

Interim Report, January–September 2012

Third quarter:

- Net sales were MSEK 186.9 (203.5).
- Operating income was MSEK 10.7 (4.4) including non-recurring items of MSEK -1.2 (-1.4).
- The operating margin was 5.7 (2.2) percent.
- Profit after tax was MSEK 6.2 (0.8). Earnings per share were SEK 0.54 (0.07).
- Cash flow after investments was MSEK 29.5 (7.8).

KEY RATIOS

	July–Sept		Jan–Sept		Jan–Dec
	2012	2011	2012	2011	2011
MSEK					
Net sales	186.9	203.5	662.9	709.4	918.6
Operating income	10.7	4.4	43.0	57.3	69.6
Operating margin, %	5.7%	2.2%	6.5%	8.1%	7.6%
Profit after financial items	9.5	3.2	39.6	53.1	64.9
Cash flow after investments	29.5	7.8	40.6	50.9	85.3
Return on equity, %			10.6%	16.2%	13.6%

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

CEO's comment:

Demand on our main markets remained poor in the third quarter, and sales were down by 8.2 percent year on year. Our judgment is that we retained market shares.

The cost reduction work we've begun generated a saving of MSEK 7.8 in the quarter. More work on cost reduction is ongoing. Our operating income was MSEK 10.7 (4.4) despite lower volumes. The improvement is primarily explained by the above savings program and income in the corresponding period of 2011 being charged with a market valuation of brass contracts of MSEK -8.9.

Our activities for future product development are increasing and are consistent with our endeavor to retain the strongest product range on the market. We are also intensifying our marketing initiatives in all three geographical segments.

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 over MSEK 900 and some 475 full-time employees. Operations are concentrated in Mora, Sweden, where the head office is also located.

The Group

NET SALES

	July–Sept		Jan–Sept		Jan-Dec
	2012	2011	2012	2011	2011
MSEK					
Sweden	140.0	150.4	495.9	533.7	688.8
Other Nordic countries	26.9	33.1	110.5	116.3	152.0
International	20.0	20.0	56.5	59.4	77.8
Group total	186.9	203.5	662.9	709.4	918.6

July - September

Net sales for the third quarter were MSEK 186.9 (203.5), a decrease of 8.2 percent year on year. In volume terms, sales decreased by 9.9 percent year on year, explained by continued hesitant demand on most of the company's markets. Exchange rate fluctuations affected net sales by MSEK -3.7.

January - September

Net sales for the first three quarters were MSEK 662.9 (709.4), a 6.6 percent decrease year on year. In volume terms, sales decreased by 9.5 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 -2.7.

Comments on segment reporting

Sweden: new construction on the Swedish market continued to slow in the quarter. The 'ROT' sector (construction, renovation, conversion and extension) is more stable, but had a faint negative impact from general economic conditions, banks requiring 15 percent cash deposits for property purchases and the number of completed property transactions decreasing somewhat.

Other Nordic countries: progress on the Nordic market has been in line with Sweden, the exception being Norway, which achieved positive, albeit limited, growth.

International: brisk progress in Belgium in the quarter. A large number of initiatives started up in the quarter with the aim of creating future growth in this segment for the long term. Focus remains on advancing market positioning on those geographical markets where the company is present within International. Development of the product portfolio, with current and new distributors being a central component of initiatives going forward.

OPERATING INCOME

	July–Sept		Jan–Sept		Jan-Dec
MSEK	2012	2011	2012	2011	2011
Sweden	14.4	8.8	63.4	69.3	86.1
Other Nordic countries	-2.1	-1.2	-0.3	-1.1	-1.0
International	-0.4	-1.8	-7.7	-6.4	-9.3
Non-recurring items	-1.2	-1.4	-12.4	-4.5	-6.2
Group total	10.7	4.4	43.0	57.3	69.6

OPERATING MARGIN

	July–Sept		Jan–Sept		Jan-Dec
%	2012	2011	2012	2011	2011
Sweden	10.3	5.8	12.8	13.0	12.5
Other Nordic countries	-7.8	-3.6	-0.3	-1.0	-0.7
International	-2.0	-8.9	-13.6	-10.7	-11.9
Group total	5.7	2.2	6.5	8.1	7.6

July - September

Operating income was MSEK 10.7 (4.4). Gross profit/loss was down MSEK 10.3 year on year due to lower volumes. Thanks to active savings measures, Ostnor was able to reduce operating expenses by MSEK 7.8 in the quarter, in year-on-year terms. Operating income was charged with MSEK -1.2 (-1.4) of non-recurring expenses relating to preparations for the forthcoming IPO. Excluding non-recurring items, operating income was MSEK 11.9 (5.8). The operating margin (excluding non-recurring items) improved and was 6.4 (2.9) percent. The income improvement is mainly due to an MSEK -8.9 charge from the market valuation of brass contracts in the previous year. Hedge accounting of brass contracts was introduced as of 1 January 2012, which means that market valuation did not impact on operating income this year because hedges entered were sufficiently effective.

Inventories decreased by MSEK 27.4 in the quarter after some build-up of inventories during the spring to ensure deliveries during the vacation periods in Sweden and the rest of Europe.

January - September

Operating income was MSEK 43.0 (57.3). Excluding non-recurring items, operating income was MSEK 55.4 (61.8). The operating margin (excl. non-recurring items) was 8.4 (8.7) percent. Gross profit was down by MSEK 16.0 year on year due to lower volumes. However, the gross margin was unchanged at 33.1 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 continue, which explains most of the increase in operating expenses between the years, as did continued initiatives on developing new products.

Hedge accounting of brass contracts was introduced on 1 January, which means that the market valuation of brass contracts did not affect operating income because hedges entered were sufficiently effective (-14.8). Operating income was charged with non-recurring expenses of MSEK -12.4 (-4.5), with expenses related to preparations for the forthcoming IPO of MSEK -4.8 (-4.5), expenses for a change of CEO of MSEK -5.8, pension settlements etc. in tandem with staff downsizing of MSEK -3.7 and the repayment of pension premiums from FORA for the years 2007-2008 of MSEK 1.9.

Inventories decreased by MSEK 14.3 (3.4) on 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 will even out in the remainder of the year.

Comments on segment reporting

Sweden: marketing investments and development initiatives for new products continued in the year. These 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. The company had a lower cost level in the third quarter than in the first half-year to compensate for decreased volumes.

Other Nordic countries: sales for the quarter were 19 percent down year on year, resulting in deteriorated operating income.

International: Ostnor was able to improve profit by MSEK 1.4 for the quarter in year-on-year terms thanks to lower cost levels and unchanged net sales. Profit was charged with MSEK 3 in the second quarter for a settlement with our previous distributor in the Netherlands.

International has been restructured with the aim of making a new start for Ostnor's presence on international markets. Ostnor is still noting 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, growth will be supported by developing new products tailored to different segments and markets. Accordingly, Ostnor will be able to sustainably strengthen its niche positioning on international markets.

SEGMENT REPORTING

Sweden

This segment includes sales on the Swedish market and Group-wide functions such as production, R&D and administration. The Swedish market represents 75 percent of the Group's total sales.

SWEDEN

	July–Sept		Jan–Sept		Jan–Dec
	2012	2011	2012	2011	2011
MSEK					
Net sales, external	140.0	150.4	495.9	533.7	688.8
Operating income ¹	14.4	8.8	63.4	69.3	86.1
Operating margin, %	10.3	5.8	12.8	13.0	12.5

¹ Excluding non-recurring expenses for IPO, expenses for a change of CEO, early pension settlements etc. and repayment of pension premiums.

The segment's operating income is affected by the progress of production yield. Production yield is reported in the Sweden segment but includes volume growth for all the Group's three segments, which is the total utilization ratio of production.

Other Nordic countries

This segment includes sales on the Norwegian, Danish and Finnish markets. Sales of the company's products are through wholly owned subsidiaries and represent 17 percent of the Group's total sales.

OTHER NORDIC COUNTRIES

	July–Sept		Jan–Sept		Jan–Dec
	2012	2011	2012	2011	2011
MSEK					
Net sales, external	26.9	33.1	110.5	116.3	152.0
Operating income	-2.1	-1.2	-0.3	-1.1	-1.0
Operating margin, %	-7.8	-3.6	-0.3	-1.0	-0.7

International

This segment includes sales on the Russian and German markets via wholly owned subsidiaries, and other European markets where sales are via local distributors. This segment represents 8 percent of the Group's total sales.

INTERNATIONAL

	July–Sept		Jan–Sept		Jan–Dec
	2012	2011	2012	2011	2011
MSEK					
Net sales, external	20.0	20.0	56.5	59.4	77.8
Operating income	-0.4	-1.8	-7.7	-6.4	-9.3
Operating margin, %	-2.0	-8.9	-13.6	-10.7	-11.9

Financial position

January - September 2012

Financial instruments, brass derivatives

Hedge accounting was introduced as of 1 January, and accordingly, the market valuation of outstanding brass derivatives did not affect operating income in the quarter because the hedges entered were sufficiently effective (MSEK -14.8). The price of brass at the end of the period was SEK 37.87 (34.56) per kg against SEK 36.25 per kg at year-end.

Financial items

Net financial items amounted to MSEK -3.4 (-4.2).

Cash Flow

Cash flow from operating activities was MSEK 53.9 (62.6), a decrease of MSEK 8.7 year on year. The deterioration is due to lower operating income this year, but is offset by the positive progress of working capital. Cash flow after investments was MSEK 40.6 (50.9). Cash flow from investing activities was MSEK -13.3 (-11.7).

Investments

The Group's total investments in property, plant and equipment were MSEK 6.0 (7.1). The Group has also leased assets for MSEK 9.4 (7.4). The Group's investments in intangible assets were MSEK 7.3 (5.3), primarily the capitalization of development expenses.

Depreciation and amortization

Total depreciation and amortization for the group was MSEK 34.9 (31.4), of which the amortization of intangible assets was MSEK 12.0 (9.8).

Balance Sheet

Net liabilities amounted to MSEK 36.7 (54.1). Cash and cash equivalents including current investments were MSEK 80.1 (68.5). Repayment of loans including finance leases were made as planned at an amount of MSEK 13.4 (12.5).

Total assets at the end of the period were MSEK 669.6 (697.3). Inventories amounted to MSEK 138.3 (162.3). Accounts receivable were MSEK 128.2 (136.6).

The equity/assets ratio was 47.3 (47.3) percent.

Shareholders' equity at the end of the period was MSEK 316.6 (329.6), corresponding to SEK 27.67 per share (28.80).

Return on equity was 10.6 (16.2) percent on a 12-month basis (13.6 for the full year 2011).

Employees

At the end of the period, the number of full-time employees was 432 (498). The average number of employees in the period was 468 (506).

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.

Net sales of the Parent Company were MSEK 620.1 (667.8), of which goods exports were MSEK 119.3 (125.8). Operating income amounted to MSEK 40.6 (54.8). Parent Company investments in property, plant and equipment were MSEK 6.0 (7.1).

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. 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 2,289,000 class A shares with ten votes each and 9,156,100 class B shares with one vote each. The company has 162 (162 at year-end) shareholders, of which one owner, Priveq Investment, holds 30 percent of the number of shares and votes. Ostnor has been a CSD-registered company since autumn 2003, which means its share register is maintained by Euroclear (formerly VPC), and the company has been public since its AGM 2011.

Significant events after the end of the period

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.

An invitation to an Extraordinary General Meeting (EGM) on 15 November 2012 has been issued due to a proposed change of shareholder structure. The complete invitation has been published on the company's website.

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

	July-Sept		Jan-Sept		Jan-Dec
MSEK	2012	2011	2012	2011	2011
Net sales	186.9	203.5	662.9	709.4	918.6
Cost of sales	-130.9	-137.2	-443.5	-474.0	-624.4
Gross profit	56.0	66.3	219.4	235.4	294.2
Operating expenses	-45.8	-53.6	-178.6	-167.1	-222.5
Other operating income and expenses	0.5	0.6	2.2	3.8	4.7
Other gains/losses – net	0	0	0	0	3.5
Financial instruments, brass	0	-8.9	0	-14.8	-10.3
Operating income	10.7	4.4	43.0	57.3	69.6
Financial items – net	-1.2	-1.2	-3.4	-4.2	-4.7
Profit/loss before tax	9.5	3.2	39.6	53.1	64.9
Income tax	-3.3	-2.4	-12.9	-15.0	-19.2
Profit/loss for the period	6.2	0.8	26.7	38.1	45.7
Other comprehensive income					
Exchange rate differences	-0.4	0.3	-0.4	1.0	0.1
Hedge accounting of brass contract	0.4	0	-0.2	0	0
Tax on items relating to components of other comprehensive income	-0.1	0	0	0	0
Total comprehensive income attributable to shareholders in the Parent Company	6.1	1.2	26.1	39.1	45.8

EARNINGS PER SHARE

	July-Sept		Jan-Sept		Jan-Dec
	2012	2011	2012	2011	2011
Earnings per share (SEK)	0.54	0.07	2.33	3.32	4.00
Average number of shares	11,445,100	11,445,100	11,445,100	11,445,100	11,445,100

Consolidated Balance Sheet

The Group

MSEK	30 Sept 2012	30 Sept 2011	31 Dec 2011
ASSETS			
Fixed assets			
Intangible assets	142.0	144.1	146.6
Property, plant and equipment	148.7	158.4	156.3
Financial non-current assets	4.8	5.2	4.8
Deferred tax assets	7.3	11.6	7.7
Total non-current assets	302.8	319.3	315.4
Current assets			
Inventories	138.3	162.3	152.6
Other current assets	228.5	215.7	224.4
TOTAL ASSETS	669.6	697.3	692.4
EQUITY			
Equity attributable to shareholders of the Parent Company	316.6	329.6	336.3
Total equity	316.6	329.6	336.3
LIABILITIES			
Non-current liabilities	176.6	185.6	177.4
Current liabilities	176.4	182.1	178.7
TOTAL EQUITY AND LIABILITIES	669.6	697.3	692.4
Pledged assets	80.9	81.2	80.9
Contingent liabilities	1.3	1.1	1.3

Consolidated Statement of Changes in Equity

The Group

MSEK	30 Sept 2012	30 Sept 2011	31 Dec 2011
Opening balance, 1 January	336.3	336.3	336.3
Dividend	-45.8	-45.8	-45.8
Comprehensive income	26.1	39.1	45.8
Closing balance	316.6	329.6	336.3

Consolidated Statement of Cash Flows

The Group

MSEK	30 Sept 2012	30 Sept 2011	31 Dec 2011
Net cash flow from operating activities before changes in working capital	65.0	79.8	86.0
Changes in working capital	-11.1	-17.2	22.3
Cash flow from operating activities	53.9	62.6	108.3
Cash flow from investing activities	-13.3	-11.7	-23.0
Cash flow after investments	40.6	50.9	85.3
Cash flow from financing activities	59.2	-60.0	-64.2
Cash flow for the period	-18.6	-9.1	21.1
Cash and cash equivalents at beginning of the period	98.7	77.6	77.6
Cash and cash equivalents at end of period	80.1	68.5	98.7

Income Statement

Parent Company

	July-Sept		Jan-Sept		Jan-Dec
MSEK	2012	2011	2012	2011	2011
Net sales	175.3	189.8	620.1	667.8	859.2
Operating expenses	-162.2	-180.8	-579.5	-613.0	-807.2
Operating income	13.1	9.0	40.6	54.8	52.0
Financial items	0.7	-0.7	3.6	-2.8	-3.4
Income after financial items	12.4	8.3	44.2	52.0	48.6
Appropriations	0	0	0	0	-27.9
Tax on profit/loss for the period	-4.4	-2.9	-13.3	-15.9	-8.0
Net profit/loss for the period	8.0	5.4	30.9	36.1	12.7
Hedge accounting of brass contracts	0.4	0	-0.2	0	0
Tax on items relating to components of other comprehensive income	-0.1	0	0	0	0
Total comprehensive income	8.3	5.4	30.7	36.1	12.7

Balance Sheet

Parent Company

	30 Sept 2012	30 Sept 2011	31 Dec 2011
MSEK			
ASSETS			
Fixed assets			
Goodwill	67.8	74.4	72.8
Property, plant and equipment	114.1	128.0	125.8
Financial non-current assets	21.4	26.2	23.2
Total non-current assets	203.3	228.6	221.8
Current assets			
Inventories	130.1	156.1	143.5
Current receivables	138.8	137.2	118.7
Cash and bank balances (including current investments)	73.1	56.8	85.0
Total current assets	342.0	350.1	347.2
TOTAL ASSETS	545.3	578.7	569.0
EQUITY AND LIABILITIES			
Restricted equity	57.3	57.3	57.3
Non-restricted equity	109.8	148.3	124.9
Total equity	167.1	205.6	182.2
Untaxed reserves	135.8	108.0	135.8
Provisions	94.7	98.9	90.8
Non-current liabilities	0.2	10.3	7.7
Current liabilities	147.5	155.9	152.5
TOTAL EQUITY AND LIABILITIES	545.3	578.7	569.0
Pledged assets	80.9	81.2	80.9
Contingent liabilities	23.9	25.4	24.4

Quarterly data

The Group

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

Five-year summary, 2007-2011

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

The Group, MSEK	2011	2010	2009	2008 ¹	2007 ¹
Net sales	918.6	936.0	915.0	994.8	1,014.7
Profit after depreciation, before goodwill	69.6	113.5	91.7	38.9	19.5
Operating income	69.6	113.5	91.7	32.3	12.8
Profit after financial items	64.9	110.8	92.2	16.2	2.7
Total assets	692.4	705.2	655.0	618.3	618.2
Equity/assets ratio, %	49	48	41	32	32
Cash flow after investments	85.3	115.3	104.3	-15.2	62.0
Return on capital employed, %	16	26	22	9	4
Return on equity, %	14	26	29	5	1
Average number of employees	504	510	553	623	683

¹ 2007-2008 not according to IFRS.

Definitions of key ratios—see the Annual Report for 2011.

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, 7 November 2012

Christer Lenner

Chairman of the Board

Mats Hermansson

Board member

Magnus Hardmeier

Board member

Erik Eriksson

Board member

Pernilla Wigren

Board member

Hans Åke Norås

Board member

Johnny Alvarsson

Board member

Kenneth Östlund

Employee representative

Staffan Gryting

Employee representative

Claes Seldeby

CEO

Review report

This Interim Report has not been reviewed by the company's auditors.

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Reporting calendar:

Year-end Report	27 February 2013
Annual General Meeting	7 May 2013
Interim Report Q1 2013	8 May 2013
Interim Report Q2 2013	29 August 2013

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