Ø OSTNOR

Ostnor AB (publ.)

Ostnor AB corp. ID no. 556051-0207

Year-end Report, January–December 2012

Fourth quarter:

- Net sales were MSEK 197.6 (209.2).
- Operating income was MSEK -4.7 (12.4). Operating income before non-recurring items was MSEK 1.0 (14.0).
- Operating margin was -2.4 percent (5.9).
- Profit after tax was MSEK 5.9 (7.7). Earnings per share were SEK 0.52 (0.67).
- Cash flow after investments was MSEK 26.4 (34.5).
- New owners after Priveq sold its shares to Tibia Konsult AB, LK Finans AB and Jan Söderberg Förvaltning AB.

Full year:

- Net sales were MSEK 860.5 (918.6). Operating income was MSEK 38.3 (69.6). Operating income before non-recurring items was MSEK 56.4 (75.8).
- Operating margin was 4.5 percent (7.6).
- Profit after tax was MSEK 32.6 (45.7). Earnings per share were SEK 2.85 (4.00)
- Cash flow after investments remains strong, and was MSEK 67.0 (85.3).
- The Board of Directors is proposing a dividend of SEK 2.50 (4.00) per share.

KEY RATIOS

	Oct-Dec			Jan-Dec
MSEK	**2012**	**2011**	**2012**	**2011**
Net sales	197.6	209.2	860.5	918.6
Operating income	-4.7	12.4	38.3	69.6
Operating margin, %	-2.4%	5.9%	4.5%	7.6%
Profit after financial items	-4.9	11.8	34.7	64.9
Cash flow after investments	26.4	34.5	67.0	85.3
Return on equity, %			9.9%	13.6%

Definitions of key ratios are stated in the Annual Report for 2011.

CEO Claes Seldeby's comment:

"For the year as a whole, progress was poorer than we expected at the beginning of 2012. First and foremost, quarters three and four were worse than we had anticipated, with December particularly returning a substantial downturn compared to 2011due to general market hesitancy before year-end.

Profit in the fourth quarter was charged with MSEK 5.7 of non-recurring expenses for preparations for Ostnor's previously reported IPO, and further restructuring. Otherwise, the deteriorated operating income is explained by the lower volumes produced in the period. The company generated strong cash flow in the quarter as a whole.

In tandem with the sale of Priveq Investment's shares to three new owners, our IPO plans have been suspended, and instead, Ostnor will continue in an unlisted environment."

The Group

Net Sales

October - December

Net sales for the fourth quarter were MSEK 197.6 (209.2), a decrease of 5.6 percent year on year. December was a poor month for the whole sector. In volume terms, sales decreased by 8.3 percent year on year, explained by continued hesitant demand on most of the company's markets. Exchange rate fluctuations had a negative effect on net sales of MSEK -1.6.

January - December

Net sales for the full year were MSEK 860.5 (918.6), a 6.3 percent decrease year on year. In volume terms, sales decreased by 9.2 percent year on year, explained by continued hesitant demand on most of the company's markets. New construction on the Swedish market continued to slow through the autumn. The 'ROT' sector (construction, renovation, conversion and extension) remained stable, but had a faint negative impact from general economic conditions, banks requiring higher cash deposits for property purchases and the number of completed property transactions decreasing somewhat. Progress on the other Nordic markets was in line with Sweden, the exception being Norway, which achieved positive growth in early-2012, although this slowed in the latter part of the year. Exchange rate fluctuations had a negative effect on net sales of MSEK -4.2.

A reorganization measure was executed in the autumn integrating sales responsibility in Sweden, Norway, Finland and Denmark under the new position of Nordic Sales Director.

A restructuring has been carried out within the International with the aim of making a new start for Ostnor's presence on international markets. Ostnor still sees market opportunities internationally. In the first stage, profitability will be achieved through market segmentation and addressing the market for increased growth in attractive customer segments. In the longer term, there will be more support to growth by developing new products tailored to different segments and markets. Accordingly, Ostnor will be able to sustainably strengthen its niche positioning on international markets.

Operating income

October - December

Operating income was MSEK -4.7 (12.4). Operating income was charged with non-recurring expenses of MSEK -5.7 (-1.6) relating to preparations for an IPO and restructuring. Excluding non-recurring items, operating income was MSEK 1.0 (14.0). The operating margin (excluding non-recurring items) deteriorated and was 0.5 (6.7) percent. In 2011, a portion, MSEK 3.5, of the reserve for land decontamination was reversed, otherwise, the change in profit is mainly because the market valuation of brass contracts increased profit in the fourth quarter of 2011 by MSEK 4.5. The ‘clean' operating income for the quarter adjusted for the above items is MSEK 1.0, compared to MSEK 6.0 for the corresponding period of the previous year. The gross margin is unchanged between the years despite lower volumes in the current year.

Inventory levels as of 31 December were down by MSEK 1.7 on 30 September.

January - December

Operating income was MSEK 38.3 (69.6). Excluding non-recurring items, operating income was MSEK 56.4 (75.8). The operating margin (excl. non-recurring items) was 6.6 (8.3) percent. Gross profit was down by MSEK 19.7 year on year due to lower volumes. However, the gross margin was unchanged at 32 percent. The company is working actively to control cost levels with the aim of balancing fluctuations in sales performance, and accordingly, 21 white-collar workers have been offered early pension settlements, transfers or redundancy. In addition, the company has downsized its temporary production staff, delayed hiring and downscaled its purchased consulting services. However, marketing initiatives continued, which explains most of the increase in operating expenses between the years, as did continued initiatives on developing new products. These market initiatives include participation in *Nordbyggmässan* (‘the Nordic construction fair') in Stockholm, investments in greater exposure in wholesale stores, large DIY stores and the plumbing trade and extra initiatives on the Mora Armatur brand. Mora Armaturs's new Mora Cera range premiered in November. Sales will commence in the first quarter of 2013.

Hedge accounting of brass contracts was introduced as of 1 January 2012, which means that the market valuation of brass contracts did not affect operating income because hedges entered were sufficiently effective (-10.3). Operating income was charged with non-recurring expenses of MSEK -18.1 (-6.2), relating to preparations for an IPO of MSEK -6.7 (-4.5), expenses for a change of CEO of MSEK -5.8, pension settlements etc. in tandem with staff downsizing of MSEK -7.5 and the repayment of pension premiums from FORA for the years 2007-2008 of MSEK 1.9.

Inventories continued to decrease by MSEK 15.9 (-13.1) on the previous year-end. Consistent with flexible working hours introduced in the first quarter, the utilization of working hours was somewhat higher in the spring. This effect evened out in the autumn.

Financial position

January - December 2012

Financial instruments, brass derivatives

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

Financial items

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

Income tax

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

Cash flow

Cash flow from operating activities was MSEK 88.6 (108.3). The decrease is due to lower profit and poorer progress of working capital between years. Cash flow for the fourth quarter was MSEK 34.7 (45.8). Tax payments were MSEK -13.7 (-25.0). Cash flow after investments was MSEK 67.0 (85.3). Cash flow from investing activities was MSEK -21.6 (-23.0). Dividend for the financial year 2011 was MSEK 45.8 (45.8)

Investments

The Group's total investments in property, plant and equipment were MSEK 7.8 (12.2). The Group has also leased assets for MSEK 9.4 (7.4). The Group's investments in intangible assets were MSEK 14.7 (11.7), primarily the capitalization of development expenses.

Depreciation and amortization

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

Financial position

Net liabilities amounted to MSEK -11.8 (-17.6). Cash and cash equivalents including current investments were MSEK 102.0 (98.8). Repayment of loans including finance leases were made as planned at an amount of MSEK 18.1 (16.7).

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

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

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

Return on equity was 9.9 (13.6) percent.

Employees

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

Parent Company

The majority of Ostnor's operations are 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 management, administration and IT services to subsidiaries in the Group.

The net sales of the Parent Company were MSEK 797.7 (859.2), of which goods exports were MSEK 144.3 (159.4). Operating income amounted to MSEK 22.0 (52.0). Parent Company investments in property, plant and equipment were MSEK 7.6 (10.7).

Risks and factors of uncertainty

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

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

Share and ownership structure

The total number of Ostnor shares is 11,445,100, of which 2,060,200 class A shares with ten votes each and 9,384,900 class B shares with one vote each. Former major shareholder Priveq, which held 30 percent of the shares, divested its shares in the quarter. The new major shareholders are Tibia Konsult AB, with 15 percent of the shares, LK Finans AB with 10 percent of the shares and Jan Söderberg Förvaltning AB with 5 percent of the shares. The company has 164 (162) shareholders. Ostnor is a CSD-registered company, which means its share register is maintained by Euroclear. The company has been public since its AGM 2011.

AGM 2013

Ostnor's AGM will be held at 4 p.m. on 7 May 2013 in Mora, Sweden. Ostnor's Annual Report for 2012 will be published in April 2013.

Proposed dividend

The Board of Directors is proposing a dividend of SEK 2.50 (4.00) per share for 2012. The total proposed dividend is 88 percent of profit for the year. The proposed record date for the dividend is 13 May 2013.

Significant events after the end of the period

Invitations were issued to an EGM on 26 February, which was subsequently cancelled because there was no longer any need to redeem shares. Allba Invest AB has acquired the shares of the owners who in the autumn announced that they wanted to sell and holds 3.5 percent of the shares. Members of the Board and Management have increased their net holdings of shares.

Revised accounting standards

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

This Interim Report has been prepared in accordance with IAS 34, Interim Financial Reporting. The Interim Report of the parent company has been prepared in accordance with chap. 9 of the Swedish Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Board's Recommendation RFR 2.

Consolidated Statement of Comprehensive Income

The Group

	Oct-Dec		Jan-Dec	
MSEK	**2012**	**2011**	**2012**	**2011**
Net sales	197.6	209.2	860.5	918.6
Cost of sales	-142.5	-150.4	-586.0	–624.4
Gross profit	**55.1**	**58.8**	**274.5**	**294.2**
Operating expenses	-61.0	-55.4	-239.6	–222.5
Other operating income and expenses	1.2	4.5	3.4	8.2
Financial instruments, brass	0	4.5	0	-10.3
Operating income	**-4.7**	**12.4**	**38.3**	**69.6**
Financial items – net	-0.2	-0.6	-3.6	-4.7
Profit/loss before tax	**-4.9**	**11.8**	**34.7**	**64.9**
Income tax	10.8	-4.1	-2.1	–19.2
Profit/loss for the period	**5.9**	**7.7**	**32.6**	**45.7**
Other comprehensive income				
Exchange rate differences	0.1	-1.0	-0.2	0.1
Hedge accounting of brass contract	-1.1	0	-1.4	0
Tax on items relating to components of other comprehensive income	0.2	0	0.3	0
Total comprehensive income attributable to shareholders in the Parent Company	**5.2**	**6.7**	**31.3**	**45.8**

EARNINGS PER SHARE

	Oct–Dec		Full yr.	
	2012	**2011**	**2012**	**2011**
Earnings per share (SEK)	0.52	0.67	2,85	4.00
Average number of shares	11,445,100	11,445,100	11,445,100	11,445,100

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Consolidated Balance Sheet

The Group

MSEK	31 Dec 2012	31 Dec 2011
ASSETS		
Fixed assets		
Intangible assets	145.1	146.6
Property, plant and equipment	142.5	156.3
Financial non-current assets	4.7	4.8
Deferred tax assets	6.6	7.7
Total non-current assets	**298.9**	**315.4**
Current assets		
Inventories	136.6	152.6
Other current assets	228.0	224.3
TOTAL ASSETS	**663.5**	**692.3**
EQUITY		
Equity attributable to shareholders of the Parent Company	321.8	336.3
Total equity	**321.8**	**336.3**
LIABILITIES		
Non-current liabilities	168.2	177.4
Current liabilities	173.5	178.6
TOTAL EQUITY AND LIABILITIES	**663.5**	**692.3**
Pledged assets	80.7	80.9
Contingent liabilities	1.3	1.3

Consolidated Statement of Changes in Equity

The Group

MSEK	31 Dec 2012	31 Dec 2011
Opening balance, 1 January	**336.3**	**336.3**
Dividend	-45.8	–45.8
Comprehensive income	31.3	45.8
Closing balance	321.8	336.3

Consolidated Statement of Cash Flows

The Group

MSEK	31 Dec 2012	31 Dec 2011
Net cash flow from operating activities before changes in working capital	75.9	86.0
Changes in working capital	12.7	22.3
Cash flow from operating activities	**88.6**	**108.3**
Cash flow from investing activities	**-21.6**	**-23.0**
Cash flow after investments	**67.0**	**85.3**
Cash flow from financing activities	**-63.7**	**-64.2**
Cash flow for the period	**3.3**	**21.1**
Cash and cash equivalents at beginning of the period	97.8	77.6
Cash and cash equivalents at end of period	102.0	98.7

Income Statement

Parent Company

	Oct-Dec		Jan-Dec	
MSEK	**2012**	**2011**	**2012**	**2011**
Net sales	177.6	191.5	797.7	859.2
Operating expenses	-196.2	-194.3	-775.7	-807.2
Operating income	**-18.6**	**-2.8**	**22.0**	**52.0**
Financial items	-1.7	-0.6	1.9	-3.4
Income after financial items	**-20.3**	**-3.4**	**23.9**	**48.6**
Appropriations	4.4	-27.9	4.4	–27.9
Tax on profit/loss for the period	2.4	7.9	-10.9	-8.0
Net profit/loss for the period	**-13.5**	**-23.4**	**17.4**	**12.7**
Hedge accounting of brass contracts	-1.1	-	-1.4	-
Tax on items relating to components of other comprehensive income	0.2	-	0.3	-
Total comprehensive income	**-14.4**	**-23.4**	**16.3**	**12.7**

Balance Sheet

Parent Company

MSEK	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Fixed assets			
Goodwill		66.1	72.8
Property, plant and equipment		109.8	125.8
Financial non-current assets		19.0	23.2
Total non-current assets		**194.9**	**221.8**
Current assets			
Inventories		130.1	143.5
Current receivables		107.0	118.7
Cash and bank balances (including current investments)		93.3	85.0
Total current assets		**330.4**	**347.2**
TOTAL ASSETS		**525.3**	**569.0**
EQUITY AND LIABILITIES			
Restricted equity		57.3	57.3
Non-restricted equity		95.4	124.9
Total equity		**152.7**	**182.2**
Untaxed reserves		131.4	135.8
Provisions		95.0	90.8
Non-current liabilities		0.2	7.7
Current liabilities		146.0	152.5
TOTAL EQUITY AND LIABILITIES		**525.3**	**569.0**
Pledged assets		80.7	80.9
Contingent liabilities		21.9	24.4

Quarterly data

The Group

	2012				2011			
The Group, MSEK	**Q4**	**Q-3**	**Q-2**	**Q-1**	**Q-4**	**Q-3**	**Q-2**	**Q-1**
Net sales	197.6	186.9	240.1	235.9	209.2	203.5	252.7	253.1
Gross profit	55.1	56.0	76.5	86.9	58.8	66.3	84.6	84.5
Operating income	-4.7	10.7	8.1	24.2	12.4	4.4	27.5	25.3
Operating margin, %	-2.4	5.7	3.4	10.3	5.9	2.2	10.9	10.0
Profit/loss before tax	-4.9	9.5	7.5	22.6	11.8	3.2	26.1	23.8
Earnings per share, SEK	0.52	0.54	0.41	1.38	0.67	0.07	1.78	1.47
Cash flow after investments	26.4	29.5	7.5	3.6	34.5	7.8	17.0	26.0

Five-year summary, 2008-2012

The Group’s financial performance is summarized in following table:

The Group, MSEK	**2012**	**2011**	**2010**	**2009**	**2008[1]**
Net sales	860.5	918.6	936.0	915.0	994.8
Profit after depreciation, before goodwill	38.3	69.6	113.5	91.7	38.9
Operating income	38.3	69.6	113.5	91.7	32.3
Profit after financial items	34.7	64.9	110.8	92.2	16.2
Total assets	663.5	692.4	705.2	655.0	618.3
Equity/assets ratio, %	49	49	48	41	32
Cash flow after investments	67.0	85.3	115.3	104.3	-15.2
Return on capital employed, %	9	16	26	22	9
Return on equity, %	10	14	26	29	5
Average number of employees	459	504	510	553	623

[1] *2008 not according to IFRS.*

Board of Directors' certification

The Board of Directors and Chief Executive Officer hereby certify that this Interim Report gives a true and fair view of the Parent Company's and Group's operations, financial position and results of operations and reviews significant risks and factors of uncertainty facing the Parent Company and Group companies.

Mora, Sweden, 27 February 2013

Christer Lenner

Chairman of the Board

Mats Hermansson	*Johnny Alvarsson*	*Erik Eriksson*
Board member	Board member	Board member
Pernilla Wigren	*Hans Åke Norås*	
Board member	Board member	
Kenneth Östlund	*Staffan Gryting*	
Employee representative	Employee representative	

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Reporting calendar:

Annual Report 2012	April
AGM	7 May
Interim Report, Q1 2013	8 May
Interim Report, Q2 2013	29 August
Interim Report, Q3 2013	7 November

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Ostnor conducts the sale, manufacture and product development of faucets under the strong, well-established product brands FM Mattsson and Mora Armatur. The company's main market is the Nordic countries. Ostnor has sales of nearly 900 million Swedish kronor and some 460 full-time employees. Operations are concentrated in Mora, Sweden, where the head office is also located.