. The acquisition analysis determines the fair value on the day of acquisition of acquired identifiable assets and liabilities taken over. Transaction expenses are recognized directly in net profit or loss.

Conditional consideration/earn-out payments are measured at fair value at the date of acquisition. Conditional consideration are revalued at each reporting date and the change recognized in profit/loss.

In cases where the subsidiary's accounting principles do not correspond to the Group's, adjustments have been made to the Group's accounting principles.

Goodwill is not amortized but is impairment tested annually, see Note 15.

The subsidiaries' financial reports are included in the consolidated accounts from and including the date of acquisition until the date where the controlling influence ceases.

Intragroup receivables and liabilities, revenues and expenses and unrealized gains or losses arising from intragroup transactions between Group companies are eliminated.

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

NOTE 1 CONT.

krona, at the closing day rate. Income and expenses for each of the income statements are translated to Swedish krona at the average rate of exchange ruling on the transaction date. Translation differences arising from the translation of foreign operations are recognized in other comprehensive income.

Income

Net sales

Net sales are reported net of VAT and discounts. Income from the sale of goods is reported when significant risks and benefits have been transferred to the buyer.

Insurance compensation

In the event of theft or damage to any of the Group's assets, insurance compensation may be payable, usually after deduction for insurance excess. Insurance compensation is reported as other operating income and excess as other administration expenses in profit/loss. Agreed insurance remuneration that has not yet been received at the end of the reporting period is reported as accrued income in the Balance Sheet.

Segment reporting

Ostnor AB is an unlisted company and is not required to apply regulations relating to segment reporting.

Costs

Foreign-currency denominated receivables and liabilities

Foreign-currency denominated operating receivables are translated to SEK at the end of the reporting period and exchange rate differences are recognized in operating income.

Operating leases

The group has leasing contracts relating to 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 lease term are expensed in the Income Statement over the lease term. Benefits obtained in connection with signing an agreement are reported in net profit for the year as a reduction in leasing charges on a straight-line basis over the lease term. Variable charges are expensed in the periods when they occur.

Finance leases

The Group leases certain property, plant and equipment. Lease arrangements where the Group essentially retains the economic risks and rewards associated with ownership are classified as finance leases. At the beginning of the lease term, financial leases are recognized at the lower of the leased item's fair value and the present value of minimum lease payments. Contracts that are classified as finance lease agreements in the Group are for machinery.

Minimum lease payments are divided between interest expenses and amortization of the outstanding debt. The interest portion is recognized in the Income Statement allocated over the lease term so that each accounting period is charged an amount corresponding to the fixed interest rate for the recognized liability during each period. Fixed assets held through finance lease agreements are depreciated by applying the same useful life as for owned assets of a similar nature.

Financial income and expenses

Financial income consists of interest income on invested funds, dividend income and gains on divestments of financial assets. Interest income on financial instruments is recognized according to the effective interest method. Income from dividends is recognized when the right to receive payment is established. The gain from a disposal of a financial instrument is recognized when the risks and rewards associated with the ownership of the instrument are transferred to the purchaser and the Group no longer exercises control over the instrument.

Financial expenses consist of interest costs on borrowings, pension liabilities, accounts payable and banking charges and other financial expenses. Borrowing costs are recognized in profit or loss using the effective interest method with the exception of where costs are directly attributable to the acquisition, construction or production of a qualifying asset and are therefore included in the cost of the asset.

Exchange gains and exchange losses are recognized net.

The effective interest rate is the interest rate that discounts the estimated future cash flows during a financial instrument's expected term to the net carrying amount of the financial asset or liability.

Taxes

The Group's total tax comprises current tax and deferred tax. Tax is recognized in net profit for the year except when underlying transactions are recognized in other comprehensive income or in equity, whereupon the associated tax effect is recognized in other comprehensive income or in equity.

Current tax is calculated on the basis of the tax regulations that have been enacted or substantively enacted on the reporting date in the countries where the parent company and its subsidiaries are active and generate taxable income. Adjustments of current tax attributable to prior periods are also part of current tax.

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 recognized 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 as of the reporting date, and which are expected to apply when the deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax receivables for tax loss carry-forwards are recognized only to the extent it is likely that future tax surpluses will be available, against which the loss carry-forwards can be utilized.

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

Deferred tax receivables and liabilities are offset when there is a legal right to offset current tax receivables and liabilities and when the deferred tax receivables 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.

Intangible assets

Research and 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 recognized 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 right conditions are in place 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 reliably.

NOT 1 CONT.

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. Capitalized expenditure is mainly generated internally and includes direct costs for work conducted 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 conducted 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 recognized 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 capitalized and depreciated over the estimated useful life. Software licenses are capitalized 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 amortization 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 recognized at acquisition cost less any accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Property, plant and equipment

Property, plant and equipment are recognized as an asset in the Statement of Financial Position 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.

Property, plant and equipment are recognized at acquisition cost less accumulated amortization and less potential impairment. 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 recognized 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 derecognized. 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. Land is not depreciated.

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 recognized in other operating income and other operating expenses, respectively, in the Income Statement.

Financial instruments

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 measured at fair value through the Income Statement

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. Endowment insurances contracts are assets that Ostnor has designated as at fair value through remeasurements of the corresponding pension provision.

Loans receivable and accounts receivable–trade

Loans receivables and accounts receivable–trade are financial assets that are not derivatives and that have 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 reporting date, which are classified as non-current assets. The Group's loan receivables and accounts receivable–trade consist of accounts receivable–trade, cash and cash equivalents and the financial instruments that are recognized among other receivables.

Other financial liabilities

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

Recognition and Measurement

Purchases and sales of financial assets are recognized on the transaction date, the date on which the Group commits to purchasing or selling the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies for all financial instruments not recognized at fair value through the Income Statement. Financial assets and liabilities measured at fair value through the Income and Statement are initially recognized at fair value in the Balance Sheet, while attributable transaction costs are recognized in the Income Statement. Financial assets are derecognized 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 derecognized when the contractual obligation has been fulfilled or otherwise terminated.

NOTE 1 CONT.

Financial assets measured at fair value through the Income Statement 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 amortized 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 the Income Statement (derivative instruments and endowment insurance), 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 recognized within net financial items and financial hedges of transactions within the business are reported within operating income. For more information regarding hedge accounting in accordance with IAS 39 for hedging of commodities, see below.

Offsetting of financial instruments
Financial assets and liabilities are offset and recognized by a net amount in the balance sheet, only when there is a legal right to offset the recognized amounts and there is the intention to settle them by a net amount, or, simultaneously, realize the asset and settle the liability.

Assets recognized at amortized 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 recognized 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 recognized, the reversal of the previously recognized impairment loss is recognized in the Consolidated Income Statement.

Derivative instruments
Derivative instruments are initially recognized in the Balance Sheet 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 recognized 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 commodities 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 under operating income.

When the hedged forecast purchase of brass is recognized as inventory, the gains and losses previously recognized in other comprehensive income and thereby accumulated in equity are transferred from equity and other comprehensive income and are included in 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, hedge accounting is terminated. This means that amounts recognized in other comprehensive income from the period when the hedge was effective remains in equity and is reversed from other comprehensive income when the forecast hedged purchase of brass is recognized in the Balance Sheet. When a forecast transaction (hedged item) is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement under operating income.

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 recognized 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 other operating income and other operating expenses items in the Income Statement, under operating income.

Inventories
Inventories comprise raw materials and supplies, work in progress and finished goods. Finished goods are recognized at the lower of acquisition cost and net realizable value. The cost of finished goods and work in progress comprises raw materials, direct labor, 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 realizable 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.

Accounts receivable–trade
Accounts receivable–trade 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–trade are recognized initially at fair value and, subsequently, at amortized cost by applying the effective interest method, less any provisions for impairment.

Cash and cash equivalents
In the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents consist of cash, bank balances and current investments.

Impairment of 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).

NOTE 1 CONT.

Provisions

Provisions are distinct from other liabilities because there is uncertainty regarding the timing and extent of the payment to settle the provision. Provisions are recognized in the Statement of Financial Position 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 reported at the best estimate of an amount that would settle the commitment.

When the outflow of resources is expected to occur in the long term, the expected future cash flow is discounted and the provision is reported at present value.

A discount rate before tax is applied which reflects the current 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. Provisions are reported in the Statement of Financial position under other current and non-current liabilities.

Borrowings

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

Accounts payable–trade

Accounts payable–trade are obligations to pay for goods and services acquired in the ongoing operations from suppliers. Accounts payable–trade 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–trade are recognized 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.

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 legal 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, period of service and salary.

The liability recognized 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. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rate for government and housing 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.

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 recognized as personnel costs when they fall due. Prepaid contributions are recognized 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 recognizes severance pay when it is demonstrably committed to terminate employment according to an irrevocable, detailed, formal plan. 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 recognizes a liability and an expense for bonuses. The Group recognizes a provision when there is a legal obligation or an informal obligation due to past practices..

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 operations' cash flows.

NOTE 2 THE PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities. Statements issued by the Swedish Financial Reporting Board for listed companies are also applied. RFR 2 means that the Parent Company in the annual accounts for the legal entity must apply all EU-endorsed IFRS and statements whenever possible within the auspices of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and taking into account the relationship between accounting and taxation.

Classification and presentation methods

The Income Statement and Balance Sheet are prepared in accordance with the Swedish Annual Accounts Act's schedule. 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 recognized at acquisition cost less any impairment. The acquisition cost includes acquisition-related costs and any additional purchase price.

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 recognized in the items "Income from participations in Group companies."

Lease agreements

All lease arrangements, whether financial or operational, are classified as operating leases.

NOTE 2 CONT.

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

Group contributions and shareholders' contribution

Group contributions provided from Parent Company to subsidiary are recognized as an expense in the Income Statement.

Group contributions which the Parent Company receives from subsidiaries are recognized 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, p. 2), 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 recognized 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 recognized 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 recognized in a legal entity as part of the untaxed reserves. Also, appropriations in the Income Statement are recognized including the deferred tax.

Amended accounting policies 2014 and beyond

See amended Group accounting policies on page 44.

NOTE 3 FINANCIAL RISK MANAGEMENT

Financial risk factors

Through its operations, the Group is exposed to a number of financial risks: market risks (comprising 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, unfavorable effects on the Group's financial performance. The Group uses derivative instruments to decrease a certain amount of the risk.

a) Market risk

Currency risk

Currency risk can be divided into translation risk and transaction risk. Translation risk means the risk that the value, in SEK, of net investments in foreign currency varies as a result of exchange rate fluctuations. Currency exposure that arises where net assets in the Group's international operations are not hedged.

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 minimize 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 forward 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 percent 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.

Exchange rate differences recognized in the Income Statement amount to:

TSEK	2013	2012
Other operating income/expenses	2,872	2,180
Net financial income	600	0
Comprehensive income (translation difference)	-478	-250
Total	**2,994**	**1,930**

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

TSEK	2013	2012
NOK	9,678	13,099
DKK	5,318	6,490
EUR	10,575	8,213
USD	23	13
Other currencies	2,614	4,031
Total	**28,208**	**31,846**

NOTE 3 CONT.

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

TSEK	2013	2012
NOK	3,679	3,912
DKK	451	219
EUR	9,756	9,574
USD	1,967	2,035
Other currencies	7,667	5,805
Total	**23,520**	**21,545**

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

TSEK	2013	2012
NOK	7,456	8,659
DKK	5,992	4,711
EUR	4,147	2,408
USD	-4,679	1,225
Other currencies	5,557	1,898
Total	**18,473**	**18,901**

Sensitivity analysis, operating income:

TSEK	Total net flows	Effect on profit of a 10% change against SEK without hedging
EUR	-18,000	-1,800
USD	-11,500	-1,150
NOK	44,500	4,450

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 arranged at variable interest exposes the Group to interest rate risk with regards to the cash flow, which is partly neutralized by cash assets with a variable interest rate.

Ostnor's interest rate risk policy aims to reduce the negative impact of interest 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 analyzed 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 interest rate risk relating to cash flow by using interest swaps with the financial implication of converting borrowing from variable to fixed interest for a proportion of borrowing. 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.

The Group has analyzed its sensitivity to changes in the interest rate.

The completed analysis shows that the effect of on profit of an increase of 1.0 percent in the interest rate would not have any significant negative effect.

Interest attributable to pension provisions is not take into account.

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 percent copper and about 40 percent zinc. Ostnor, therefore, has a substantial risk exposure to changes in the prices of these metals. The consumption of brass is about 2,000 tonnes per year. Of this amount, about 900 tonnes come from the recycling of metal shavings and scrap metal in the Group's own production. The remaining 1,100 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 50–60 of the needs for the coming year. Due to the uncertainty of volumes, the hedging level was changed towards the end of 2013, to making hedges corresponding 25 percent of the requirement for the ensuing year. Hedges made for 2013 remain. For the coming year, Ostnor requires some 600 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 240 per year. The corresponding value for zinc is just over TSEK 120 per year. Ostnor has, in recent years, seen a stabilization in the market prices of brass but in the longer term, over one year, Ostnor has a price risk in brass to manage. Ostnor's complete consumption of 1,100 tonnes bought at market prices, plus to some extent the approximately 600 tonnes of brass included in the components purchased externally, is, subsequently, exposed to developments on the metals market.

Credit risk

Credit risk or counterparty risk is the risk that the counterparty in a financial transaction cannot fulfill its obligations on the required date. Ostnor's credit risk includes bank balances, financial investments and accounts receivable. Ostnor's investment policy is to minimize 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–trade. 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 analyzed. 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 21. No material credit risk exists.

Liquidity risk

Liquidity risk refers to the risk that the Group lacks the necessary liquid assets to fulfill 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

NOTE 3 CONT.

calculated by means of liquidity forecasts. Ostnor's strategy is to reduce external borrowing, minimize working capital and to create a liquidity reserve. The Group's liquidity reserve can be created from, among other things, committed credit facilities and is to amount to at least 10 percent of sales, as well as be sufficient to cover liquidity requirements for the coming 12 months, at a minimum.

As per 31 December 2013 the Group has liquid assets amounting to TSEK 104,006 (101,991) 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 unutilized credit facilities:

TSEK	2013	2012
Variable interest:		
Matures within one year	156,678	136,910
Matures after more than a year	0	20,613
Fixed interest rate:		
Matures within one year		
	156,678	**157,523**

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 reporting date.

TSEK			
As of 31 December 2013	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**
Liabilities regarding financial leasing	8,790	16,194	1,834
Derivative instruments	977		
Accounts payable–trade and other liabilities	69,697		
	79,464	**16,194**	**1,834**

TSEK			
As of 31 December 2012	**Less than 1 year**	**Between 2 and 5 years**	**More than 5 years**
Borrowings (excl. financial leasing)	7,500		
Liabilities regarding financial leasing	9,725	19,860	524
Derivative instruments	2,053		
Accounts payable–trade and other liabilities	62,735		
	82,013	**19,860**	**524**

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 optimized capital structure to keep the costs of capital at a low level.

The Group assesses the capital on the basis of the debt/equity/assets 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.

TSEK	2013	2012
Total borrowings (Note 24)	22,606	35,446
Pension obligations	97,081	106,939
Less: Cash and cash equivalents (Note 22)	-114,006	-101,991
Net liability	**5,681**	**40,395**
Equity	**335,738**	**301,669**
Debt/equity/assets ratio, %	**1.7**	**13.4**

Measurement of fair value

The reported value, after potential impairment, of accounts receivable–trade and other receivables and accounts payable and other liabilities are assumed to correspond to fair value, as these items are of a short-term nature.

The financial assets measured 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 assets and liabilities within the next financial year are outlined below.

NOTE 4 CONT.

Impairment tests for goodwill
The Group tests annually whether there is any impairment of goodwill, in accordance with the accounting principle described in Note 1. Recoverable amounts for cash generating units are determined by calculating the value in use. The value in use is based on cash flows after tax expected to be generated during the residual useful life of the units, with the exception of where perpetual life is assumed. These calculations require the use of estimates.

The impairment test conducted as of 31 December 2013 did not indicate any impairment. The yield on 10-year government bonds at year end is used as the discount rate. A change of 3 percent in the discount rate or a reduction of 3 percent in the operating margin would not change the results of the test.

Product development projects
Ostnor capitalizes costs attributable to product development projects to the extent such costs are deemed to meet the criteria of IAS 38, p. 57. 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, p. 57 (see Note 15 intangible assets, product development) are deemed to be satisfied. Accordingly, a decision was taken to recognize expenditure arising from the development project as an asset in the Balance Sheet.

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 government and housing 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 receivables regarding tax loss carry-forwards. In addition, the Group is investigating whether it is appropriate to capitalize new deferred tax receivables related to this year's tax loss carry-forwards. Deferred tax receivables are recognized for tax loss carry-forwards when it is likely that these can be utilized against future taxable income and against taxable temporary differences. Ostnor has recorded deferred tax receivables for loss carry-forwards that are available in Germany where it is probable that these loss carry-forwards can be utilized against future profits.

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 2.0 percent of net sales as of 31 December 2013 (1.9).

Provisions for the removal and restoration of land
It is probable that Ostnor may, in the future, be required to conduct land decontamination, 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 conducted at the present time. Should the actual amounts differ from these estimates, future results may be affected.

NOTE 5 NON-RECURRING ITEMS

TSEK		
GROUP	**2013**	**2012**
Preparations for IPO		6,681
Expenses for a change of CEO		5,757
Personnel expenses in tandem with staff downsizing		7,554
Repayment of pension premiums from FORA		-1,893
Group total	**0**	**18,099**

NOTE 6 DISTRIBUTION OF NET SALES

Net sales are classified according to geographic market as follows:

TSEK		
GROUP	**2013**	**2012**
Nordic countries	762,527	788,638
Europe, excluding Nordic countries	49,439	53,144
Other markets	11,730	18,735
Group total	**823,696**	**860,517**

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

GROUP	2013	2012
Sales of goods	816,989	853,213
Sales of services	763	2,514
Other income	5,944	4,790
Group total	**823,696**	**860,517**

PARENT COMPANY	2013	2012
Sales of goods	756,322	780,861
Sales of services	759	9,743
Other income	6,003	7,047
Parent Company total	**763,084**	**797,651**

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

During the year, the Parent Company has invoiced the subsidiaries TSEK 138,002 (125,862) for goods and Group services. The Parent Company's purchases from Group companies, amounting to TSEK 152 (596) refers to Group services.

NOTE 8 REMUNERATION TO AUDITORS

Audit assignment refers to the examination of the annual accounts and accounting records, as well as of the administration of the Board of Directors and Chief Executive Officer, 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.

TSEK		
GROUP	**2013**	**2012**
PwC		
Audit assignment	599	476
Audit activities other than audit assignment	344	340
Tax consultancy	22	74
Other	227	726
Other auditors		
Audit assignment	299	271
Audit activities other than audit assignment	16	
Tax consultancy services	6	8
Other	4	45
Group total	**1,517**	**1,940**

TSEK		
PARENT COMPANY	**2013**	**2012**
PwC		
Audit assignment	530	430
Audit activities other than audit assignment	344	340
Tax consultancy services	22	74
Other	227	726
Parent Company total	**1,123**	**1,570**

NOTE 9 REMUNERATION TO EMPLOYEES, ETC.

TSEK		
GROUP	**2013**	**2012**
Salaries, other remuneration	178,270	183,046
Social security contributions	50,889	53,388
Pension costs (Note 25)	23,914	27,758
Group total	**253,073**	**264,192**

Salaries and other remuneration

	2013		2012	
	Salaries and other remuneration (of which bonuses)	**Pension costs**	**Salaries and other remuneration (of which bonuses)**	**Pension costs**
Members of the Board, Presidents and other senior executives	14,089	4,380	13,597	4,799
	(0)		(0)	
Other employees	164,182	19,534	169,449	22,959
	(53)		(91)	
Group total	**178,271**	**23,914**	**183,046**	**27,758**

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

	2013		2012	
	Number on reporting date	**Of whom men**	**Number on reporting date**	**Of whom men**
Members of the Board	21	76%	18	61%
CEO and other senior executives	14	93%	12	92%
Group total	**35**		**30**	

TSEK		
PARENT COMPANY	**2013**	**2012**
Salaries and other benefits	152,149	158,988
Social security contributions	48,091	50,836
Pension costs (Note 26)	19,647	20,957
Parent Company total	**219,887**	**230,781**

NOTE 9 CONT.

Salaries, other remuneration and social security contributions

TSEK	2013 Salaries and other benefits (of which bonuses)	2013 Pension costs	2012 Salaries and other benefits (of which bonuses)	2012 Pension costs
Members of the Board, Presidents and other senior management	8,755	3,641	8,937	4,142
	(0)		(0)	
Other employees	143,394	16,006	150,051	16,815
	(0)		(0)	
Parent Company total	**152,149**	**19,647**	**158,988**	**20,957**

Average number of employees per country

	2013 Average number of employees	2013 Of whom women	2012 Average number of employees	2012 Of whom women
Sweden	412	121	413	125
Russia	2	1	6	3
Total Parent Company	**414**	**122**	**419**	**128**
Subsidiaries				
Denmark	7	1	6	1
Finland	11	4	10	4
Norway	11	1	12	1
Germany	9	3	10	3
Russia	0	0	2	1
Total subsidiaries	**38**	**9**	**40**	**10**
Group total	**452**	**132**	**459**	**138**

Gender division in the Parent Company

	2013 Number on reporting date	2013 Of whom men	2012 Number on reporting date	2012 Of whom men
Members of the Board	9	89%	8	88%
CEO and other senior executives	7	86%	6	83%
Parent Company total	**16**		**14**	

NOTE 10 DEPRECIATION/AMORTIZATION BY FUNCTION

TSEK	GROUP 2013	GROUP 2012	PARENT COMPANY 2013	PARENT COMPANY 2012
Cost of sales	23,480	25,407	15,108	18,151
Selling expenses	337	522	181	354
Administrative expenses	4,297	4,867	9,994	10,306
Research and development expenses	16,057	15,687	867	649
Total depreciation/amortization	**44,171**	**46,483**	**26,150**	**29,460**

NOTE 11 OTHER OPERATING INCOME AND OPERATING EXPENSES

	GROUP		PARENT COMPANY	
TSEK	**2013**	**2012**	**2013**	**2012**
Other operating income				
Gains on sales of tangible fixed assets	187	45	187	16
Exchange rate differences	7,851	11,564	7,839	11,445
Accounting for government grants and disclosure of government assistance		34	0	34
Forward contracts			0	0
Other operating income	1,484	1,491	1,419	1,475
Other operating income	**9,522**	**13,134**	**9,445**	**12,970**
Other operating expenses				
Losses on sales of tangible fixed assets	-34		-34	
Exchange rate differences	-4,978	-9,384	-4,886	-9,316
Forward contracts	-122	-372	-122	-372
Other operating expenses			0	0
Other operating expenses	**-5,134**	**-9,756**	**-5,042**	**-9,688**

NOTE 12 FINANCIAL INCOME/FINANCIAL EXPENSES

	GROUP		PARENT COMPANY	
TSEK	**2013**	**2012**	**2013**	**2012**
Financial income				
Interest income on bank balances	891	1,679	859	1,513
Interest income from Group companies			91	124
Exchange rate gains	1,718	2,556	1,634	2,403
Fair value of gains on interest swaps	170	70		
Other financial income	247	151	247	151
Financial income	**3,026**	**4,456**	**2,831**	**4,191**
Financial expenses				
Interest expenses on borrowings	-3,174	-4,426	-3,154	-3,581
Interest expenses on finance leases	-995	-613		
Exchange rate losses	-1,118	-2,556	-1,118	-2,176
Fair value losses on interest rate swaps	-17			
Other financial expenses	-248	-509	-251	-509
Financial expenses	**-5,552**	**-8,104**	**-4,523**	**-6,266**

NOTE 13 INCOME TAX/TAX ON PROFIT FOR THE YEAR

	GROUP		PARENT COMPANY	
TSEK	**2013**	**2012**	**2013**	**2012**
Current tax:				
Current tax on profit for the year	-10,000	-10,642	-8,565	-8,745
Adjustments of previous years' current tax	-5	35	0	-587
Total current tax	**-10,005**	**-10,607**	**-8,565**	**-9,332**
Deferred tax (see Note 17)	**-5,837**	**8,524**	**-1,675**	**-1,607**
Income tax	**-15,842**	**-2,083**	**-10,240**	**-10,939**

NOTE 13 CONT.

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

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Profit/loss before tax, TSEK	67,512	34,701	36,084	28,305
Income tax calculated according to national tax rates applicable on profit in the respective country, (26.3% for the Parent Company), %	22.1	26.5	22	26.3
Tax effect of:				
Income not subject to tax, %	-0.2	-0.1	-0.5	-5.3
Expenses not deductible for tax purposes, %	5.6	12.7	6.1	14.6
Change of tax rate; %	0	-22.2		2.1
Group adjustments without tax effect, %	-4.0	-10.9		
Tax charge attributable to previous years, %			0.8	0.9
Adjustment attributable to previous years				
Effective tax, %	**23.5**	**6.0**	**28.4**	**38.6**

The weighted average tax rate for the Group is 22.1 percent (26.5). The tax rate for the Parent Company amounts to 22 percent from 2013 (26.3).

NOTE 14 EARNINGS PER SHARE

Earnings per share 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.

	2013	2012
Profit attributable to the shareholders of the Parent Company, TSEK	51,670	32,618
Weighted average number of outstanding ordinary shares	11,445,100	11,445,100
Earnings per share (SEK)	**4.51**	**2.85**

NOTE 15 INTANGIBLE ASSETS

TSEK GROUP	Intangible assets in development	Other intangible assets–IT	Goodwill	Total
Financial year 2012				
Opening carrying amount	50,812	3,186	92,604	146,602
Purchases/production	14,616	52		14,668
Amortization	-15,038	-1,176		-16,214
Closing carrying amount	**50,390**	**2,063**	**92,604**	**145,057**
As of 31 December 2012				
Acquisition costs	97,500	15,580	132,288	245,368
Accumulated amortization	-47,110	-13,518	-39,684	-100,312
Carrying amount	**50,390**	**2,063**	**92,604**	**145,057**
Financial year 2013				
Opening carrying amount	50,390	2,063	92,604	145,057
Purchases/production	20,025	0		20,025
Impairment				0
Amortization	-15,190	-917		-16,107
Closing carrying amount	**55,225**	**1,146**	**92,604**	**148,975**
As of 31 December 2013				
Acquisition costs	117,525	15,580	132,288	265,393
Accumulated amortization	-62,300	-14,434	-39,684	-116,418
Carrying amount	**55,225**	**1,146**	**92,604**	**148,975**

NOTE 15 CONT.

Total capitalized research and development expenses were TSEK 20,025 (14,616). Capitalization is divided between functions as follows: Research and Development TSEK 14,362 (10,923), KSV TSEK 5,303 (3,693) and Selling expenses TSEK 360 (0).

Goodwill

TSEK		
PARENT COMPANY	**31 Dec 2013**	**31 Dec 2012**
As of 1 January		
Acquisition costs	105,832	105,832
Accumulated amortization	-39,684	-33,070
Carrying amount	**66,148**	**72,762**
Financial year		
Opening carrying amount	66,148	72,762
Amortization in the year	-6,614	-6,614
Closing carrying amount	**59,534**	**66,148**

Impairment testing of goodwill

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 unit is exposed.

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

NOTE 16 PROPERTY, PLANT AND EQUIPMENT

TSEK GROUP	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
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
Amortization	-2,424	-17,643	-10,201		-30,268
Closing carrying amount	**50,914**	**63,916**	**23,623**	**4,092**	**142,545**
As of 31 December 2012					
Acquisition costs	121,921	450,382	113,895	4,092	690,290
Accumulated amortization	-71,007	-386,466	-90,272		-547,745
Carrying amount	**50,914**	**63,916**	**23,623**	**4,092**	**142,545**
Financial year 2013					
Opening carrying amount	50,914	63,916	23,623	4,092	142,545
Purchases	0	5,103	6,828	8,876	20,807
Sales and disposals		-34	-7		-42
Reclassifications	0	698	2,948	-3,997	-351
Translation differences			24		24
Amortization	-2,424	-16,530	-9,324		-28,278
Closing carrying amount	**48,490**	**53,152**	**24,092**	**8,971**	**134,705**
As of December 2013					
Acquisition costs	121,921	456,148	123,688	8,971	710,728
Accumulated amortization	-73,431	-402,996	-99,596		-576,023
Carrying amount	**48,490**	**53,152**	**24,092**	**8,971**	**134,705**

NOTE 16 CONT.

TSEK PARENT COMPANY	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
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
Amortization	-2,424	-10,963	-9,459		-22,846
Closing carrying amount	**50,914**	**32,802**	**21,984**	**4,092**	**109,792**
As of 31 December 2012					
Acquisition costs	121,921	387,359	106,583	4,092	619,955
Accumulated amortization	-71,007	-354,557	-84,599		-510,163
Carrying amount	**50,914**	**32,802**	**21,984**	**4,092**	**109,792**
Financial year 2013					
Opening carrying amount	50,914	32,802	21,984	4,092	109,792
Purchases		1,457	6,804	8,876	17,137
Sales and disposals		-34			-34
Reclassifications		698	2,948	-3,997	-351
Amortization	-2,424	-8,521	-8,591		-19,536
Closing carrying amount	**48,490**	**26,402**	**23,145**	**8,971**	**107,008**
As of December 2013					
Acquisition costs	121,921	389,385	115,241	8,971	635,518
Accumulated amortization	-73,431	-362,983	-92,096		-528,510
Carrying amount	**48,490**	**26,402**	**23,145**	**8,971**	**107,008**

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

	2013	2012
Acquisition costs–capitalized financial leases	61,012	56,915
Accumulated amortization	-33,844	-25,801
Carrying amount	**27,168**	**31,114**

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 31 Lease agreements).

NOTE 17 DEFERRED TAX

TSEK	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Deferred tax expenses referring to temporary differences	-3,555	-2,220		
Deferred tax revenue referring to temporary differences	208	3,938	-1,883	-1,298
Untaxed reserves	-2,489	6,806		
Total deferred tax in the Income Statement	**-5,836**	**8,524**	**-1,883**	**-1,298**

Changes in deferred tax receivables and deferred tax liabilities during the year which have been recognized in the Income Statement, without consideration for offsetting undertaken within the same tax jurisdiction, are stated below:

GROUP

Deferred tax liabilities	Leasing	Intangible assets	Untaxed reserves	Inventories and other	Total
As of 1 January 2012	544	14,200	35,715	345	50,805
Recognized in the Income Statement	152	-2,660	-6,806	-604	-9,919
As of 31 December 2012	**696**	**11,540**	**28,909**	**-259**	**40,886**
Recognized in the Income Statement	348	860	2,489	381	4,078
As of 31 December 2013	**1,044**	**12,400**	**31,398**	**122**	**44,964**

Deferred tax receivables	Buildings	Pension obligations	Provisions	Deductible tax deficits	Derivative instruments	Inventories and other	Total
As of 1 January 2012	473	3,739	1,710	579	1,154	0	7,655
Recognized in the Income Statement	-77	330	-280	-317	-1,019	0	-1,363
Recognized in other comprehensive income		5,866			308		6,174
As of 31 December 2012	**396**	**9,935**	**1,430**	**262**	**443**	**0**	**12,466**
Recognized in the Income Statement	0	-97	-1,430	-239	-132	208	-1,898
Recognized in other comprehensive income		-3,193			-208		-3,193
As of 31 December 2013	**396**	**6,645**	**0**	**23**	**103**	**208**	**7,375**

PARENT COMPANY

Deferred tax receivables	Buildings	Pension obligations	Provisions	Deductible tax deficits	Derivative instruments	Other	Total
As of 1 January 2012	473	1,209	1,710	0	1,154	0	4,546
Recognized in the Income Statement	-77	-230	-280	0	-1,019	0	-1,606
Recognized in other comprehensive income					308		308
As of 31 December 2012	**396**	**979**	**1,430**	**0**	**443**	**0**	**3,248**
Recognized in the Income Statement		-113	-1,430	0	-132	0	-1,675
Recognized in other comprehensive income					-208		-208
As of 31 December 2013	**396**	**866**	**0**	**0**	**103**	**0**	**1,365**

NOTE 18 PARTICIPATIONS IN GROUP COMPANIES

TSEK		
PARENT COMPANY	**2013**	**2012**
Opening acquisition cost	8,178	8,178
Acquisitions in the year	85	
Closing carrying amount	**8,263**	**8,178**

The Parent Company has participations in the following subsidiaries:

					CARRYING AMOUNT	
Name	**Corporate ID no.**	**Registered offices**	**Share of equity, %**	**Number of shares**	**2013**	**2012**
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
Ostnor Asia Ltd	1978636	Hong Kong, China	100		85	
Total					**8,263**	**8,178**

The share of the votes corresponds with the share of capital.

NOTE 19 FINANCIAL INSTRUMENTS BY CATEGORY

GROUP

TSEK **Balance Sheet assets**	**Financial assets held for sale**	**Financial assets measured at fair value through the Income Statement**	**Loans and accounts receivable–trade**	**Total**
31 December 2012				
Customer receivables–trade			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**
Balance Sheet assets				
31 December 2013				
Accounts receivable–trade			105,468	105,468
Other receivables	5	3,934	3,273	7,212
Derivative instruments		100		100
Cash and cash equivalents			114,006	114,006
Total	**5**	**4,034**	**222,747**	**226,786**

GROUP

Balance Sheet liabilities	**Financial liabilities measured at fair value through profit or loss**	**Other financial liabilities**	**Total**
31 December 2012			
Borrowings (excl. finance leases)		7,500	7,500
Liabilities attributable to finance 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 19 CONT.

Balance Sheet liabilities	Financial liabilities measured at fair value through profit or loss	Other financial liabilities	Total
31 December 2013			
Borrowing (excl. finance leases)		0	0
Liabilities attributable to finance leases		22,606	22,606
Accounts payable–trade		69,697	69,697
Other liabilities		0	0
Derivative instruments	568		568
Total	**568**	**92,303**	**92,871**

NOTE 20 DERIVATIVE INSTRUMENTS

TSEK	2013		2012	
GROUP AND PARENT COMPANY	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward contracts	39	39	162	596
Forward cover of raw materials	61	512	91	1,503
Interest rate swaps		17	-	170
Total	**100**	**568**	**253**	**2,269**
Short-term portion	**100**	**568**	**253**	**2,053**

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

(a) Forward contracts
The nominal amount for outstanding forward contracts amounted to TSEK 8,795 (52,119) as of 31 December 2013. Gains and losses on forward contracts as of 31 December 2013 are reported in operating income as other operating income/other operating expenses (Note 12).

(b) Forward cover of raw materials

	2013			2012		
	Tonnes	**Nominal value of outstanding derivatives**	**Market value, 31 Dec. 2013**	**Tonnes**	**Nominal value of outstanding derivatives**	**Market value, 31 Dec. 2012**
Copper	296	14,517	14,033	493	26,967	25,556
Zink	210	2,763	2,796	349	4,833	4,784
Total	**506**	**17,280**	**16,829**	**842**	**31,800**	**30,340**
Change in value			- 451			-1,460
Effect on net profit/loss for the year from hedge accounting:						
Other operating income						25
Other operating expenses			- 556			

(c) Interest rate swaps
The nominal amount for outstanding interest swap agreements amounted to TSEK 3,000 (17,700) as of 31 December 2013.

As of 31 December 2013, the fixed interest rate was 2.67 percent (2.51–2.67). Variable interest is based on STIBOR. Gains and losses on interest swaps are reported under Net financial income/expense (see Note 12).

NOTE 21 ACCOUNTS RECEIVABLE–TRADE

TSEK		
GROUP	2013	2012
Accounts receivable–trade	105,623	105,327
Less: provision for bad debt	-155	-1,522
Net accounts receivable–trade	**105,468**	**103,805**

As per 31 December 2013, after consideration for the provision for bad debt, accounts receivable–trade of TSEK 34,786 (26,510) 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:

	2013	2012
1–30 days	34,526	25,782
31–60 days	242	675
> 61 days	18	53
Total overdue accounts receivable	**34,786**	**26,510**

Changes in the provision for bad debt were as follows::

	2013	2012
As of 1 January	**1,522**	**3,360**
Provision for bad debt	91	735
Receivables written off in the year as unrecoverable	-639	-1,562
Reversed unutilized amounts	-819	-1,011
As of 31 December	**155**	**1,522**

Provisions for/reversals of provisions for bad debt are included under Selling expenses in the Income Statement. The maximum exposure to credit risk as of the reporting date is the reported value of Accounts receivable–trade as indicated above. There was no collateral or other guarantees for accounts receivable–trade outstanding on the reporting date.

NOTE 22 CASH AND CASH EQUIVALENTS/CASH AND BANK BALANCES

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

TSEK		
GROUP	2013	2012
Short-term investments	0	59,717
Cash and bank funds	114,006	42,274
Group total	**114,006**	**101,991**

PARENT COMPANY	2013	2012
Short-term investments	0	59,717
Cash and bank funds	102,237	33,540
Parent Company total	**102,237**	**93,257**

NOTE 23 SHARE CAPITAL AND OTHER PAID-UP CAPITAL

TSEK				
PARENT COMPNY	Class A shares	Class B shares	No. of shares	Share capital
As of 31 December 2010	22,890	91,561	114,451	11,445
As of 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
Issue	457,900		457,900	458
As of 31 December 2012	**2,060,200**	**9,384,900**	**11,445,100**	**11,445**
As of 31 December 2013	**2,060,200**	**9,384,900**	**11,445,100**	**11,445**

The class A shares confer the right to 10 votes/share and the class B shares
1 vote/share.
All shares issued by the Parent Company are fully paid up.

NOTE 24 BORROWING

TSEK		
GROUP	2013	2012
Long-term		
Bank loans		
Liabilities for finance leases (See Note 31)	14,550	18,580
Short-term		
Bank loans		7,500
Overdraft facility (agreed credit TSEK 137,581 (137,310))		0
Liabilities for finance leases (See Note 31)	8,056	9,366
Total borrowing	**22,606**	**35,446**

There is a covenant stating that the Group's equity/assets ratio may not fall below 25 percent.

PARENT COMPANY	2013	2012
Long-term		
Bank loans		
Short-term		
Bank loans	0	7,500
Overdraft facility (agreed credit TSEK 120,000 (120,000))	0	0
Total borrowing	**0**	**7,500**

NOTE 25 PENSION OBLIGATIONS, GROUP

TSEK		
GROUP	2013	2012
Commitments in the Balance Sheet for:		
Defined-benefit pension benefits	97,080	106,938
Defined-contribution pension benefits	4,134	4,674
Total pension obligations (incl. special employer's contribution)	**101,214**	**111,612**
Recognized in the Income Statement attributable to:		
Costs for defined-benefit plans (incl. special employer's contribution)	9,533	11,017
Costs for defined-contribution plans (incl. special employer's contribution)	14,381	16,741
Total pension expenses	**23,914**	**27,758**

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

GROUP	2013	2012
Present value of commitments for funded plans	9,224	9,782
Fair value of plan assets	-9,446	-7,224
Net debt attributable to commitments for funded plans	**-222**	**2,558**
Present value of commitments for unfunded plans	92,118	97,158
Net liability in the Balance Sheet	**92,118**	**97,158**

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

GROUP	2013	2012
At beginning of year	106,939	99,645
Employment during the current year	4,731	5,380
Other adjustments–transfer ITPK	-344	
Interest expenses	3,721	3,820
Actuarial gains (+)/losses (–)	-10,061	393
Exchange rate differences	-916	10
Remuneration paid	-2,728	-2,309
At year-end	**101,342**	**106,939**

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

TSEK		
GROUP	2013	2012
At beginning of year	7,224	6,338
Expected rate of return on plan assets	288	258
Pension and administration expenses paid	-198	
Actuarial gains (+)/losses (–)	1,105	-808
Exchange rate differences	-684	86
Employer charges	1,711	1,350
At year-end	**9,446**	**7,224**

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

GROUP	2013	2012
Current service cost	4,731	6,055
Interest expenses	3,721	3,820
Expected rate of return on plan assets	-288	-360
Employer's contribution and administration expenses	221	
Special employer's contribution	1,147	1,502
Total (included in personnel expenses, Note 9)	**9,533**	**11,017**

The total cost of TSEK 9,533 (11,017) is included in the items cost of sales, selling expenses, administration expenses and research and development expenses.

	2013	2012
Actual return on plan assets:	4.1%	4.1%
Forecast return for 2013		

The most important current assumptions applied were as follow:

	2013	2012
Discount rate, %	4.0	3.5
Expected rate of return on plan assets, %	4.1	3.6
Expected rate of salary increases, %	3.0	3.0
Annual adjustments to pensions, %	2.0	2.0

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

The average number of years of remaining life expectancy from the retirement age of 65 is, as of the reporting date, as follows

	2013	2012
Men	23	23
Women	25	25

NOTE 25 CONT.

Plan assets were:

TSEK		
GROUP	**2013**	**2012**
Shares	1,039	462
Fixed-income securities	6,716	5,310
Property	1,474	1,206
Other	217	246
Total	**9,446**	**7,224**

NOTE 26 PENSION OBLIGATIONS, PARENT COMPANY

The Company's pension plans are stated in the description provided in Note 3 for the Group. Pension provision were as follows:

TSEK	2013	2012
Provisions according to the Swedish Pension Obligations Vesting Act		
FPG/PRI pensions	70,747	67,395
Other	4,134	4,675
Provisions over and above the Swedish Pension Obligations Vesting Act	0	0
Total pension provisions	**74,881**	**72,070**

Specification of changes in the Balance Sheet relating to Ostnor's proprietary pensions:

	2013	2012
Net liabilities at beginning of year attributable to pension obligations	67,395	64,710
Own pension costs recognized in the Income Statement	6,041	5,097
Pension payments	-2,689	-2,412
Net liability at year end	**70,747**	**67,395**

The net liability as above is recognized, in its entirety, under the item Provisions for pensions and similar obligations in the Balance Sheet.

Specification of pension expenses and income for the period:

TSEK	2013	2012
Own pensions		
Expenses for earning of pensions, etc.	3,209	2,323
Interest expenses (estimated discount effect)	2,832	2,774
Effect on profit of redemption of obligations, etc.	0	0
Expenses for own pensions excl. taxes	**6,041**	**5,097**
Other pension expenses	10,368	12,009
Special employer's contribution on pension expenses	3,238	3,851
Total pension expenses	**19,647**	**20,957**

The reported net expenses are distributed between items in the Income Statement as follows:

	2013	2012
Cost of sales	5,395	6,087
Selling expenses	5,058	6,632
Administration and research and development expenses	6,362	5,464
Financial items	2,832	2,774
Reported net expenses	**19,647**	**20,957**

The actuarial calculations are based on the following principal assumptions:
Discount rate 4.0 percent (3.5).

The assumptions have been calculated based on salary levels applicable on each reporting date.

The expected payments for the next year attributable to defined benefit pension plans amount to TSEK 2,654.

NOTE 27 PROVISIONS

TSEK GROUP	Guarantees	Removal and cleansing of land	Special employer's contribution –pension obligations	Other	Total
As of 1 January 2012	**14,700**	**6,500**	**1,752**	**0**	**22,952**
Amended accounting principle –pensions			-1,752		-1,752
Recognized in the Income Statement:					
Additional provisions	1,750				1,750
Reversed unutilized amount					
Utilized during the year					
As of 31 December 2012	**16,450**	**6,500**	**0**		**22,950**
As of 1 January 2013	**16,450**	**6,500**	**0**	**0**	**22,950**
Recognized in the Income Statement:					
Additional provisions					0
Reversed unutilized amount	-150				-150
Utilized during the year		-6,400			-6,400
As of 31 December 2013	**16,300**	**100**	**0**		**16,400**

NOTE 27 CONT.

GROUP

TSEK		
Provisions were:	**2013**	**2012**
Short-term portion	100	
Long-term portion	16,300	22,950
Total	**16,400**	**22,950**

PARENT COMPANY	Guarantees	Removal and cleansing of land	Pension obligations	Other	Total
As of 1 January 2012	**14,700**	**6,500**	**69,568**	**0**	**90,768**
Recognized in the Income Statement:					
Additional provisions	1,750		2,502	0	4,252
Reversed unutilized amount					
Utilized during the year					
As of 31 December 2012	**16,450**	**6,500**	**72,070**	**0**	**95,020**
As of 1 January 2013	**16,450**	**6,500**	**72,070**	**0**	**95,020**
Recognized in the Income Statement:					
Additional provisions			2,811	0	2,811
Reversed unutilized amount	-150				-150
Utilized during the year		-6,400			-6,400
As of 31 December 2013	**16,300**	**100**	**74,881**	**0**	**91,281**

Provisions consist of:	**2013**	**2012**
Short-term portion	100	
Long-term portion	91,181	95,020
Total	**91,281**	**95,020**

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 2.0 percent (1.9) of net sales as per 31 December 2013. The guarantee periods are from 2 to 5 years.

NOTE 28 ACCRUED EXPENSES AND DEFERRED INCOME

TSEK		
GROUP	**2013**	**2012**
Accrued salaries	4,709	4,393
Accrued holiday pay	19,869	21,697
Accrued social security contributions	8,916	7,860
Accrued interest expenses	0	13
Other items incl. customer bonuses and discounts	37,061	46,363
Group total	**70,555**	**80,326**

TSEK		
PARENT COMPANY	**2013**	**2012**
Accrued salaries	4,547	4,158
Accrued holiday pay	18,137	19,607
Accrued social security contributions	7,954	7,596
Accrued interest expenses	0	13
Other items incl. customer bonuses and discounts	32,938	34,038
Parent Company total	**63,576**	**65,412**

NOTE 29 PLEDGED ASSETS

TSEK		
GROUP AND PARENT COMPANY	**2013**	**2012**
Relating to provisions for pensions and similar commitments		
Other long-term receivables	3,934	4,447
Relating to liabilities to credit institutions		
Property mortgages	17,750	17,750
Floating charges	58,510	58,510
Group and Parent Company total	**80,194**	**80,707**

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 30 CONTINGENT LIABILITIES

TSEK		
GROUP	**2013**	**2012**
Other contingent liabilities	1,415	1,348
Group total	**1,415**	**1,348**

PARENT COMPANY	**2013**	**2012**
Contingent liabilities for the benefit of other Group companies	19,848	20,521
Other contingent liabilities	1,415	1,348
Parent Company total	**21,263**	**21,869**

NOTE 31 LEASES

Finance leases

The Group's finance lease arrangements are for machinery. No machines are sub-leased.

Obligations to make future lease payments are reported as current and non-current liabilities. Minimum lease payments are divided between interest expenses and repayment of the outstanding liability. Variable fees are recognized as an expense during the period in which they arise. Interest levels vary according to STIBOR 1 month or 3 months.

Future minimum lease payments for non-cancellable finance lease arrangements applicable at the end of the reporting period mature as follows:

TSEK		
GROUP	**2013**	**2012**
Within one year	8,056	9,366
Between one and five years	13,202	18,195
More than five years	1,348	385
Group total	**22,606**	**27,946**

Operating leasing

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 if the conditions for termination are not met.

Future minimum lease payments for non-cancellable operating lease arrangements applicable at the end of the reporting period mature as follows:

TSEK		
GROUP	**2013**	**2012**
Within one year	7,878	7,405
Between one and five years	9,685	14,469
More than five years	0	0
Group total	**17,563**	**21,874**

Expenses for operating leases in the Group during the financial year amounted to TSEK 13,695 (13,511).

PARENT COMPANY	**2013**	**2012**
Within one year	4,178	4,762
Between one and five years	4,533	8,285
More than five years	0	0
PARENT COMPANY total	**8,711**	**13,047**

Expenses for operating leases in the Parent Company during the financial year amounted to TSEK 9,132 (8,288).

NOTE 32 UNTAXED RESERVES

TSEK		
PARENT COMPANY	**2013**	**2012**
Accumulated difference between reported amortization and depreciation/amortization according to plan :		
Buildings and land improvements	20,433	19,124
Plant and equipment	27,352	30,348
Tax allocation reserve	94,908	81,931
Parent Company total	**142,693**	**131,403**

NOTE 33 INCOME FROM OTHER SECURITIES AND RECEIVABLES ACCOUNTED FOR NON-CURRENT ASSETS

TSEK		
PARENT COMPANY	**2013**	**2012**
Exchange rate differences	83	-137
Fair value loss on interest swaps	170	70
Parent Company total	**253**	**-67**

NOTE 34 APPROPRIATIONS

TSEK		
PARENT COMPANY	**2013**	**2012**
Difference between recorded amortization and depreciation/amortization according to plan	1,686	2,327
Transfer to tax allocation reserve	-12,977	-11,827
Dissolution of tax allocation reserves	0	13,900
Parent Company total	**-11,291**	**4,400**

NOTE 35 OTHER NON-CASH ITEMS

TSEK		
GROUP	**2013**	**2012**
Gains/losses on sales of property, plant and equipment	-153	-45
Pension provisions	3,523	5,593
Other provisions	-6,551	2,601
Derivative instruments	1,413	616
Other	-70	-344
Group total	**-1,838**	**8,421**

PARENT COMPANY	2013	2012
Gains/losses on sales of property, plant and equipment	-154	-16
Pension provisions	2,811	2,502
Other provisions	-6,550	1,750
Derivative instruments	1,413	616
Other	253	-
Parent Company total	**-2,227**	**4,852**

NOTE 36 TRANSACTIONS WITH RELATED PARTIES

Until November 2012, Priveq held just under 30 percent 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.

Transactions with related parties, in addition to the transactions described below, do not constitute a significant amount. Transactions have been on market terms..

Remuneration to senior executives

Senior executives received the following remuneration:

TSEK	2013	2012
Salary and other short-term remuneration	9,373	9,632
Remuneration upon notice of termination	0	3,832
Remuneration upon resignation	3,641	4,142
Total	**13,014**	**17,606**

Guidelines

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

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

Total remuneration shall correspond to the relevant position's responsibilities and complexity of the employee's performance. Variable remuneration shall be payable on the basis of individual targets. Variable remuneration is capped at a maximum of 50 percent of basic salary for the CEO, and a maximum of 35 percent of basic salary for other senior executives.

Conditions for the CEO

The CEO of the Parent Company has a defined contribution pension solution with an annual pension equal to 30 percent 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 obligations within the framework of the general pension plan. In addition, additional pension contributions of 5 percent of basic salary will be made.

Bonus

The CEO's bonus is based to 60 percent on consolidated operating income and to 40 percent on Group cash flow. The bonus amount for 2013 corresponded to 0 percent of basic salary (0).

For other senior executives, bonuses are based to 60 percent on financial targets and to 40 percent on Group-wide/individual targets. The bonus amount for other senior executives for 2013 corresponds to 0 percent of basic salary (0).

Remuneration and other benefits 2013

TSEK	Basic salary/ Board fees	Variable remunera-tion [1]	Other benefits [2]	Pension costs	Other remunera-tion	Total
Chairman of the Board Christer Lenner	231					231
Board member Erik Eriksson	120					120
Board member Hans Åke Norås	120					120
Board member Mats Hermansson	120					120
Board member Pernilla Wigren	120					120
Board member Johnny Alvarsson	120					120
Board member Lars Erik Blom (fr.o.m. 2013-05)	70					70
CEO Claes Seldeby	2,084	0	84	748		2,916
Other senior executives (6 people)	5,770	0	534	2,893		9,197
Total	**8,755**	**0**	**618**	**3,641**	**0**	**13,014**

Remuneration and other benefits 2012

TSEK	Basic salary/ Board fees	Variable remunera-tion [1]	Other benefits [2]	Pension costs	Other remunera-tion	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 (up until May 2012 inclusive)	60					60
Board member Johnny Alvarsson (from May 2012 inclusive)	70					70
CEO Håkan Olson (up until May 2012 inclusive)	922	0	158	1,023	3,832	5,935
CEO Claes Seldeby (from June 2012 inclusive)	1,072		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 is stated exclusive of social security contributions. For 2013, the Chairman, Christer Lenner, has, in addition to Board fees, received TSEK 51 (264) for extra work and travel expenses. Remuneration for extra work has also been paid to the Board members Hans Åke Norås TSEK 0 (200).

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

The consolidated Income Statement and Balance Sheet will be presented for adoption at the Annual General Meeting on 14 May 2014.

The Board of Directors and the CEO confirm that the Consolidated Accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and provide a true and fair view of the Group's financial position and results of operations. The Annual Accounts have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the Parent Company's financial position and results of operations.

The Administration Report for the Group and the Parent Company gives a true and fair view of the progress of the Group's and Parent Company's operations, financial position and results of operations and also describes material risks and uncertainties faced by the Parent Company and the companies included in the Group.

Mora, Sweden, 26 February 2014

Christer Lenner
Chairman of the Board of Directors

Claes Seldeby
CEO

Johnny Alvarsson
Board member

Lars-Erik Blom
Board member

Erik Eriksson
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, 2014

Öhrlings PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant

Audit Report

To the annual general meeting of the shareholders 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 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 31-68.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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 judgement, 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 Managing Director, 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 audit opinions.

Opinions

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 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 of shareholders adopt the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Ostnor AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies 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 be able to assess whether the proposal is in accordance with the 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 Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the 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 opinions.

Opinions

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 Managing Director be discharged from liability for the financial year.

Mora 12 March 2014

Öhrlings PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant

Financial summary

Five-year summary 2009–2013

The table shows the Group's financial performance in summary.

GROUP

MSEK unless otherwise indicated	2013	2012	2011	2010	2009
Income Statement					
Net sales	823.7	860.5	918.6	936.0	915.0
Operating income (EBIT) [1]	70.0	38.3	69.6	113.5	91.7
EBITA	70.0	38.3	69.6	113.5	91.7
Profit after financial items [1]	67.5	34.7	64.9	110.8	92.2
Profit/loss for the year	51.7	32.6	45.7	80.0	67.7
Operating margin, %	8.5	4.5	7.6	12.1	10.0
Profit margin, %	8.2	4.0	7.1	11.8	10.1
Cash flow					
Cash flow from operating activities	93.3	88.6	108.3	137.2	139.9
Cash flow from investing activities	-39.6	-21.6	-23.0	-22.0	-35.7
Cash flow after investments	53.7	67.0	85.3	115.2	104.2
Cash flow from financing activities	-41.7	-63.8	-64.2	-41.5	-110.2
Cash flow for the year	12.0	3.2	21.1	73.7	-6.0
Profitability target					
Return on equity, % [2]	16	10	14	26	29
Return on capital employed, % [2]	16	9	16	26	22
Financial measures at the end of the period					
Equity/assets ratio, % [2]	50	45	49	48	41
Equity at year-end [2]	335.7	301.7	336.3	336.3	271.1
Net debt [2]	5.7	40.4	17.6	46.4	141.9
Working capital	101.8	96.4	110.9	137.4	155.8
Capital employed [2)]	455.4	436.4	452.7	460.2	416.9
Investments	36.8	22.5	23.9	34.6	36.6
Total assets [2]	673.7	669.4	692.3	705.2	655.0
Share data per share, SEK					
Earnings per share	4.51	2.85	4.00	6.99	5.92
Cash flow per share	4.69	5.86	7.46	10.07	9.11
Dividends per share	3.00	2.50	4.00	4.00	1.25
Equity per share [2]	29.33	26.36	29.39	29.38	23.69
Employees					
Average no. of employees	452	459	504	510	553

[1] Non-recurring items of MSEK 18.1 are included for 2012. See Note 5, page 52.
[2] The comparative figures for 2012 have been restated as a result of amended accounting principles relating to defined benefit pensions.

DEFINITION OF KEY RATIOS

Equity/assets ratio. Equity and untaxed reserves (less deferred tax) in relation to total assets. Return on equity. Profit/loss after tax in relation to average equity.

Return on equity. 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.

Operating margin. Operating profit in relation to net sales.

Profit margin. Profit before tax in relation to net sales.

The share and owners

Owners

Ostnor has just over 160 shareholders, mainly from its founding families. In February, Allba Invest AB acquired shares corresponding to 3.5 percent of the capital held by shareholders who indicated an interest in divesting their shares in autumn 2012. The following table illustrates the ten largest shareholders of the company as of 31 December 2013.

Name/company	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	12.63
LK Finans AB	1,144,510	228,900	915,610	10.00	10.73
Mats Mattsson	674,500	134,900	539,600	5.89	6.33
Anna Mattson-Svensson	594,000	118,800	475,200	5.19	5.57
Jan Söderberg Förvaltning AB	565,990	0	565,990	4.95	1.90
Ulla Hermansson	445,500	89,100	356,400	3.89	4.18
Allba Invest AB	400,032	0	400,032	3.50	1.34
Rosebo Kapital AB	342,000	0	342,000	2.99	1.15
Gunnar Eriksson	251,200	50,300	200,900	2.19	2.36
Rolf Eriksson	240,300	48,100	192,200	2.10	2.25
Other	5,076,568	1,146,800	3,929,768	44.36	51.56
	11,445,100	**2,045,900**	**9,399,200**	**100.00**	**100.00**

Financial calendar

Annual General Meeting	14 May 2014
Interim Report for the period January–March 2014	15 May 2014
Interim Report for the period April–June 2014	28 August 2014
Interim Report for the period July–September 2014	22 October 2014
Year-end Report 2014	February 2015

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