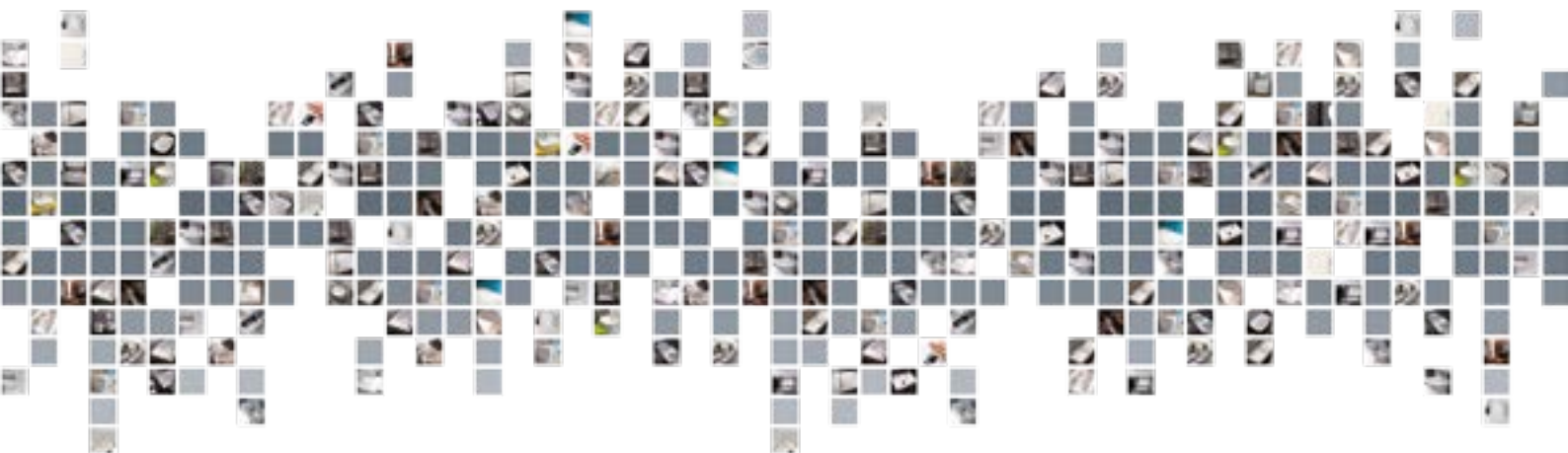


Financial Statements 2013



Review of the Board of Directors

2013 IN BRIEF

Net sales for 2013 amounted to EUR 701.8 million (752.8). The decline was mainly related to lower volumes due to continued challenging economic environment in key markets resulting in moderate development of new construction, renovation and rebuilding. The lower volumes were offset by better product and country mix as well as increased average sales prices, especially for Bathroom Ceramics. Net sales decreased also due to the disposal of Sanitec's former shower business in France in October 2012. Comparable net sales for the year were 3.9% lower than prior year – calculated in comparable structure and constant currency, i.e. organic change.

Operating profit amounted to EUR 67.9 million (73.0). Operating profit for 2013 adjusted for items affecting comparability amounted to EUR 74.4 million (77.9), 10.6% (10.4) of net sales. More efficient sourcing, lower costs due to previously implemented actions to adjust the organisation to present market conditions and well managed manufacturing efficiency during the period supported the improvement in adjusted operating margin.

Earnings per share, basic and diluted, were EUR 0.42 (0.72).

Cash flow from operating activities in 2013 amounted to EUR 74.7 million (87.9). Cash conversion ratio at the end of 2013 was 82% (88), which is another year of meeting the long-term financial target. Cash and cash equivalents amounted to EUR 99.4 million (215.7) at the end of the year. In addition, Sanitec has an unused committed revolving credit facility of EUR 50 million.

In May 2013 Sanitec refinanced its existing debt facilities by issuing EUR 250 million senior secured floating rate notes falling due in 2018. At the same time, Sanitec also put in place a EUR 50 million super senior revolving credit facility. As part of the refinancing Sanitec paid EUR 238.3 million as a refund of capital from the reserve for invested unrestricted equity and prepaid its EUR 148.4 million related party loan.

On 10 December 2013, Sanitec's share was listed in NASDAQ OMX Stockholm. The share is traded in Swedish krona (SEK). On 31 December 2013, the market capitalisation of the company's registered shares was EUR 761.9 million.

INDUSTRY DEVELOPMENT

Historically, the European bathroom fixtures market has experienced relatively stable long-term growth, primarily driven by growth in GDP and activity in the construction industry. The construction industry comprises two sectors, the new-build sector and the renovation, maintenance and improvement ("RMI") sector.

The RMI sector has proven to be relatively resilient to the general macro-economic conditions, thus contributing to stability in the total construction industry over time, whereas the new-build sector is characterised by cyclical activity primarily related to the general GDP development. Sanitec estimates that approximately 60-70% of the demand is driven by the more stable RMI sector, with the remaining 30-40% pertaining to the cyclical new-build sector.

In terms of volume, the bathroom ceramics market in Sanitec's core markets grew by 2.2% CAGR in the ten years preceding the outbreak of the global financial crisis in 2008. Since the peak year 2007, bathroom ceramics market has declined by 18% in volume, and in terms of volume the market still remains approximately 25% below the pre-crisis trend (1997-2007).

In addition to cyclical upturn, Sanitec believes that the following fundamental trends will contribute to long-term growth in the European bathroom fixtures market:

- Increasing number of households
- Rising disposable income
- Lifestyle shifts; bathroom gaining importance
- Increased consumer focus on bathroom solutions
- Innovation in product functionality and design
- Focus on the environment
- Focus on hygiene

Also in 2013, the RMI sector of the construction industry remained relatively stable. Poor market conditions in several of our core European markets, however, led to continued decline in the new-build sector. In total, the decline in construction activity also resulted in a continued decrease in the total European bathroom ceramics market during 2013.

NET SALES

Net sales for 2013 amounted to EUR 701.8 million (752.8). The decline was mainly related to lower volumes due to continued challenging economic environment resulting in moderate development of new construction, renovation and rebuilding. Net sales were also reduced due to the disposal of Sanitec's former shower business in France in October 2012. Average sales prices improved during the year following an improved product and country mix and effects of price increases. The impact of net foreign exchange rates on net sales for 2013 was EUR 5.0 million negative or -0.7% compared with prior year.

Net sales for Bathroom Ceramics product area for the full year amounted to EUR 532.1 million (556.4). In certain markets the renewal of the product assortment that started in 2012 continued with new product introductions and discontinuation of sales of non-profitable products.

Net sales for Ceramics Complementary Products product area for 2013 amounted to EUR 169.7 million (196.4). From the decline of 14% compared with prior year the majority is explained by the disposal of the French shower business Leda in October 2012.

Net sales by product area			
EUR million	2013	2012	2011
Bathroom Ceramics	532.1	556.4	561.9
Ceramics Complementary Products	169.7	196.4	209.0
Total	701.8	752.8	770.8

Net sales for year 2013 for Central Europe amounted to EUR 217.9 million (215.2). Strong sales in Germany, following increased new housing permissions and improved activity in the sanitary fittings wholesale sector, offset the reduction in sales in the Benelux countries.

The development in the North Europe region followed different trends during the year. Norway had a good start of the year but demand slowed down with the general economic development during the second half. Finland showed a relative strong performance during the year. The Danish market started to recover after summer and showed

positive development during the fourth quarter. Net sales for North Europe for 2013 amounted to EUR 178.2 million (186.2). The decline versus prior year was mainly related to continued lower activity in Sweden after a strong second quarter.

Net sales for East Europe for the full year amounted to EUR 113.9 million (128.7), a decline with 12%. In East Europe the decline was mainly due to continued challenging economic environment and political turbulence in the Ukrainian market impacting building and renovation activities.

Net sales for the full year for South Europe amounted to EUR 117.7 million (145.5). The decrease is mainly explained by continued weak markets in Italy and France. A substantial part of the decline in sales is explained by the disposal of Leda S.A.S in October 2012. Excluding the effects of the divestment the decline in net sales was -7.0%.

After a challenging first half of the year, due to weak market conditions, the second half showed signs of recovery and increased activity with renewed optimism for the construction sector in the United Kingdom. Net sales for UK & Ireland for 2013 were EUR 51.6 million (54.4), with a strong development during the fourth quarter that resulted in a 14% growth in the last quarter versus prior year.

Net sales by region

EUR million	2013	2012	2011
Central Europe	217.9	215.2	219.2
North Europe	178.2	186.2	180.0
South Europe	117.7	145.5	163.4
East Europe	113.9	128.7	126.0
UK & Ireland	51.6	54.4	58.1
Rest of the World	22.5	22.9	24.1
Total	701.8	752.8	770.8

OPERATING PROFIT

Operating profit for the full year amounted to EUR 67.9 million (73.0). Operating profit adjusted with items affecting comparability amounted to EUR 74.4 million (77.9). Adjusted operating margin for the period amounted to 10.6% (10.4). The impact for 2013 of net foreign exchange rates was EUR 0.4 million negative compared with prior year. More efficient sourcing, lower costs due to previously implemented actions to adjust the organisation to present market conditions and well managed manufacturing efficiency during the period supported the improvement in adjusted operating margin.

The operating profit includes the reduction of the EU cartel fine, EUR 7.1 million, which has been recognised as other operating income and included in items affecting comparability.

PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

The net financial income and expenses amounted to EUR -19.8 million for the full year (-6.0) of which EUR -11.5 million was interest expenses on borrowings (-8.5). This increase in interest expenses was due to the refinancing which took place in May 2013. Other net financial income and expenses amounted to EUR -8.2 million (2.5). The majority of this was due to that there were net foreign exchange gains of EUR 3.2 million in 2012, while there were net foreign exchange losses of EUR 3.8 million in 2013.

Profit before taxes was EUR 48.2 million (67.0) for the period.

The change in income taxes compared with the previous year was EUR -10.4 million. The change was primarily due to increase in income taxes for the financial period by EUR -4.0 million from 2012, which related

mainly to increased income taxes in Germany compared to 2012. In addition, 2012 income taxes for prior periods included an exceptional positive item (EUR 4.1 million) which was a reversal of tax provision related to German tax audit.

Profit for the period was EUR 42.5 million (71.7). Earnings per share, basic and diluted, were EUR 0.42 (0.72).

	2013	2012	2011
Earnings per share, EUR, basic and diluted	0.42	0.72	0.48

CASH FLOW

Cash flow from operating activities for the full year 2013 amounted to EUR 74.7 million versus 87.9 million in the previous year. The decrease in cash flow from operating activities was mainly due to lower cash flow from working capital, EUR -1.0 million (7.5). During a financial year the business normally ties up cash in working capital during the first half year and releases cash during the second half. This trend was confirmed again in 2013 and Sanitec generated the same amount of cash during the second half of 2013 as in 2012. Cash conversion ratio at year-end 2013 was 82% (88), which is another year of meeting the long-term financial target.

Cash flow from investing activities for the full year 2013 amounted to EUR -18.9 million (-11.4), which is primarily customary maintenance investments of property, plant and equipment in the ceramic production.

Cash flow from financing activities during the year 2013 was EUR -171.6 million (-21.8). The negative cash flow from financing activities in 2013 was mainly related to the refinancing which took place in the second quarter and repayment of external Ukrainian loans in the third quarter. The cash flow from financing activities included also a refund of capital from reserve for invested unrestricted equity amounting to EUR 238.3 million. The refund was part of the refinancing activities.

GROSS CAPITAL EXPENDITURE AND DEPRECIATION, AMORTISATION AND IMPAIRMENT

The gross capital expenditure for the full year 2013 amounted to EUR 19.3 million (13.1). The increase was primarily related to higher ceramic production investments which were customary maintenance investments to maintain and improve the manufacturing footprint.

All capital expenditure during the year was financed by cash flow from operations. Capital expenditure corresponded in 2013 to 2.8% (1.7) of net sales. Depreciation, amortisation and impairment losses amounted 2013 to EUR -28.9 million (-29.7) corresponding to 4.1% of net sales (3.9).

EUR million	2013	2012	2011
Investments in property, plant and equipment and intangible assets	19.3	13.1	23.0
Investments in shares in subsidiaries	0.0	0.0	13.1
Total gross capital expenditure	19.3	13.1	36.1
Gross capital expenditure as percentage of net sales, %	2.8	1.7	4.7

FINANCIAL POSITION AND LIQUIDITY

Cash and cash equivalents amounted to EUR 99.4 million (215.7) at the end of the year. In addition, Sanitec has an unused committed revolving credit facility of EUR 50 million.

Sanitec's primary source of external funding is EUR 250 million senior secured floating rate notes, which were issued in May 2013. At the same time, a EUR 50 million super senior revolving credit facility was put in place. The floating rate notes bear an interest of 4.75% over three months euribor and they are due in 2018.

Net debt, calculated from the nominal value of the loans, amounted to EUR 150.6 million (-42.9). Net debt to adjusted EBITDA was 1.5 (-0.4) at the end of the year, which gives comfortable headroom to maximum leverage long-term financial target of 2.5. The increase in net debt compared to beginning of the year, EUR 193.5 million, was mainly due to return of capital from the reserve of invested unrestricted equity which was done as part of the refinancing activities in May 2013.

At the end of the year 2013 total equity amounted to EUR 44.4 million (243.7). The equity ratio decreased during 2013 to 8.4% (37.1), which is explained by the refinancing arrangements in May 2013.

KEY RATIOS FOR THE GROUP

EUR million	2013	2012	2011
Net sales	701.8	752.8	770.8
Operating profit	67.9	73.0	67.1
Operating margin, %	9.7	9.7	8.7
Items affecting comparability	-6.5	-4.9	-8.9
Operating profit, adjusted	74.4	77.9	75.9
Operating margin, %, adjusted	10.6	10.4	9.9
EBITDA, adjusted	102.7	107.7	105.6
EBITDA margin, %, adjusted	14.6	14.3	13.7
Profit before taxes	48.2	67.0	51.2
Profit for the period	42.5	71.7	47.7
As percentage of net sales, %	6.9	9.5	6.2
Cash flow from operating activities	74.7	87.9	54.5
Total assets	531.0	657.8	630.2
Total equity	44.4	243.7	167.9
Net debt	150.6	-42.9	32.7
Net debt / EBITDA, adjusted	1.5	-0.4	0.3
Equity ratio, %	8.4	37.1	26.6
Net gearing, %	339.7	-17.6	19.5
Return on capital employed (ROCE), %, rolling 12 months	19.4	19.3	19.3
Return on equity, %, rolling 12 months	35.7	34.5	29.3
Cash conversion	82	88	78

RESEARCH AND DEVELOPMENT

Sanitec's research and development activities focus mainly on certain areas: environment, ease of installation, integrated and appealing design as well as the development of new products.

In 2012, Sanitec consolidated its innovation, design and technical product development efforts by coordinating these activities on Group level. As of 31 December 2013, approximately 181 (160) of the employees (FTEs) were directly involved in this function.

Direct research and development expenses amounted in 2013 to EUR -4.5 million (-4.0). In addition, Sanitec incurs expenses in product enhancement and improvements to support the product life cycle. Total costs in product development in all stages in the product lifecycle amounted to EUR -9.6 million (-8.3), representing 1.4% of net sales (1.1). Capitalised development expenses amounted to EUR 3.3 million (2.9).

EUR million	2013	2012	2011
Direct R&D expenses	-4.5	-4.0	-3.6
Total R&D expenses	-9.6	-8.3	-8.7
As percentage of net sales, %	1.4	1.1	1.1
Capitalised development expenses	3.3	2.9	4.0

ENVIRONMENT

Sanitec is committed to operating all its business activities in an environmentally responsible manner with due care to our neighbours, employees, customers and the communities in which we operate.

Activities of Sanitec Group companies shall meet and exceed the requirements laid down in applicable environmental regulations and standards. The Group companies are encouraged to continuously improve their environmental performance by taking into consideration, and foreseeing, the technical development and the expectations of customers, society and the personnel. Our operations require us to maintain certain environmental permits for the production of bathroom ceramics as well as bath and shower products. In addition, the production units have generally been certified according to the ISO 9001 quality management standards and the ISO 14001 environmental management standards.

Our compliance matters are handled centrally through the adoption of guidelines and establishment of standards and principles, and locally by each respective Group company responsible for implementation, follow up and handling of day-to-day matters. We also supervise and monitor environmental matters at the site level, with regular maintenance and environmental remediation to remove pollution and contaminants, as well as with ongoing discussions and actions to improve performance and to ensure compliance with applicable regulations and permits.

PERSONNEL

The number of employees was 6,211 (6,688) at the end of the year. The reduction was due to continuous efficiency improvements in the manufacturing footprint, mainly related to the East Europe region, and additional effects from activities in line with the "One Sanitec" concept.

	2013	2012	2011
Number of personnel, end of period	6,211	6,688	7,096
Number of personnel, average	6,516	7,004	7,391
Total wages and salaries during the financial year, EUR million	-157.6	-167.2	-181.9

LONG-TERM FINANCIAL TARGETS

New long-term financial targets were set by the Board of Directors during the fourth quarter of 2013.

Growth above market

Sanitec's target is to keep achieving annual organic growth that is on average 2 p.p. higher than its core market growth. Additionally Sanitec aims opportunistically at growth through complementary acquisitions to enter new growth markets and/or to add complementary products in existing markets.

Operating margin

Sanitec's target is to achieve an adjusted operating margin (EBIT) at or above 12% over a business cycle.

Cash conversion

Sanitec's target is to achieve an annual cash conversion above 70% over a business cycle. Cash conversion is the ratio of operating cash flow defined as adjusted EBITDA less paid investments in intangible and tangible assets to adjusted EBITDA.

Net debt / EBITDA

Sanitec's target is to have a net debt in relation to adjusted EBITDA below 2.5. The capital structure should enable flexibility and allow the company to capture strategic opportunities while maintaining a sound financial position even when the market conditions are less favourable.

SHARES, SHARE PRICE AND SHARE CAPITAL

Sanitec Corporation's paid and registered share capital on 31 December 2013 was EUR 2.8 million and the number of issued and registered shares totalled 100,000,000. The number of issued shares was increased from 1,000,000 to 100,000,000 shares on 22 November 2013 by issuance of 99,000,000 new shares without consideration.

The company has one series of shares. Every share that the company does not hold itself entitles its owner to one vote at a General Meeting of Shareholders. The share has no nominal value. The counter book value of each registered share is EUR 0.03.

Sanitec's share was listed on NASDAQ OMX Stockholm, Mid Cap segment, on 10 December 2013. The share is traded in Swedish krona (SEK).

On 31 December 2013 the market capitalisation of the company's registered shares was EUR 761.9 million (SEK 6,750.0 million). During 2013, approximately 19.7 million of the company's shares were traded, i.e. around 19.7% of the average number of registered shares. The lowest price paid for a share was EUR 7.00 (SEK 62.00) and the highest price EUR 7.62 (SEK 67.50). The volume-weighted average price of shares traded during the period the share was traded was EUR 7.41 (SEK 64.10). The closing price on 31 December 2013 was EUR 7.62 (SEK 67.50). The share issue-adjusted equity per share attributable to owners of the parent was EUR 0.44 per share (EUR 2.44 on 31 December 2012). The share prices have been converted to euros using the closing rate of the period, with the exception of the volume-weighted average price, which has been converted to euros using the average rate of the period. The total number of shareholders at the end of the period was 2,319.

	2013	2012	2011
Number of shares, end of period, share issue adjusted	100,000,000	100,000,000	100,000,000
Number of shares, average, share issue adjusted	100,000,000	100,000,000	100,000,000
Share price, end of period, SEK	67.50	–	–
Share price, end of period, EUR ¹⁾	7.62	–	–
Share price, year high, SEK	67.50	–	–
Share price, year high, EUR ¹⁾	7.62	–	–
Share price, year low, SEK	62.00	–	–
Share price, year low, EUR ¹⁾	7.00	–	–
Share price, volume-weighted average, SEK	64.10	–	–
Share price, volume-weighted average, EUR ²⁾	7.41	–	–
Market capitalisation, SEK million	6,750.0	–	–
Market capitalisation, EUR million ¹⁾	761.9	–	–
Number of shares traded during the period, million shares	19.7	–	–
Share turnover, %	19.7	–	–
Equity attributable to owners of the parent per share, EUR	0.44	2.44	1.68
Dividend / distribution per share, EUR ³⁾	0.22	2.38	–
Dividend / distribution payout ratio, %	51.8	332.3	–
Dividend / distribution yield, %	2.9	–	–
Price / earnings per share (P/E)	17.9	–	–
Price / equity per share	17.2	–	–

¹⁾ Converted to EUR with closing rate of the period

²⁾ Converted to EUR with average rate of the period

³⁾ 2013 distribution is a refund of capital and the proposal of the Board of Directors. 2012 distribution was a refund of capital from reserve for invested unrestricted equity paid in May 2013.

NOTIFICATIONS AS PER SECTION 5 OF CHAPTER 9 OF THE FINNISH SECURITIES MARKET ACT

On 11 December 2013, Zeres Capital AB informed Sanitec Corporation that it had purchased Sanitec shares on 10 December 2013 and owned one twentieth (1/20) of Sanitec's shares and votes. Following the transaction Zeres Capital AB owns 5,000,000 shares, or 5.00%, of Sanitec Corporation's share capital and total voting rights.

AUTHORISATIONS OF THE BOARD OF DIRECTORS

The Board of Directors of Sanitec Corporation has no authorisations to issue shares or options or other forms of potential shares.

BOARD OF DIRECTORS AND TOP MANAGEMENT TEAM

Board of Directors

During the 2013, the members of the Board of the Directors were:

Fredrik Cappelen, Chairman

Adrian Barden, member

Caspar Callerström, member

Johan Bygge, member as from 27 September 2013

Margareta Lehmann, member as from 29 October 2013

Pekka Lettijeffer, member

Ulf Mattsson, member

Jussi Nyrölä, deputy member until 15 April 2013

Top Management Team

During 2013, the members of the Top Management Team were:

Peter Nilsson, President & CEO

Anders Spetz, Executive Vice President and Chief Commercial Officer, as from 1 October 2013

Gun Nilsson, Executive Vice President and Chief Financial Officer

Harald Tremel, Executive Vice President and Chief Operating Officer

Krister Boëthius, Corporate Vice President of Global Business Development & Change Management

Magnus Terrvik, Executive Vice President, Global Business Development & Change Management

Michael Hellmund, Executive Vice President Human Resources, until 31 December 2013

Miguel Definti, Executive Vice President for Product Management & Design

CHANGES IN GROUP STRUCTURE

Sanitec Group consists of all direct and indirect subsidiaries of Sanitec Corporation, a Finnish public limited company with business identity code 1955115-2. At year end the Group consisted of 46 subsidiaries of Sanitec Corporation. Sanitec Group had no investments in associated companies or joint ventures except a 20% ownership in Balsac Inc Oü, Estonia and 1.5% ownership in Max Sibbern A/S, Denmark.

On 11 February 2013, Ifö Sanitär Ab sold 80% of its shares in Ifö Sanitär Eesti A/S, Estonia to the local management of the company and the name of the company was changed to Balsac Inc Oü.

On 14 February 2013, Sanitec Corporation acquired, by way of intra-group transaction the shares in Sanitec UK Ltd.

On 24 April 2013, company form of Sanitec Corporation was changed from a limited liability company to a public limited liability company in connection with contemplated refinancing and issuance of floating rate notes.

On 22 November 2013, the number of registered shares in Sanitec Corporation was increased from 1,000,000 to 100,000,000 shares by issuance of 99,000,000 new shares without consideration.

On 10 December 2013, the shares in Sanitec Corporation were listed in NASDAQ OMX Stockholm. In connection with the listing, Sofia IV S.à r.l., then current sole shareholder of Sanitec Corporation, sold 52,173,914 shares (52.2%) in Sanitec Corporation with the settlement date of 13 December 2013.

On 19 December 2013, Sofia IV S.à r.l., pursuant to the exercised over-allotment option, sold additional 7,826,086 shares in Sanitec

Corporation as a result of which the total holding of Sofia IV S.à r.l. in Sanitec Corporation amounted to 40,000,000 shares (40%) as of 31 December 2013.

The parent company of Sanitec Corporation prior to 13 December 2013, the settlement date of the listing, was Sofia IV S.à r.l., a company registered in Luxembourg which, in turn, was fully owned by Sofia III S.à r.l. The parent company of Sofia III S.à r.l. was Sofia II S.à r.l., a company registered in Luxembourg and the ultimate parent company of the Group prior to the settlement date was Sofia I S.à r.l., a company registered in Luxembourg. Sofia I S.à r.l. was indirectly owned by private equity fund EQT IV and management of the Group (in total 77.5%, of which management owns a minority share) and the senior and second lien lenders of the previous financing structure of the Group (22.5%).

RISKS, RISK MANAGEMENT AND BUSINESS UNCERTAINTIES

As a group operating on an international field, Sanitec is exposed to different business and financial risks. The business risks can be described as market, operational and legal risks. The financial risks are related to changes in currency rates, interest rates, liquidity and funding capability. Risk management actions in Sanitec are focused on identifying the controllable risks and reducing risks related to the business. The basis for the management of risks is focusing on evaluating the probability for risks to occur and the potential impact on the Group. Compared to what was reported in the Annual Report for 2012, there has not been any material changes in risks facing Sanitec Group, except for the development in Ukraine.

Operational and market risks

Most of the operational and market risks are related to production and relations with suppliers and customers. Sanitec's business related risks are balanced by our broad product and brand portfolio, geographically spread production network and our presence in all main European markets (except Spain).

General market risk

Our business is affected by fluctuations in the economic conditions of the markets in which we sell our products, which in turn, are materially affected by general global economic conditions and trends. Changes in our financial performance often result from factors beyond our control, such as the degree to invest in new buildings, the willingness by consumers and customers to renovate or invest in replacement products, price developments on individual housing markets, etc. Additionally, we are exposed to varying level of country risk in each country of our operations, including Ukraine and Russia.

Supplier risk

Although prices for the majority of our key raw materials have remained relatively stable in recent years, we are exposed to fluctuations in price and availability of our raw materials, including those we source from third party suppliers. A disruption in the supply chain could affect our business adversely, for example in relation to quantity, quality or delivery times.

Production risk

Our performance is dependent on production and delivery of good quality products to our customers. While we manufacture most of our products within the Sanitec production network and operate it ourselves, we cannot guarantee that no business interruption takes place within the network and that all products manufactured are

defect-free and delivered in time to customers. Because a significant part of our production costs are fixed, our profitability may be adversely affected by a decline in net sales and lower production volumes.

Customer risk

While we believe we have established long-standing and stable relationships with our customers and continuously invest in these relationships, commercial and business relationships are managed at a local market level and the potential loss of any one of the major customers could have a significant effect on our business compared with other businesses whose customer bases are less concentrated.

Competition and pricing

The bathroom products market is competitive and we compete with both large-scale global manufacturers and numerous local and specialised competitors. Some of our competitors may be able to adapt more quickly to new technologies and changes in customer preferences, offer products which we do not provide, or reduce prices on products similar to our products below prices that we cannot profitably offer.

Financial risks

Our main financial risks are liquidity, credit, interest rate, currency and commodity risks. The financial risks and financial risk management are described in detail in Note 18 of the Consolidated Financial Statements.

Human capital risks

The success of our business is dependent on the leadership of our key management personnel and on our ability to attract, motivate and retain highly skilled and qualified personnel.

Reorganisation, divestment and acquisition risks

In the past, we have grown in part through acquisitions. Any possible acquisition, divestment and reorganisation may affect our capitalisation and the results of our operations. There is also a risk that expected integration and/or implementation actions may be more costly or time consuming than estimated and expected synergies do not materialise to the extent expected.

Legal and tax risks

Sanitec is involved in and exposed to various legal actions or claims and other legal and administrative, including tax and environmental, investigations and proceedings that arise out of or are incidental to the ordinary course of business. It is Sanitec's policy recognise a provision of the amounts related to the proceedings if liability is probable and amount thereof can be estimated with a reasonable certainty.

The Group is subject to local, partially unharmonised legal regimes, laws and regulations and varying interpretations and court practices in every jurisdiction of its operations. Differences and changes in EU or local legislations including trading, construction and cross border trading regulations and court practices and other regulation and administrative orders and practices applicable to Sanitec's legal units may affect on the Group's ability to manage and perform its operations in accordance with the past practice.

Risk management

Our risk management actions are focused on identifying and reducing risks related to the Group's business and operating environment. Each business function, namely Operations, Product Management & Design and Sales & Marketing has responsibility to monitor, analyse and evaluate and manage risks related directly or indirectly to the business and operational environment of each individual function. Each

geographical region has responsibility to perform similar risk management operations independently within their own legal and business environment and capture risks that may not be visible for the Group's functional organisations. In addition to the functional and geographical risk management measures, the Group's support functions, namely finance, human resources, information management and legal services support both functional organisations and all regions in their risk management processes and perform their own risk management operations.

Further details and information regarding risks and risk management of Sanitec are presented in the separate Corporate Governance Report of 2013, available in the company's website www.sanitec.com.

SIGNIFICANT ON-GOING LEGAL AND REGULATORY PROCEEDINGS

The European Commission announced in June 2010 its decision to impose a fine of EUR 57.7 million on Sanitec for the alleged participation, between the years 1994 and 2004, in a price fixing cartel and anticompetitive practices by 17 European bathroom fittings and fixtures manufacturers. The company appealed the decision to the General Court of European Union in Luxembourg in 2010 who issued its decision on the appeal in September 2013, in which the General Court partially annulled the Commission's decision in respect of findings regarding France and Italy and reduced the fine by EUR 7.1 million. The reimbursed amount was paid to Sanitec at the end of October 2013. In the beginning of December 2013, Sanitec was notified that the Commission has appealed against the judgment of the General Court to the Court of Justice of the European Union. In case the Commission is successful with its appeal, Sanitec may be obligated to repay the EUR 7.1 million amount received in October 2013. Sanitec filed its defense in the beginning of February 2014 together with a cross appeal.

84 cases initiated in 2011 by former employees of *Produit Céramiques de Touraine S.A. ("PCT")* disputing their termination compensation were ruled against the company by the French labor court of first instance in December 2013. According to the decisions, additional compensation of approximately EUR 6.5 million in total is then to be paid to the former employees. No immediate payment was ordered and PCT filed appeals against all 84 individual decisions before the year end 2013. No provision is recorded in the consolidated accounts as the evidence available to the company does not support any material change in its original view. The risk of further negative outcome cannot however be excluded.

Sanitec is subject to local tax audits, re-assessment and related proceedings and litigations from time to time.

Further information on legal and regulatory proceedings is available in Note 28 of the Consolidated Financial Statements.

DECISIONS OF THE ANNUAL GENERAL MEETINGS

At the Sanitec Corporation Annual General Meeting held on 4 April 2013, the following resolutions were approved:

Adoption of the annual accounts and resolution on use of the profit for the review period

The Annual General Meeting (AGM) approved Sanitec Corporation's financial statements for 2012. The AGM resolved to transfer the profit for the period of 1 January to 31 December 2012 to retained earnings. The AGM granted the members of the Board of Directors and company's President and CEO, Peter Nilsson, a discharge from liability for the financial year 2012.

Resolution on the number of the members of the Board of Directors and election of the members of the Board of Directors

The AGM confirmed that the number of members of the Board of Directors is five (5) and elected Mr Fredrik Cappelen as the Chairman of the Board of Directors, Mr Ulf Mattsson, Mr Adrian Barden, Mr Caspar Callerström and Mr Pekka Lettijeiff as the ordinary members of the Board of Directors and Mr Jussi Nyrölä as a vice member of the Board of Directors. The Board of Directors' term of service will run until the close of the 2014 Annual General Meeting.

Resolution on the remuneration of the members of the Board of Directors

It was approved that the annual remuneration payable to the Board of Directors be as follows:

- Chairman EUR 50,000
- Each member EUR 25,000

It was also decided, that the members employed by EQT are not entitled to any remuneration.

Number of auditors, election of auditor and remuneration of the auditor

The AGM decided that the company shall have one auditor, and elected KPMG Oy Ab as the auditor of the company. According to KPMG Oy Ab, the auditor in charge shall be Mrs Virpi Halonen, Authorised Public Accountant. The AGM decided that the auditor's fee will be paid as invoiced.

CORPORATE GOVERNANCE REPORT

Sanitec's Corporate Governance Report is issued separately in the company's website www.sanitec.com.

INFORMATION PURSUANT TO THE FINNISH MINISTRY OF FINANCE ORDINANCE 1020/2012

Sanitec Corporation is not a party to arrangements by which financial rights connected with shares or the management of the shares are separated from each other.

According to the Articles of Association of Sanitec Corporation, a General Meeting of Shareholders elects the Board of Directors and the chairman of the Board of Directors. The term of office of Members of the Board of Directors expires at the end of the next Annual General Meeting that follows their election. The Board of Directors appoints and dismisses the CEO. The Board of Directors or the CEO have no special agreements with the company relating to compensation when the Board of Directors or the CEO resign or are dismissed or their function otherwise terminates as a result of a public tender offer.

The Articles of Association of Sanitec Corporation contain no special provisions on the amendment of the Articles of Association.

Sanitec Corporation has clauses in its loan agreements, according to which the lenders have the option to demand prepayment of the loan if control in Sanitec changes. Please see Note 18 Financial risk management of the Consolidated Financial Statements for further details.

According to the information available to the Sanitec Corporation, Sofia IV S.à r.l., the owner of 40% of the shares in Sanitec, has agreed, for a period from 10 December 2013 to and including the date falling 180 days after such date, without the prior written consent of Nordea Bank AB (publ) and UBS Limited, acting as the joint global coordinators in

connection with the listing of Sanitec's shares on NASDAQ OMX Stockholm, not to offer, pledge, sell, contract to sell, or otherwise dispose of, directly or indirectly, any of shares in Sanitec, or any security convertible into or exchangeable for the shares.

Shares held by Sofia IV S.à r.l. in Sanitec Corporation are pledged by Sofia IV S.à r.l. in favour of senior and super-senior lenders of Sanitec Corporation.

EVENTS AFTER THE REPORTING DATE

Sanitec received an offer in October 2013 from HLD Group to acquire 100% of the shares in the French ceramic kitchen sinks business Alliances Céramiques S.A.S. After evaluation of the offer in 2014, the transaction was not finalised.

Sanitec Corporation incorporated a new subsidiary Sanitec SSC s.p. z.o.o., in Poland on 3 January 2014.

On 15 January 2014, company form and name of the German subsidiary Keramag Keramische Werke AG was changed to Keramag Keramische Werke GmbH.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

The separate financial statements of Sanitec Corporation have been prepared in accordance with the Finnish Accounting Act, the Accounting Ordinance and other laws and regulations relating to financial statements of a Finnish public limited liability company. The consolidated financial statements of Sanitec Group have been prepared in compliance with the International Financial Reporting Standards (IFRS). Sanitec Corporation's net sales in the financial period were EUR 17.8 million (16.3) and the operating result was a loss of EUR 5.1 million (4.6 loss). Net financial items were EUR 76.2 million (30.5), of which EUR 70.7 million (15.8) consisted of reversals of impairment losses on loan receivables from group companies. The result for the financial year was a profit of EUR 71.1 million (25.9).

The parent company had an average 3 (4) employees in the financial period and 4 (4) employees at the end of the year.

The parent company has no branches. The company has not granted any other related party loans than loans to group companies.

Parent company information

EUR million	2013	2012	2011
Net sales	17.8	16.3	15.9
Operating result	-5.1	-4.6	-2.4
Result before taxes and appropriations	71.1	25.9	4.0
Income taxes for the financial year	-	-	-
Result for the financial year	71.1	25.9	4.0
Balance sheet total	680.3	594.3	584.4
Shareholders' equity	420.5	587.8	562.0
Wages and salaries	1.1	1.4	1.2
Average number of employees	3	4	4

DIVIDEND AND DISTRIBUTION POLICY

Sanitec Corporation's Board of Directors has adopted a dividend and distribution policy according to which the Board of Directors seeks to

propose to the annual general meeting of shareholders that circa 50% of Sanitec's audited profit for the period shall be paid in dividends or in other forms of repatriation of capital to its shareholders over a business cycle. When proposing a dividend or other equity distribution, the Board of Directors shall take into account Sanitec's capital structure, liquidity and other applicable restrictions set out by the law or contractual obligations. In addition, such proposals shall take into account factors such as our financial targets, investment needs and development possibilities.

BOARD OF DIRECTORS' PROPOSAL ON THE DISTRIBUTION OF FUNDS

The distributable funds of Sanitec Corporation, the parent of Sanitec Group, total to EUR 374,024,004.24, of which the profit for the review period is EUR 71,053,369.95. The funds available for dividend distribution are EUR 26,907,519.53, and the funds available for equity repayment are EUR 347,116,484.71.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed from the result for the year nor from retained earnings, and that EUR 22,000,000, i.e. EUR 0.22 per share, is paid as refund of capital from the reserve for invested unrestricted equity. EUR 352,024,004.24 will be left in distributable funds.

OUTLOOK FOR 2014

Since the second quarter of 2013 there have been a stabilisation and signs of recovery in the European economy, and this trend enhanced slightly in the fourth quarter.

Sanitec expects the macroeconomics and general market conditions to remain relative stable in the Nordic countries, the UK and Central Europe through 2014 and the moderate positive trend experienced during the second half of 2013 to continue. In South Europe market conditions are expected to remain challenging in the short term and Sanitec will continue to focus on efficiency improvements and implementation of the "profit over volumes" strategy throughout the region in 2014.

The unstable political situation in Ukraine can as such have adverse effect on local Ukrainian market and neighbouring markets during 2014. The political turmoil and unrest is not, however, expected to have adverse effect directly on operations of the Ukrainian production facilities.

Sanitec expects that the construction and renovation markets will continue to follow the main macroeconomic trends and allow Sanitec to benefit eventually, if materialised, from moderate increase in demand in public and private sectors and to continue to defend or improve its market positions with the support of modern, efficient and flexible production network and new products launched in 2013 and 2014.

Consolidated Statement of Profit or Loss

(All amounts in EUR millions)

	Note	1 January– 31 December 2013	1 January– 31 December 2012
NET SALES	4	701.8	752.8
Other operating income	5	11.7	5.4
Materials and services	6	-312.0	-344.4
Employee benefits	7	-208.1	-209.3
Production for own use		1.8	1.3
Other operating expenses	8	-98.5	-103.0
Depreciation, amortisation and impairment losses	9	-28.9	-29.7
OPERATING PROFIT		67.9	73.0
Financial income and expenses	10	-19.8	-6.0
PROFIT BEFORE TAXES		48.2	67.0
Income taxes	11	-5.7	4.7
PROFIT FOR THE PERIOD		42.5	71.7
Net profit for the period attributable to:			
Owners of the parent		42.4	71.7
Non-controlling interest		0.0	0.0
Total		42.5	71.7
Earnings per share, basic and diluted, EUR		0.42	0.72

Consolidated Statement of Other Comprehensive Income

(All amounts in EUR millions)

	Note	1 January– 31 December 2013	1 January– 31 December 2012
Profit for the period		42.5	71.7
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans		-1.5	-0.9
Income tax relating to items that will not be reclassified		0.1	0.1
Other restatements		0.0	0.0
Total		-1.3	-0.8
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		-0.1	0.3
Exchange rate differences		-2.0	4.7
Income tax relating to items that may be reclassified		0.0	0.0
Total		-2.1	5.0
Total comprehensive income	16	39.0	75.9
Comprehensive income for the period attributable to:			
Owners of the parent		39.0	75.9
Non-controlling interest		0.0	0.0
Total		39.0	75.9

Consolidated Statement of Financial Position

(All amounts in EUR millions)

	Note	31 December 2013	31 December 2012	1 January 2012
			restated	restated
ASSETS				
Non-current assets				
Intangible assets	12	5.6	7.2	8.4
Property, plant and equipment	12	173.3	185.0	195.0
Long-term investments	20	0.0	0.0	0.0
Deferred tax assets	11	26.2	25.2	19.1
Interest-bearing receivables	14,20	4.2	3.8	4.2
Defined benefit assets	22	1.1	2.1	0.4
Total non-current assets		210.6	223.2	227.2
Current assets				
Inventories	13	93.2	102.0	106.3
Other current receivables	14,20	118.3	110.4	129.6
Assets for current tax	11	9.5	6.4	5.8
Cash and cash equivalents	15,20	99.4	215.7	161.3
Total current assets		320.5	434.6	403.0
TOTAL ASSETS		531.0	657.8	630.2
EQUITY AND LIABILITIES				
Equity				
Share capital		2.8	2.8	2.8
Share premium		43.7	43.7	43.7
Fair value reserve	19	0.1	0.3	0.0
Reserve for invested unrestricted equity		347.1	585.2	585.2
Exchange differences		-11.2	-9.3	-14.3
Retained earnings		-338.4	-379.1	-449.8
Total equity attributable to owners of the parent		44.2	243.6	167.7
Non-controlling interests		0.1	0.2	0.2
Total equity		44.4	243.7	167.9
Non-current liabilities				
Deferred tax liabilities	11	5.8	8.1	7.8
Defined benefit obligations	22	31.0	30.2	28.6
Provisions	21	8.1	9.8	25.4
Interest-bearing liabilities	17,20	241.5	148.5	168.1
Total non-current liabilities		286.5	196.7	229.8
Current liabilities				
Interest-bearing liabilities	17,20	0.0	24.3	26.0
Provisions	21	3.7	4.4	6.9
Other current liabilities	23,20	188.3	184.3	195.1
Liabilities for current tax	11	8.1	4.4	4.4
Total current liabilities		200.1	217.4	232.4
TOTAL EQUITY AND LIABILITIES		531.0	657.8	630.2

Consolidated Statement of Changes in Equity

(All amounts in EUR millions)

	Note	Share capital	Share premium	Fair value reserve	Reserve for invested unrestricted equity	Exchange differences	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January 2012		2.8	43.7	–	585.2	-14.3	-449.7	167.7	0.2	167.9
Exchange differences		–	–	–	–	5.0	-0.3	4.7	0.0	4.7
Cash flow hedges, net of tax		–	–	0.3	–	–	-0.1	0.2	–	0.2
Defined benefit plans, remeasurement, net of tax		–	–	–	–	–	-0.8	-0.8	–	-0.8
Total other comprehensive income		–	–	0.3	–	5.0	-1.2	4.1	0.0	4.2
Profit for the period		–	–	–	–	–	71.7	71.7	0.0	71.7
Total comprehensive income	16	–	–	0.3	–	5.0	70.5	75.9	0.1	75.9
Change in non-controlling interest		–	–	–	–	–	0.1	0.1	-0.1	0.0
Equity at 31 December 2012		2.8	43.7	0.3	585.2	-9.3	-379.1	243.6	0.2	243.7
Exchange differences		–	–	–	–	-2.0	–	-2.0	0.0	-2.0
Cash flow hedges, net of tax		–	–	-0.1	–	–	–	-0.1	–	-0.1
Defined benefit plans, remeasurement, net of tax		–	–	–	–	–	-1.3	-1.3	–	-1.3
Total other comprehensive income		–	–	-0.1	–	-2.0	-1.3	-3.5	0.0	-3.4
Profit for the period		–	–	–	–	–	42.4	42.4	0.0	42.5
Total comprehensive income	16	–	–	-0.1	–	-2.0	41.1	39.0	0.0	39.0
Change in non-controlling interest		–	–	–	–	–	0.0	0.0	0.0	0.0
Reclassification		–	–	–	0.3	0.1	-0.3	0.0	–	0.0
Refund of capital from reserve for invested unrestricted equity		–	–	–	-238.3	–	–	-238.3	-0.1	-238.4
Equity at 31 December 2013		2.8	43.7	0.1	347.1	-11.2	-338.4	44.2	0.1	44.4

31 December 2013
Distributable funds of Sanitec Corporation, the parent of Sanitec Group

(EUR thousands)

Reserve for invested unrestricted equity	347,116
Fair value reserve	-1
Retained earnings	-44,145
Net profit for the period	71,053
Total	374,024
Available for dividend distribution	26,908
Available for distribution from reserve for invested unrestricted equity	347,116
Total	374,024

Consolidated Statement of Cash Flows

(All amounts in EUR millions)

	1 January – 31 December 2013	1 January – 31 December 2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit before income taxes for the period	48.2	67.0
Adjustments:		
Depreciation, amortisation and impairment losses	28.9	29.7
Unrealised foreign exchange gains and losses	3.6	-2.1
Other non-cash income and expenses	1.0	-1.0
Financial income and expenses	16.2	8.1
Cash flow before working capital changes	97.7	101.7
Change in working capital:		
Change in interest-free receivables	-9.7	20.1
Change in inventories	6.3	6.4
Change in interest-free liabilities	2.4	-19.0
Cash flow from change in working capital	-1.0	7.5
Interest expenses paid and other financial items paid (-) / received (+)	-16.2	-10.0
Interest income received	2.9	2.4
Income taxes paid (-) / received (+)	-8.8	-13.8
CASH FLOW FROM OPERATING ACTIVITIES	74.7	87.9
CASH FLOW FROM INVESTING ACTIVITIES:		
Investments in intangible assets and property, plant and equipment	-19.0	-13.0
Investments in subsidiaries	0.0	0.0
Proceeds from disposal of intangible assets and property, plant and equipment	0.0	1.1
Proceeds from disposal of subsidiaries	0.0	0.5
CASH FLOW FROM INVESTING ACTIVITIES	-18.9	-11.4
CASH FLOW FROM FINANCING ACTIVITIES:		
Refund of capital from reserve for invested unrestricted equity	-238.3	–
Increase (-) / decrease (+) in interest-bearing receivables	-1.1	1.1
Draw down (+) / repayment (-) of current interest-bearing liabilities	-24.2	–
Draw down (+) of non-current interest-bearing liabilities	240.4	–
Repayment (-) of non-current interest-bearing liabilities	-148.4	-22.8
CASH FLOW FROM FINANCING ACTIVITIES	-171.6	-21.8
CHANGE IN CASH AND CASH EQUIVALENTS	-115.8	54.7
Cash and cash equivalents at the beginning of the period	215.7	161.3
Effect of exchange rate differences on cash and cash equivalents	-0.5	-0.3
Change in cash and cash equivalents	-115.8	54.7
Cash and cash equivalents at the end of the period	99.4	215.7

Notes to the Consolidated Financial Statements

(All amounts in EUR millions)

Note 1 Summary of significant accounting policies

BASIC INFORMATION

Sanitec Corporation is a public limited company domiciled in Helsinki, Finland and organised under the laws of the Republic of Finland. Sanitec Corporation is the parent of Sanitec Group and its registered address is Kaupintie 2, 00440 Helsinki, Finland. Since 10 December 2013, Sanitec's share has been listed on NASDAQ OMX Stockholm in Sweden.

Sanitec is the market leader in bathroom ceramics and a leading supplier of bathroom fixtures in its core markets (Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Russia, Sweden, Ukraine, and the United Kingdom). Sanitec has leading positions (number one or two based on volume) in bathroom ceramics in 12 of its 13 core markets and command a strong position in growth markets, including Russia. Sanitec's unique brand portfolio includes many of the longest-established and most well-known brands on the European bathroom fixtures market, including the "national jewels": Ifö (Sweden and Denmark), Ido (Finland and Sweden), Keramag (Germany), Sphinx (the Netherlands), Twyford (United Kingdom), Allia (France), Pozzi-Ginori (Italy), Kolo (Poland) and Colombo (Ukraine). Sanitec provides products in two primary product areas: Bathroom Ceramics and Ceramics Complementary Products.

The Board of Directors of Sanitec Corporation has in its meeting on 18 February 2014 authorised these financial statements to be issued. According to the Finnish Companies' Act, the shareholders have a possibility to approve or reject or make a decision on altering the financial statements in a General Meeting to be held after the issuance of the financial statements.

BASIS OF PRESENTATION

The consolidated financial statements of Sanitec Group are prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the IFRS Interpretations Committee (SIC and IFRIC). International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the financial statements are also in accordance with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies' Act.

The consolidated financial statements are prepared under historical cost convention except as disclosed in the accounting policies below.

Items included in the financial statements of each of the Group's entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the parent's functional currency. The presentation of the Consolidated Financial Statements is in millions of euro. As a result of rounding differences, the figures presented in the tables may not add up to the total.

NEW AND AMENDED ACCOUNTING STANDARDS

Sanitec Group has applied the following new, revised or amended standards and interpretations as from 1 January 2013:

- Amendments to IAS 1 Presentation of Financial Statements. The amendments require entities to classify items presented in other comprehensive income (OCI) on the basis of whether or not they might be reclassified subsequently to profit or loss. The amendment affected only the presentation of items in other comprehensive income.
- IAS 19 Employee Benefits (revised). The revised standard eliminated the corridor approach for recognising actuarial gains and losses. In addition, expected returns of plan assets are no longer recognised in profit or loss; they are replaced by recording net interest amount in profit or loss. Interest income is calculated using the discount rate used to measure the defined benefit obligation. The revised standard also introduced new disclosure requirements. The Group had not applied the corridor approach so the amendments affected only the calculation of interest of defined benefit plan assets as well as disclosure information.
- Other new, revised or amended standards or interpretations had no material effect on Sanitec's consolidated financial statements save for some new disclosure information.

Sanitec Group will apply the following new, revised or amended standards and interpretations as from 1 January 2014:

- IFRS 10 Consolidated Financial Statements. The new standard is effective in the European Union for financial years beginning on or after 1 January, 2014. The standard revises and clarifies definition of control. The new standard has no material effect on Sanitec.
- IFRS 12 Disclosure of Interests in Other Entities. The new standard is effective in the European Union for financial years beginning on or after 1 January, 2014. The standard increases disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and structured entities that are not controlled by the entity. The new standard increases the disclosure information in consolidated financial statements of Sanitec.
- Amendments to IAS 32 Financial Instruments: Presentation. The amended standard is effective for financial years beginning on or after 1 January 2014. Amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. The amended standard has no material effect on Sanitec.
- Amendment to IAS 36 Impairment of Assets. The amendment is effective for financial years beginning on or after 1 January 2014. The amendment clarifies the disclosure requirements in respect of the recoverable amount based on fair value less costs of disposal. The amended standard has no material effect on Sanitec.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement. The amendment is effective for financial years beginning on or after 1 January 2014. The amendment provides an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in the counterparty to a

hedging instrument in order to achieve clearing for that instrument. The amended standard has no material effect on Sanitec.

- IFRIC 21 Levies. The new interpretation is effective for financial years beginning on or after 1 January 2014. The interpretation is applicable to all levies other than outflows that are in scope of other standards and fines or other penalties for breaches of legislation. The interpretation clarifies the recognition of levies in the statement of financial position. The application of the new interpretation does not change the recognition of levies in Sanitec.
- Other new, revised or amended standards or interpretations have either no effect or no material effect on Sanitec's consolidated financial statements.

The Group has not yet adopted the following new and amended standards already issued by the IASB. The Group will adopt them as of the effective date or, if that date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- IFRS 9 Financial Instruments including improvements to the standard. The IASB has deferred the mandatory effective date of the standard. This standard is a part of a wider project to replace IAS 39 and the completion of the standard is not finished yet. The application of IFRS 9 will have an impact of classification and measurement of financial assets as it retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. The guidance in IAS 39 on impairment of financial assets continues to apply. IFRS 9 will also change the guidance for hedge accounting. The mandatory application of the standard is deferred and a new mandatory effective date will be determined when IFRS 9 is closer to completion.
- Amendment to IAS 19 Employee Benefits: Employee Contributions. The amendment is effective for financial years beginning on or after 1 July 2014. The amended standard has no material effect on Sanitec.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are companies in which the parent has, based on its holding, more than half of the voting rights directly or via its subsidiaries or over which it otherwise has control. Divested subsidiaries are included in the consolidated financial statements until the control is lost, and subsidiaries acquired or established during the reporting period are included in the consolidated financial statements from the date when the control has been transferred to Sanitec.

Subsidiaries are accounted for using the acquisition method, according to which the identifiable assets and liabilities of the acquired companies are valued at fair value at the date of acquisition. If the control is achieved in stages, the carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gains or losses arising from such remeasurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is lower than the net of identifiable assets acquired and liabilities assumed, the excess is recognised as a gain in profit or loss. The transaction costs relating to an acquisition are expensed as incurred.

Associates are companies in which Sanitec generally has voting

rights between 20% and 50% and in which it has significant influence but not control. Associates are consolidated by using the equity method. Currently Sanitec has no associates.

Other shares, i.e. shares in companies in which Sanitec owns less than 20% of voting rights, are classified as available-for-sale financial assets and presented in the statement of financial position at fair value, or if the fair value cannot be measured reliably, at cost, and dividends received from those companies are recognised in profit or loss.

All intra-group transactions, receivables, liabilities, unrealised gains between Group companies and distribution of profits within the Group are eliminated as part of the consolidation process. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

Non-controlling interests are presented separately in arriving at the net profit or loss attributable to owners of the parent. They are also shown separately within equity. If the Group has a contractual obligation to redeem the share of the non-controlling interest with cash or cash equivalents, non-controlling interest is classified as a financial liability. Changes in the Group's ownership interest in a subsidiary that do not result in losing control in the subsidiary are equity transactions. These transactions do not result in goodwill or gains or losses. If the control is lost, any remaining ownership share is measured at fair value and the resulting gain or loss is recognised in profit or loss. Total comprehensive income is attributed also to non-controlling interest even if this will result in the non-controlling interest having a deficit balance.

FOREIGN SUBSIDIARIES

In the consolidated financial statements, the statements of profit or loss, statements of comprehensive income and statements of cash flows of foreign subsidiaries have been translated into euros using the average exchange rates of the reporting period and the statements of financial positions have been translated using the closing exchange rates at the end of the reporting period.

The exchange difference arising from translating the statements of profit or loss, statements of comprehensive income and statements of financial position using the different exchange rates is recognised as other comprehensive income and included in equity as cumulative exchange difference. Exchange differences arising from the translation of the net investments in foreign subsidiaries in non-euro-area are also recognised in other comprehensive income and included in equity as cumulative exchange difference.

On the disposal of all or part of a foreign subsidiary, the cumulative amount or proportionate share of the exchange difference is reclassified from equity to profit or loss in the same period in which the gain or loss on disposal is recognised.

TRANSACTIONS IN FOREIGN CURRENCY

In their own day-to-day accounting the Group companies translate transactions in foreign currencies into their own reporting or functional currency at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, the unsettled balances of foreign currency transactions are measured at the exchange rates prevailing at the end of the reporting period. Exchange gains and losses arising from the transactions in foreign currencies and translation of monetary items are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses arising from trade receivables are entered as adjustments of net sales and foreign exchange gains and losses arising from trade payables are recorded as adjustments of purchases. Foreign exchange gains and losses arising from financial items are recorded as financial income and expenses.

SEGMENT INFORMATION

Sanitec has one reporting segment. The financial performance of Sanitec as a whole is followed by the chief operating decision maker. Sanitec follows the sales performance of its product areas (Bathroom Ceramics and Ceramics Complementary Products) as well as sales performance of geographical regions, distribution channels and main brands. No managers are appointed responsible for operating profit of the product areas. The responsible functional managers have responsibilities throughout the whole Sanitec (Operations, Product Management & Design, Sales and Marketing). The support functions are responsible for service to the whole Sanitec Group.

REVENUE RECOGNITION

Sanitec recognises revenue from product sales when the significant risks and rewards of ownership of the goods have been transferred to the customer. Normally revenue recognition takes place at the date of the delivery in accordance with the delivery terms. Net sales consist of the gross sales revenues less sales taxes and sales discounts. Based on agreements and experience, the Group estimates and recognises accruals for cash discounts, quantity rebates, sales returns and other customer compensations in the same period the revenue is recognised. Revenues from rendering of maintenance services and repairs are recognised in profit or loss when the services have been rendered or the work has been carried out.

Foreign exchange differences arising from trade receivables as well as the effect of currency derivative contracts related to sales transactions are recognised as sales adjustments.

OPERATING PROFIT (EBIT)

IFRS allows the use of additional line items and subtotals in the statement of profit or loss. Sanitec has defined operating profit to be a relevant subtotal in understanding the Group's financial performance. Sanitec has defined operating profit (EBIT) as follows: operating profit is the revenue added with other operating income less materials and services, employee benefits, production for own use, other operating expenses and depreciation, amortisation and impairment losses.

Operating profit includes those exchange rate gains and losses that are related to the operative activities of the Group. Financing related exchange rate gains and losses are reported as financial income and expenses.

GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with the related conditions. Government grants are related mainly to the investments in property, plant and equipment. These grants are recognised as deferred income and recognised in profit or loss on a systematic basis over the useful life of the asset as other operating income. The government grants received to compensate expenses are recognised in profit or loss on a systematic basis over the periods in which the expenses are recognised.

OTHER OPERATING INCOME AND EXPENSES

Other operating income includes income from activities outside the ordinary business of Sanitec, such as rental income and gains from the disposal of property, plant and equipment and intangible assets and other non-current assets. Other operating expenses include expenses not recognised as materials and services or employee benefits, such as expenses for marketing efforts, research and development, if not capitalised, and other expenses related to general administration. Additionally, losses from the disposals of property, plant and equipment

and intangible assets and other non-current assets are included within other operating expenses.

GOODWILL AND OTHER INTANGIBLE ASSETS

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. Currently Sanitec has no goodwill in its statement of financial position.

Other intangible assets consist of patents and copyrights, trademarks and licenses and software having a finite useful life. An intangible asset is recognised in the statement of financial position only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the value of the asset can be measured reliably. Intangible assets are stated at historical cost less accumulated amortisation and impairment loss, if any. Borrowing costs are capitalised as part of the cost of intangible assets if the intangible assets are qualifying assets as defined in IAS 23 Borrowing Costs.

Amortisation on intangible assets is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Software	3–5 years
Patents and trademarks	3–10 years
Other intangible rights	3–5 years
Development expenses	3–5 years
Other capitalised expenditure	3–5 years

Research and development costs are normally expensed as other operating expenses for the reporting period in which they are incurred. If the criteria for commercial and technical feasibility have been met, development costs are capitalised and amortised during the expected useful life of the underlying technology. The expected useful life is based on commercial and technological feasibility.

Intangible assets with an indefinite useful life such as trademarks or brand names acquired in business combinations are not amortised but they are tested at least annually for impairment. At the end of the reporting period Sanitec did not have any intangible assets with indefinite useful life.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Cost may also include reclassification from equity of any gain or losses on qualifying cash flow hedges related to foreign currency purchases of property, plant and equipment. Borrowing costs are capitalised as part of the cost of property, plant and equipment if the asset is a qualifying asset as defined in IAS 23 Borrowing Costs

Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets according to plan as follows:

Buildings	20–40 years
Heavy production machinery and equipment	10–20 years
Light production machinery and and equipment	8–10 years
Other machinery and equipment	3–5 years
Other tangible assets	3–5 years
Land and water areas	No depreciation

Residual values and expected useful life of each asset category are reviewed at the end of each reporting period and if they differ significantly from previous estimates, they are adjusted to reflect changes in the expected future economic benefits.

Subsequent improvement costs related to an asset are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs. Regular maintenance costs are expensed as incurred.

Gains on the disposals of property, plant and equipment are included in other operating income and losses in operating expenses.

IMPAIRMENT OF NON-FINANCIAL ASSETS

All property, plant and equipment and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets not yet ready for use as well as goodwill, if any, are tested for impairment annually, irrespective of whether there is any indication that they may be impaired.

If there are indications of impairment, the asset's recoverable amount is estimated, based on the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by reference to discounted future cash flows expected to be generated by the asset or cash generating unit. Cash flow projections have been calculated on the basis of reasonable and supportable assumptions. They are based on the most recent financial plans and forecasts that have been approved by management. Estimated cash flows are used for a maximum of five years. Cash flow projections beyond the period covered by the most recent plans and forecasts are estimated by extrapolating the projections. The discount rate is the weighted average cost of capital for Sanitec. It is a pre-tax rate and reflects current market assessments of the time value of money at the time of review and the risks related to the assets.

Impairment losses are recognised in profit or loss. An impairment loss recognised in respect of cash-generating units is first allocated to reduce the carrying amount of goodwill, if any, allocated to cash-generating units and then to reduce the carrying amount of other assets on pro rata basis. If subsequently a positive change has occurred in the estimates of the recoverable amount, the impairment loss made in prior years is reversed no more than up to the carrying amount which would have been determined for the asset, net of amortisation or depreciation, had not impairment loss been recognised in prior years. An impairment loss relating to goodwill is never reversed.

LEASE AGREEMENTS

Lease agreements are classified either as operating leases or finance leases. Leases of property, plant and equipment, where significant portion of the risks and rewards of ownership have been transferred to Sanitec are classified as finance leases. Finance leases are recognised as assets and financial liabilities in the statement of financial position at the commencement of the lease term at lower of the fair value of the leased asset and the present value of the minimum lease payments. Minimum lease payments under finance leases are apportioned between finance charge and reduction of the outstanding liability.

Property, plant and equipment under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter. At the end of the reporting period Sanitec did not have leases that should be classified as finance leases.

Leases of property, plant and equipment, where the lessor retains a

significant portion of the risks and rewards, are classified as operating leases. Rental payments under operating leases are recognised as expenses when incurred.

IFRIC 4 Determining whether an Arrangement Contains a Lease is applied to such agreements, which are not lease agreements in legal form, but which in substance convey the right to use an asset for an agreed period of time in return for a payment. If an arrangement or part of it is determined to be a lease agreement, the arrangement or part of it is classified as finance or operating lease and accounted for under the guidance in IAS 17 Leases.

NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets or disposal groups are classified as held for sale and presented separately in the statement of financial position if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. In order to be classified as held for sale the asset or disposal group must be available for immediate sale in its present condition and the sale must be highly probable. In addition, the sale should qualify for recognition of a complete sale within one year from the date of the classification.

An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and it is no longer depreciated or amortised. Also liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a part of the entity that has been divested or classified as being held for sale and represents a separate core business area or geographic operation area. The profit or loss for the period attributable to discontinued operations is presented separately in the consolidated statement of profit or loss. Also post-tax gains and losses recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups are presented in the statement of profit or loss as result of discontinued operations.

Sanitec's financial statements as at 31 December 2013 do not include any material assets held for sale or any discontinued operations.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method or average cost method for finished goods and the average cost method for raw materials. Cost includes direct manufacturing, labor and materials costs, variable overheads and allocable portion of production overheads.

Costs associated with assets produced for internal use are capitalised as property, plant and equipment and depreciated over their estimated useful lives.

FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities of Sanitec have been classified as financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and financial liabilities measured at amortised cost. Sanitec had no held-to-maturity investments during the reporting period.

A financial asset is derecognised from the statement of financial position when Sanitec's contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to an external party and the transfer fulfills the asset derecognition criteria. A financial liability or a part of a financial liability is removed from the statement of financial position when the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include derivative instruments that do not fulfill hedge accounting criteria.

Loans and receivables

Loans and receivables arise when cash, goods or services are delivered to a debtor. They are not quoted in an active market and related payments are either fixed or determinable. Loans and receivables granted by the Group are measured at cost or amortised cost.

Loans and receivables include loan receivables, trade receivables, other receivables and cash and cash equivalents. They are included in current or non-current financial assets in accordance with their maturity. Loan and trade receivables falling due after 12 months of the end of the reporting period are discounted, if no interest is charged separately, and the increase in the receivable which reflects the passage of time is recognised as interest income in financial income.

Trade receivables are carried at the original invoice amount less the share of any discounted interest and an estimate made for doubtful receivables. Provision made for doubtful receivables is based on a periodic review of all outstanding amounts. For example payment defaults or late payments may be considered as indications of impairment of the receivable. Impairment losses of trade receivables are recorded in a separate allowance account for credit losses within trade receivables, and the impairment losses are recognised in profit or loss as other operating expenses. If the impairment loss is final, the trade receivable is derecognised from the allowance account. If a payment is later received from the impaired receivable, the received amount is recognised in profit or loss as a deduction of other operating expenses. If no impairment loss has been recognised in allowance account and the impairment loss of the trade receivable is found to be final, impairment loss is recognised directly as deduction of trade receivables.

Loan receivables are carried at the original amount less a provision made for doubtful receivables. The provision for doubtful receivables is based on a review of all outstanding amounts at the end of the reporting period. For example payment defaults or late payments may be considered as indications of impairment of the receivable. Impairment losses of loan receivables are recognised in profit or loss as financial expenses. If a payment is later received from the impaired receivable, the received amount is recognised in profit or loss in financial items.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value or at cost less impairment, if any, if their fair values cannot be measured reliably. Changes in the fair value of the assets are recognised in other comprehensive income net of tax until the assets are disposed of, at which time the cumulative gain or loss is reclassified from equity in profit or loss as a reclassification adjustment. If the available-for-sale asset is impaired, impairment loss is recognised immediately in profit or loss.

Available-for-sale assets are included in non-current assets in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents includes cash and other equivalent financial assets. Other financial assets are highly liquid investments with remaining maturities at the date of acquisition of three months or less. Bank overdrafts are included in current interest-bearing financial liabilities.

Derivative instruments and hedge accounting

When Sanitec enters into derivative contracts, it designates them as either hedges of the exposure to changes in fair value of recognised assets or liabilities (fair value hedges), hedges of the exposure to variability in cash flows of forecast transactions or firm commitments (cash flow hedges), hedges of net investments in foreign operations or as derivative financial instruments not meeting the hedge accounting criteria.

Derivatives are recorded in the statement of financial position at their fair values. Fair values of derivatives are determined by using market prices and generally available valuation models. The data and assumptions used in valuation models are based on verifiable market prices.

Derivative instruments are included in current financial assets or liabilities in the statement of financial position. Trade date accounting is used in recognising purchases and sales of derivative instruments.

Derivatives, which do not meet hedge accounting criteria, are financial assets and liabilities at fair value through profit or loss, and changes in the fair values of these derivative instruments are recognised immediately in profit or loss.

Fair value changes of derivatives designated and qualifying as fair value hedges, and which are highly effective, are recognised in profit or loss at the same time as the fair value changes of the hedged item are recognised in profit or loss.

Fair value changes of derivatives designated and qualifying as cash flow hedges, and which effectively hedge the underlying future cash flows, are recognised in other comprehensive income net of tax, and included in fair value reserve in equity. The cumulative gain or loss of a derivative recognised in other comprehensive income is reclassified from equity in profit or loss as a reclassification adjustment in the same period during which the hedged forecast cash flows affect profit or loss.

When a hedging instrument designated as cash flow hedge expires or is sold, terminated or exercised or no longer qualifies for hedge accounting, the cumulative gain or loss remains separately in equity until the forecast transaction occurs. When the transaction occurs, the cumulative gain or loss of a derivative recognised in other comprehensive income is reclassified from equity in profit or loss as a reclassification adjustment. However, if the forecast transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately reclassified from equity to profit or loss.

Changes in the fair value of foreign currency derivatives designated as hedges of net investment in foreign operations, and which are effective hedges, are recognised in other comprehensive income net of tax, and included in the equity in cumulative exchange differences. Ineffective part of the hedge is recognised immediately in profit or loss. The cumulative gain or loss of a derivative recognised in other comprehensive income is reclassified from equity in profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation. Sanitec had no net investment hedges in foreign entities in 2013 or 2012.

Financial liabilities measured at amortised cost

On initial recognition financial liabilities are measured at their fair values that are based on the consideration received. Subsequently, these financial liabilities are measured at amortised cost using the effective interest method. Transaction costs are included in the cost.

Financial liabilities measured at amortised cost include senior secured floating rate notes, loans from financial institutions, finance lease liabilities, if any, other interest-bearing liabilities, trade payables and advances received. They are included in current or non-current liabilities in accordance with their maturity.

Interest expenses are accrued for and mainly recognised in profit or loss for each reporting period. If an asset is a qualifying asset as defined in IAS 23 Borrowing Costs, the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised to the cost of the asset. The capitalisation mainly applies to property, plant and equipment and intangible assets, if they meet the qualification criteria.

PENSIONS AND OTHER POST-EMPLOYMENT OBLIGATIONS

Pension benefits

The Group has several pension plans in accordance with local conditions and practices where it operates. The plans are generally funded through premium payments to insurance companies.

Pension plans are classified as defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to profit or loss in the period to which the contributions relate. The Group has no legal or constructive obligation to pay further contributions, if the pension fund has not adequate assets to pay the employees the benefits in question. A defined benefit pension plan is a pension plan that is not a defined contribution plan.

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The defined benefit liability or asset recognised in the statement of financial position in respect of defined benefit plans is the present value of defined benefit obligations at end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

Re-measurements, including actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

For the defined benefit plans, costs are assessed using the projected unit credit method. Under this method the cost is charged to profit or loss so as to spread over the service lives of employees. Service costs are charged to profit or loss as employee benefits, and comprise of current service cost, past service costs, gains and losses on curtailments and non-routine settlements. Past service costs are recognised as an expense the earlier of the date of the plan amendment or curtailment and the date the Group recognises related restructuring costs.

Net interest on the net defined benefit liability or asset is the change during the period in the liability or asset that arises from the passage of time. Net interest income or expenses are recognised in financial items in the statement of profit or loss.

Other defined benefit plans

Some Group companies provide also other defined benefit plans than defined benefit pension plans. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

SHARE-BASED PAYMENTS

Sanitec had no share-based payments as defined in IFRS 2 during the financial years reported in these consolidated financial statements.

PROVISIONS

A provision is recognised in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past

event, and that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are classified as non-current or current depending on the timing of the estimated outflow of economic benefits. If the time value of money is material, provisions are discounted.

Provisions are related e.g. to restructuring activities, environmental obligations, tax risks, legal proceedings or onerous contracts. Provisions are based on the past experience and best estimates available at the end of the reporting period.

A restructuring provision is recognised only when a detailed and fully compliant plan has been prepared for it and implementation of the plan has been started or notification of it has been made known to those whom the restructuring activities concern. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

CURRENT AND DEFERRED INCOME TAXES

The income tax expense for the period consists of current and deferred taxes. Income taxes are mainly recognised in the statement of profit or loss. If the income tax relates to items recognised in other comprehensive income or directly in equity, also the income tax is recognised in other comprehensive income or directly in equity, respectively. Current tax on taxable income for the period is determined using the tax rates at the end of the reporting period in the countries where the Group operates and generates taxable income.

The management establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are recognised on temporary differences arising from investments in subsidiaries and associates, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are not, however, recognised if they arise from the initial recognition of goodwill. Deferred tax liabilities or deferred tax assets are not recognised if they arise from initial recognition of an asset or liability that at the time of the transaction affects neither accounting profit nor taxable profit, and the transaction is not a business combination.

Deferred taxes are measured based on the tax rates enacted or substantively enacted at the end of the reporting period and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The amount and probability of the utilisation of deferred tax assets are reviewed at the end of each reporting period. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences or carry-forward tax losses can be utilised.

Deferred tax assets and liabilities are offset against each other only when the entity has a legally enforceable right to set off the recognised amounts, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect carrying amounts of assets and liabilities at the end of the reporting

period, the disclosure of contingent liabilities and the recognised amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and other justified assumptions that are believed to be reasonable under the circumstances at the end of the reporting period. Development of general economic situation and markets in which the Group operates may affect the variables underlying the estimates and assumptions. Actual results could therefore differ significantly from those estimates.

Significant items subject to estimates and assumptions include the useful lives and carrying amounts of intangible assets and property, plant and equipment; measurement of inventories and trade receivables; recognition and measurement of deferred taxes and provisions for tax; estimates of the amount and probability of restructuring provisions; valuation of derivative instruments; assets and obligations related to employee benefits and outcome of legal proceedings.

ITEMS AFFECTING COMPARABILITY

Sanitec includes in items affecting comparability mainly items arising from restructuring and structural changes, such as losses and gains on divestments of businesses, costs for executive management dismissals, costs related to the EU cartel fine as well as other costs considered to be non-recurring. Items arising from restructuring can include expenses arising from personnel reduction, impairment of property, plant and equipment and intangible assets and changes in production structure. In addition, exceptionally large gains or losses from disposals of property, plant and equipment and intangible assets are included in items affecting comparability.

If an expense affecting comparability is reversed for example due to changes in circumstances, the reversal is also included in items affecting comparability.

Items affecting comparability are recognised in profit or loss in the income or expense category where they belong by their nature and they are included in operating profit. In its key ratios Sanitec presents also operating profit excluding items affecting comparability.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net result attributable to owners of the parent by the weighted share-issue adjusted average number of shares outstanding during the period, excluding shares acquired by the Group and held as treasury shares, if any. At the end of the reporting period Sanitec held no treasury shares.

When calculating diluted earnings per share, the net result attributable to owners of the parent is adjusted with the effect on profit or loss of the potential shares. The weighted share-issue adjusted average number of shares outstanding during the period is adjusted by the effect of all dilutive potential shares.

DIVIDENDS AND OTHER EQUITY DISTRIBUTION

Dividends or other equity distribution proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

AUDIT

Interim reports are not audited.

Note 2 Critical accounting estimates and judgements

Set forth below are areas requiring significant judgement and estimation that may have an impact on reported results and financial position.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Useful lives of intangible assets and property, plant and equipment are based on management's best estimate of the period the asset is expected to be available for use by Sanitec. The actual useful life can, however, differ from the expected useful life resulting in adjustment of annual depreciation or amortisation of the asset or in recording of an impairment loss.

INVENTORIES AND TRADE RECEIVABLES

Measurement of inventories and trade receivables includes some management estimates. Inventories are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value is used in testing the recoverable amount of inventories in order to avoid the inventories being carried in excess of amount expected to be realised from their sale or use. If management estimates that carrying amount of a trade receivable exceeds its fair value, an impairment loss is recognised. For example payment defaults or late payments may be considered as indications of impairment of the receivable.

DEFERRED TAXES AND PROVISIONS FOR TAX

Recognition and measurement of deferred tax liabilities and assets include management estimates, especially for deferred tax assets arising from confirmed tax losses of group companies or from other temporary differences. Deferred tax assets are recognised for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available against which tax losses and deductible temporary differences can be utilised. Recognition therefore involves judgement with regard to future financial performance of a particular legal entity or tax group in which the deferred tax asset has been recognised. In addition, structural changes in the Group or changes in tax legislation in the jurisdictions where the Group operates can affect management's judgements.

The Group also makes provisions for income or other taxes. Tax provisions are recognised based on estimates and assumptions when, despite of management's belief that tax return positions are supportable, it is more likely than not that certain positions will be challenged and may not be fully sustained upon review by tax authorities. Furthermore, the Group has ongoing tax audits in certain jurisdictions. If the final outcome of these matters differs from the amounts initially recorded, differences may impact the income tax expense in the period in which such determination is made.

All tax liabilities and assets are reviewed at the end of the reporting period and changes are recognised in profit or loss.

RESTRUCTURING AND OTHER PROVISIONS

The Group provides for the estimated future cost related to restructuring programs. The provision made for restructuring is based on management's best estimate. Changes in estimates of timing or amounts of costs to be incurred may become necessary as the restructuring program is implemented.

In addition, changes in environmental legislation in the jurisdictions where the Group operates can affect management's judgements of estimations of environmental provisions.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

Sanitec recognises derivative instruments at their fair values. Fair values of derivatives are determined by using market prices and generally available valuation models. The data and assumptions used in valuation models are based on verifiable market prices. The Group uses judgement to select an appropriate valuation methodology as well as underlying assumptions based on existing market practice and conditions. Changes in these assumptions may cause the Group to recognise impairment losses or losses in future periods. In addition, the decision of whether to use derivative instruments in order to hedge the Group's financial position or future cash flows requires significant judgement and estimation from the management.

EMPLOYEE BENEFITS

The determination of defined benefit obligations and expenses for defined benefit plans is dependent on the selection of certain assumptions in calculating the amounts. Those assumptions include, among others, the discount rate and annual rate of increase in future compensation levels. Changes in assumptions may materially affect the defined benefit obligations and future employee benefit expenses. As defined benefit obligations cover a long period in the future, uncertainty of the assumptions used is inherent.

LEGAL CONTINGENCIES

Sanitec has pending or threatening legal proceedings in various jurisdictions related to matters in various areas of interest. Provisions are recognised for pending litigation when it is determined that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

Note 3 Share information

SHARES AND VOTING RIGHTS

Sanitec Corporation's paid and registered share capital on 31 December 2013 was EUR 2.8 million and the number of issued and registered shares totaled 100,000,000. The number of issued shares was increased from 1,000,000 to 100,000,000 shares on 22 November 2013 by issuance of 99,000,000 new shares without consideration.

The company has one series of shares. Every share that the company does not hold itself entitles its owner to one vote at a General Meeting of Shareholders. The share has no nominal value. The counter book value of each registered share is EUR 0.03.

Sanitec's shares are registered in the book-entry securities systems either in Euroclear Finland Ltd or Euroclear Sweden Ltd. The shares can be owned directly or via a nominee.

SHARE TRADING

Sanitec's share was listed on NASDAQ OMX Stockholm on 10 December 2013. The share is traded in Swedish krona (SEK). On 31 December 2013, the market capitalisation of the company's registered shares was EUR 761.9 million (SEK 6,750.0 million). During 2013 approximately 19.7 million of the company's shares were traded, i.e. around 19.7% of the average number of registered shares. The lowest price paid for a share was EUR 7.00 (SEK 62.00) and the highest price EUR 7.62 (SEK 67.50). The volume-weighted average price of shares traded during the period the share was traded was EUR 7.41 (SEK 64.10). The closing price on 31

December 2013 was EUR 7.62 (SEK 67.50). The share issue-adjusted equity per share attributable to owners of the parent was EUR 0.44 per share (EUR 2.44 on 31 December 2012). The share prices have been converted to euros using the closing rate of the period, with the exception of the volume-weighted average price, which has been converted to euros using the average rate of the period.

NOTIFICATIONS AS PER SECTION 5 OF CHAPTER 9 OF THE SECURITIES MARKET ACT

On 11 December 2013, Zeres Capital AB informed Sanitec Corporation that it had purchased Sanitec shares on 10 December 2013 and owned one twentieth (1/20) of Sanitec's shares and votes. Following the transaction Zeres Capital AB owns 5,000,000 shares, or 5.00%, of Sanitec Corporation's share capital and total voting rights.

RESTRICTIONS ON PAYMENTS OF DIVIDENDS OR OTHER DISTRIBUTION OF EQUITY

The terms of Sanitec's senior floating rate notes ("Notes") and the revolving credit facility impose certain limitations on Sanitec's ability to declare and pay dividends and make other equity distributions. As defined in the terms of the Notes, Sanitec may declare and distribute a dividend or other equity distribution not exceeding in any fiscal year an amount equal to 6% of the market capitalisation of Sanitec. In addition, Sanitec may declare dividends and make certain other distributions up to a total aggregate amount of EUR 25 million (when aggregated with all dividends and other distributions made since the issue of the Notes in 2013). Further, the terms of the Notes include certain other conditions to dividend payments or to other equity distributions.

DIVIDEND AND DISTRIBUTION POLICY

Sanitec's Board of Directors has adopted a dividend and distribution policy according to which the Board of Directors seeks to propose to the annual general meeting of shareholders that circa 50% of Sanitec's audited profit for the period shall be paid in dividends or in other forms of repatriation of capital to its shareholders over a business cycle. When proposing a dividend or other equity distribution, the Board of Directors shall take into account Sanitec's capital structure, liquidity and other applicable restrictions set out by the law or contractual obligations. In addition, such proposals shall take into account factors such as our financial targets, investment needs and development possibilities.

AUTHORISATIONS OF THE BOARD OF DIRECTORS

The Board of Directors of Sanitec Corporation has no authorisations to issue shares or options or other forms of potential shares.

Number of shares	2013	2012
Number of shares 1 January	1,000,000	1,000,000
Share issue without consideration	99,000,000	-
Number of shares 31 December	100,000,000	1,000,000
Average share-issue adjusted number of shares 31 December	100,000,000	100,000,000
Equity attributable to owners of the parent per share	2013	2012
Equity attributable to owners of the parent, EUR million	44.2	243.6
Share-issue adjusted number of shares	100,000,000	100,000,000
Equity attributable to owners of the parent per share, EUR	0.44	2.44

DIVIDEND AND OTHER EQUITY DISTRIBUTIONS

	2013	2012
Dividend / distribution per share	0.22	2.38

2013 distribution is the proposal of the Board of Directors as a refund of capital from reserve for invested unrestricted equity. 2012 distribution was a refund of capital from reserve for invested unrestricted equity paid in May 2013.

Largest shareholders 31 December 2013

	Shareholder	Ownership registration	Registration type	Number of shares	% of shares and votes
1	Sofia IV S.à r.l.	Finland	DIR	40,000,000	40.00%
2	Zeres Public Market Fund	Sweden	NOM	5,000,000	5.00%
3	UBS AG LDN Branch A/C Client, IPB	Sweden	NOM	2,822,738	2.82%
4	Handelsbanken Fonder AB RE JPMEL	Sweden	NOM	2,340,714	2.34%
5	JPMORGAN CHASE N.A	Sweden	NOM	2,039,466	2.04%
6	Ilmarinen Mutual Pension Insurance Company	Finland	DIR	2,000,000	2.00%
7	BNYM SA NV /, W8IMY	Sweden	NOM	1,977,298	1.98%
8	JP MORGAN CHASE BK, W9	Sweden	NOM	1,897,979	1.90%
9	State Street Bank & Trust COM., Boston	Sweden	NOM	1,782,012	1.78%
10	MSIL IPB Client Account	Sweden	NOM	1,589,062	1.59%
11	DUB-Non-resident Domestic Rates	Sweden	NOM	1,459,222	1.46%
12	JPM CHASE NA	Sweden	NOM	1,262,792	1.26%
13	Fonden Zenit	Sweden	NOM	1,250,000	1.25%
14	JPM CHASE NA	Sweden	NOM	1,094,541	1.09%
15	Gamla Livförsäkringsaktiebolag	Sweden	NOM	1,032,000	1.03%
16	CBLDN-Kuwait Investment Authority	Sweden	NOM	1,030,378	1.03%
17	Carnegie Sverige Select	Sweden	NOM	1,000,000	1.00%
18	BP2S LUX/Henderson HHF SICAV	Sweden	NOM	920,751	0.92%
19	Goldman Sachs International LTD, W8IMY	Sweden	NOM	908,231	0.91%
20	Morgan Stanley & CO INTL PLC, W-8BEN	Sweden	NOM	787,215	0.79%
21	Caceis Bank Luxembourg, CAIS BANK, W8IMY	Sweden	NOM	781,872	0.78%
22	Morgan Stanley and CO LLC, W9	Sweden	NOM	769,918	0.77%
23	Caceis Bank France	Sweden	NOM	751,784	0.75%
24	Credit Suisse Securities (USA)	Sweden	NOM	701,506	0.70%
25	JPM CHASE NA	Sweden	NOM	700,000	0.70%
	Total 25 largest shareholders			75,899,479	75.90%
	Other shareholders			24,100,521	24.10%
	Total			100,000,000	100.00%

The list of largest shareholders is a combination of shareholders owning the shares via Euroclear Finland or Euroclear Sweden. The shares can be owned directly (DIR) or via a nominee (NOM).

As Sanitec's shareholders own their shares both via Euroclear Finland and Euroclear Sweden, it is not possible to present share ownership by category or share ownership by size as required by Decree 1020/2012 of the Finnish Ministry of Finance.

The total number of shareholders at the end of the period was 2,319.

Note 4 Segment information

Sanitec has one segment. Entity-wide disclosures are presented below.

Net sales by destination by geographical region	1 January–31 December 2013	1 January–31 December 2012
Central Europe	217.9	215.2
North Europe ¹⁾	178.2	186.2
South Europe	117.7	145.5
East Europe	113.9	128.7
United Kingdom and Ireland	51.6	54.4
Rest of the World	22.5	22.9
Total	701.8	752.8

¹⁾ of which Finland

	40.0	38.8
--	------	------

Net sales by product area

Bathroom Ceramics	532.1	556.4
Ceramics Complementary Products	169.7	196.4
Total	701.8	752.8

Property, plant and equipment and intangible assets by geographical region

Central Europe	33.8	33.2
North Europe ¹⁾	44.0	52.2
South Europe	29.4	27.0
East Europe	71.5	79.5
United Kingdom and Ireland	0.2	0.2
Rest of the World	0.0	0.1
Total	178.9	192.2

¹⁾ of which Finland

	15.7	20.3
--	------	------

Net sales of approximately EUR 102 million (EUR 116 million) are derived from a single external customer.

Note 5 Other operating income

Other operating income	1 January–31 December 2013	1 January–31 December 2012
Gain on disposal of property, plant and equipment	0.1	1.0
Sale of scrap	0.3	0.4
Rental income	1.0	0.4
Subsidies received	0.2	0.2
Other income	10.1	3.3
Total	11.7	5.4

Other income includes EUR 7.1 million income from reduction of the EU fine, which was initially imposed on Sanitec in 2010.

Note 6 Materials and services

Materials and services	1 January–31 December 2013	1 January–31 December 2012
Materials and supplies		
Purchases during the reporting period	-261.5	-293.7
Change in inventories	-1.5	-2.6
Change in inventories of work in process and finished goods	-5.6	-0.4
External services	-43.4	-47.8
Total	-312.0	-344.4

Note 7 Employee benefits

Employee benefits	1 January–31 December 2013	1 January–31 December 2012
Salaries and wages	-157.6	-167.2
Defined contribution pension plans	-10.6	-10.5
Defined benefit plans	-0.6	1.3
Other personnel expenses	-39.2	-32.9
Total	-208.1	-209.3

Defined benefit plans are described in more detail in Note 22.

Net interest income or expenses on defined benefit plans are recognised in financial items in the statement of profit or loss.

Average number of employees by geographical region	1 January–31 December 2013	1 January–31 December 2012
Central Europe	1,113	1,115
North Europe	781	832
South Europe	1,415	1,566
East Europe	3,032	3,307
United Kingdom and Ireland	154	165
Rest of the World	21	19
Total	6,516	7,004
Number of employees at the end of period	6,211	6,688
Number of employees at the end of period in Finland	243	261

Note 8 Other operating expenses

	1 January– 31 December 2013	1 January– 31 December 2012
Other operating expenses		
Sales and marketing costs	-19.9	-22.3
Leases	-14.2	-14.3
Travelling costs	-8.5	-10.4
Information technology costs	-7.5	-7.8
Agency commissions	-6.8	-6.8
Other commissions and fees	-5.7	-4.9
Credit losses, net	-0.7	-1.1
Other operating costs	-35.2	-35.5
Total	-98.5	-103.0

Credit losses are described in Note 14.

	1 January– 31 December 2013	1 January– 31 December 2012
Fees paid to principal auditor		
Audit fees	-0.8	-0.7
Tax consultation fees	-0.4	-0.3
Official statements	0.0	0.0
Other consultation fees	-0.3	-0.1
Total	-1.5	-1.1

The Group's principal auditor was KMPG Finland and other member firms of KPMG network. The majority of other consultation fees in 2013 consist of services provided in connection of Sanitec's listing on NASDAQ OMX Stockholm.

Research and development costs, total	-9.6	-8.3
As percentage of net sales, %	1.4	1.1

Direct research and development expenses amounted in 2013 to EUR -4.5 million (-4.0). In addition to direct research and development costs, which are costs related to research and development stages of new products, Sanitec incurs expenses in product enhancement and improvements. Total research and development costs include costs incurred in product development in all stages in the product lifecycle.

Items affecting comparability

Sanitec includes in items affecting comparability mainly items arising from restructuring and structural changes, such as losses and gains on divestments of businesses, costs for executive management dismissals, costs related to the EU cartel fine as well as other costs considered to be non-recurring, such as costs for listing on NASDAQ OMX Stockholm.

	1 January– 31 December 2013	1 January– 31 December 2012
Items affecting comparability		
Other non-recurring costs	-2.9	–
Divested businesses	-0.6	-1.1
Restructuring costs	-8.8	-3.1
EC fine and related legal fees	5.8	-0.7
Total	-6.5	-4.9

Items affecting comparability include in 2013 impairment losses and reversals of impairment losses of property, plant and equipment and intangible assets totalling to EUR -0.5 million.

Items affecting comparability are recognised in profit or loss in the income or expense category where they belong by their nature and they are included in operating profit.

Note 9 Depreciation, amortisation and impairment losses

	1 January– 31 December 2013	1 January– 31 December 2012
Depreciation and amortisation		
Intangible rights	-1.6	-1.8
Other capitalised expenditure	-0.6	-0.4
Buildings	-4.3	-4.4
Machinery and equipment	-21.6	-22.9
Other tangible assets	-0.2	-0.2
Total	-28.3	-29.7
Impairment losses and reversals of impairment losses, net		
Intangible rights	-0.1	0.0
Other capitalised expenditure	-0.4	–
Intangible assets under construction	-0.2	–
Land	0.8	–
Buildings	-0.3	–
Machinery and equipment	-0.4	–
Other tangible assets	–	0.0
Total	-0.5	0.0
Total depreciation, amortisation and impairment losses	-28.9	-29.7

Note 10 Financial income and expenses

	1 January– 31 December 2013	1 January– 31 December 2012
Financial income		
Interest income from		
Loans and receivables	0.3	1.2
Derivatives used for hedging	1.3	0.1
Non-financial items	2.1	1.4
Total interest income	3.7	2.7
Other financial income	0.0	0.1
Total other financial income	0.0	0.1
Total	3.7	2.8
Financial expenses		
Interest expenses from		
Financial liabilities measured at amortised cost	-11.6	-8.5
Other liabilities	-0.1	0.0
Derivatives used for hedging	-0.9	-0.1
Non-financial items	-5.0	-2.4
Total interest expenses	-17.5	-11.0
Other financial expenses from		
Financial liabilities measured at amortised cost	-1.1	0.0
Bank fees and other financial expenses	-1.0	-0.9
Total other financial expenses	-2.1	-0.9
Total	-19.6	-12.0
Foreign exchange differences, net		
Financial liabilities measured at amortised cost	-2.5	2.3
Loans and receivables	-1.6	1.2
Derivatives	0.2	-0.1
Other foreign exchange differences	0.0	-0.2
Total	-3.8	3.2
Total financial income and expenses	-19.8	-6.0
Interest income and expenses from defined benefit plans are presented in Note 22.		
Exchange differences recognised in operating profit		
Net sales	-0.4	-0.3
Materials and services	-0.5	0.3
Other operating expenses	0.0	0.0
Total	-0.9	0.0

	1 January– 31 December 2013	1 January– 31 December 2012
Derivatives recognised in profit or loss		
Net sales	0.2	-0.1
Materials and services	0.5	0.1
Other operating expenses	0.0	0.0
Total	0.7	-0.1
Derivatives recognised in other comprehensive income		
Fair value of currency derivatives in other comprehensive income	-0.1	0.3

Sanitec uses currency derivative instruments as cash flow and fair value hedges. Interest component of currency derivative instruments is recognised as interest income and expenses.

Note 11 Income taxes

	1 January– 31 December 2013	1 January– 31 December 2012
Income tax charge in profit or loss		
Current income taxes for the reporting period	-9.6	-5.6
Adjustments in respect of current income tax of previous years	0.7	5.1
Other direct income taxes	-0.2	0.0
Change in deferred taxes	3.4	5.2
Total	-5.7	4.7
Income tax charge in other comprehensive income		
Deferred taxes		
Remeasurements of defined benefit plans	0.1	0.1
Cash flow hedges	0.0	0.0
Total	0.1	0.1

During 2012 income taxes for prior periods included reversal of tax provision related to German tax assessment.

The Group's tax loss carry forwards were EUR 450.6 million as of 31 December 2013 (EUR 503.0 million). Of the total amount, EUR 209.5 million (EUR 260.0 million) were attributable to the Finnish companies Sanitec Europe Corporation and Sanitec Corporation as of 31 December 2013. Tax losses of EUR 118.0 million expire in 2014, EUR 78.7 million in 2015, EUR 36.7 million in 2016, EUR 16.7 million in 2017 and EUR 74.6 million after 2018 while EUR 125.9 million has no expiry date.

The Group's tax losses carried forward as of 31 December 2013 include EUR 109.0 million losses that belong to the Dutch subsidiary B.V. de Sphinx Maastricht. Due to the changes in the Group in the previous years it may be possible that the losses of B.V. de Sphinx Maastricht cannot be used. This issue is currently under investigation and will be decided by the Dutch tax authorities.

The Group has recognised deferred tax assets for its tax loss carry forwards and temporary differences to the extent that it is probable that future taxable profit will be available against which the tax losses or temporary differences can be utilised. The determination is based upon what is probable in each tax jurisdiction.

As of 31 December 2013, retained earnings in subsidiaries consisted mainly of subsidiaries within European Union countries, Switzerland and Norway. As Sanitec is able to repatriate such retained earnings tax free, no deferred tax liability on the undistributed retained earnings in subsidiaries is recognised.

Tax assets and tax liabilities	1 January– 31 December 2013	1 January– 31 December 2012
Deferred tax assets	26.2	25.2
Assets for current tax	9.5	6.4
Deferred tax liabilities	5.8	8.1
Income tax provisions	4.5	4.6
Liabilities for current tax	8.1	4.4

Reconciliation of income tax expense calculated at statutory tax rates with income tax expense in profit or loss

	2013	2012
Profit before taxes	48.2	67.0
Tax at the tax rate applicable to the parent¹⁾	-11.8	-16.4
Difference due to different tax rates of foreign subsidiaries	1.1	-1.7
Adjustments in respect of current income tax of previous years	0.7	5.1
Other direct taxes	-0.2	–
Previously unrecognised deferred tax assets from tax losses carried forward	12.4	11.4
Reversals of previously recognised deferred taxes	-0.1	–
Effect of changes in tax rates and tax laws on deferred taxes	0.5	-1.0
Use of tax losses, where no deferred tax asset was recognised	2.2	12.0
Loss for the period for which no deferred tax asset has been recognised	-6.2	–
Tax exempt income	16.7	3.3
Non-deductible expenses	-21.0	-8.0
	6.1	21.1
Total income taxes recognised in profit or loss	-5.7	4.7
Effective tax rate, %	11.9	-7.0

¹⁾ Corporate income tax rate in Finland was in 2013 and 2012 24.5% and from 1 January 2014 20.0%.

Deferred tax assets	Tax losses carried forward	Property, plant and equipment	Defined benefit plans	Provisions	Other temporary differences	Total
1 January 2012	12.3	1.2	1.3	1.4	2.9	19.1
Recognised in profit or loss	5.3	2.1	-0.3	-0.3	-1.6	5.2
Exchange difference	0.1	0.1	–	0.1	0.2	0.5
Reclassification	–	–	–	–	–	–
Recognised in other comprehensive income	–	–	0.4	–	–	0.4
31 December 2012	17.7	3.4	1.4	1.2	1.5	25.2
Recognised in profit or loss	1.6	-0.6	0.3	-0.5	0.8	1.6
Exchange difference	-0.2	-0.1	0.0	0.0	0.0	-0.3
Reclassification	0.0	0.0	0.3	-0.3	0.0	0.0
Recognised in other comprehensive income	–	–	-0.2	–	–	-0.2
31 December 2013	19.1	2.8	1.7	0.4	2.3	26.2

In 2013 the deferred tax asset for the carry forward tax losses of the Finnish entities was increased by EUR 12.4 million due to the foreseen increase of taxable profits in 2014 and onwards. The major decreases in deferred tax assets were due to use of carry forward tax losses (of which deferred tax assets had been recognised in previous years) mainly in the UK by EUR 1.2 million and Sweden by EUR 2.0 million. The total gross potential deferred tax asset calculated on the total tax losses carried forward amounted to EUR 97.7 million as at 31 December 2013 (the total

tax losses carried forward, for which no deferred tax asset has been recognised, amounted to EUR 421.4 million as at 31 December 2013).

In 2012 a deferred tax asset of EUR 6.4 million was recognised on the basis of carry forward tax losses of the Finnish subsidiary Sanitec Europe Oy. Other changes in deferred tax assets on tax losses carried forward recognised in profit or loss were related to other group companies. The total tax losses carried forward, for which no deferred tax asset was recognised, amounted to EUR 439.5 million as at 31 December 2012.

Deferred tax liabilities	Property, plant and equipment	Other temporary differences	Total
1 January 2012	7.3	0.5	7.8
Recognised in profit or loss	–	–	–
Exchange difference	–	–	–
Reclassification	–	–	–
Recognised in other comprehensive income	–	0.3	0.3
31 December 2012	7.3	0.8	8.1
Recognised in profit or loss	-1.8	-0.1	-1.8
Exchange difference	-0.2	0.0	-0.3
Reclassification	0.0	0.1	0.1
Recognised in other comprehensive income	–	-0.3	-0.3
31 December 2013	5.4	0.5	5.8

Note 12 Intangible assets and property, plant and equipment

Intangible assets	Intangible rights	Other capitalised expenditure	Assets under construction	Total
Acquisition cost 1 January 2013	8.6	1.5	0.7	10.8
Exchange differences	-0.2	0.0	0.0	-0.2
Additions	0.3	0.0	0.8	1.1
Disposals	-1.5	-0.4	–	-1.9
Reclassification between items	-1.7	2.7	-0.9	0.2
Acquisition cost 31 December 2013	5.6	3.8	0.6	10.0
Accumulated amortisation and impairment losses 1 January 2013	-3.0	-0.6	–	-3.6
Exchange differences	0.1	0.0	0.0	0.2
Amortisation for the period	-1.6	-0.6	–	-2.2
Impairment losses for the period	-0.1	-0.4	-0.2	-0.6
Disposals	1.5	0.4	–	1.9
Reclassification between items	1.9	-1.9	0.0	0.0
Accumulated amortisation and impairment losses 31 December 2013	-1.1	-3.1	-0.2	-4.4
Carrying amount 31 December 2013	4.5	0.7	0.4	5.6
Acquisition cost 1 January 2012	6.5	0.6	3.0	10.1
Exchange differences	0.3	-0.1	–	0.2
Additions	0.3	–	0.2	0.5
Disposals	-1.0	1.0	–	0.0
Reclassification between items	2.5	–	-2.5	0.0
Acquisition cost 31 December 2012	8.6	1.5	0.7	10.8
Accumulated amortisation and impairment losses 1 January	-1.4	-0.2	–	-1.6
Exchange differences	0.1	–	–	0.1
Amortisation for the period	-1.8	-0.4	–	-2.2
Impairment losses for the period	–	–	–	–
Disposals	0.1	–	–	0.1
Reclassification between items	–	–	–	–
Accumulated amortisation and impairment losses 31 December 2012	-3.0	-0.6	–	-3.6
Carrying amount 31 December 2012	5.6	0.9	0.7	7.2

Property, plant and equipment	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments	Assets under construction	Total
Acquisition cost 1 January 2013	17.3	106.2	177.3	7.6	0.3	5.5	314.2
Exchange differences	0.0	-1.9	-8.0	-0.1	0.0	-0.1	-10.2
Additions	0.0	2.2	7.9	0.2	0.0	7.8	18.2
Disposals	-	0.0	-12.0	0.0	-	-0.1	-12.1
Reclassification between items	0.1	0.9	6.4	-0.2	-0.3	-7.0	-0.1
Acquisition cost 31 December 2013	17.4	107.3	171.6	7.5	0.0	6.1	310.0
Accumulated depreciation and impairment losses 1 January 2013	-	-37.4	-85.5	-6.3	-	-	-129.2
Exchange differences	0.0	0.7	5.8	0.0	-	0.0	6.5
Depreciation for the period	-	-4.3	-21.6	-0.2	-	0.0	-26.1
Impairment losses for the period	-0.1	-0.3	-1.5	-	-	0.0	-1.8
Reversals of impairment losses for the period	0.8	-	1.1	-	-	-	1.9
Disposals	-	0.0	11.9	0.1	-	0.0	12.0
Reclassification between items	-	0.0	-0.2	0.2	-	0.0	0.0
Accumulated depreciation and impairment losses 31 December 2013	0.8	-41.3	-90.0	-6.2	0.0	0.0	-136.7
Carrying amount 31 December 2013	18.2	66.1	81.6	1.3	0.0	6.1	173.3

Acquisition cost 1 January 2012	17.2	103.2	171.3	7.3	0.3	2.6	301.9
Exchange differences	-	3.8	11.8	-	-	0.1	15.7
Additions	-	0.7	11.6	0.3	-	-	12.6
Disposals	0.1	-1.7	-14.3	-	-	-0.1	-16.0
Reclassification between items	-	0.2	-3.1	-	-	2.9	0.0
Acquisition cost 31 December 2012	17.3	106.2	177.3	7.6	0.3	5.5	314.2
Accumulated depreciation and impairment losses 1 January 2012	-	-33.2	-67.6	-6.1	-	-	-106.9
Exchange differences	-	-1.3	-9.1	-	-	-	-10.4
Depreciation for the period	-	-4.4	-22.9	-0.2	-	-	-27.5
Disposals	-	1.5	14.1	-	-	-	15.6
Accumulated depreciation and impairment losses 31 December 2012	-	-37.4	-85.5	-6.3	-	-	-129.2
Carrying amount 31 December 2012	17.3	68.8	91.8	1.3	0.3	5.5	185.0

	2013	2012
The carrying amount of machinery and equipment used in production	74.9	79.5

Note 13 Inventories

Inventories	31 December 2013	31 December 2012
Materials and supplies	21.7	23.4
Work in process	9.5	10.5
Finished goods	62.0	67.8
Other inventories	0.0	0.4
Total	93.2	102.0
Impairment losses of inventory during the period	-1.6	-0.4
Reversals of impairment losses of inventory during the period	0.8	0.7

Note 14 Receivables

	31 December 2013	31 December 2012
Non-current receivables		
Interest-bearing receivables	4.2	3.8
Other current receivables		
Trade receivables	88.0	88.7
Other receivables ¹⁾	18.6	13.2
Current interest-bearing receivables	0.4	0.3
Supplier bonuses and supplier related accruals	2.3	1.8
Personnel accruals	1.8	1.1
Rental accruals	0.9	0.8
Other tax accruals	0.8	0.7
Insurance accruals	0.5	0.5
Other financial accruals	0.0	0.1
Interest accruals	0.1	0.1
Other prepaid expenses and accrued income	4.1	2.5
Derivative assets	0.7	0.4
Total	118.3	110.4

¹⁾Other receivables include assets held for sale of EUR 2.0 thousands consisting of Sanitec's remaining share in a former subsidiary (Ifö Sanitär Eesti AS). Sanitec has a binding agreement to sell the remaining holding in the company. The remaining share ownership has no material value.

Ageing analysis of trade receivables, after deduction of allowance account for credit losses

	31 December 2013	31 December 2012
Not overdue	82.5	77.0
Overdue 1–30 days	3.5	8.8
Overdue 31–60 days	0.5	1.5
Overdue 61–90 days	0.6	0.0
Overdue > 90 days	0.8	1.4
Total	88.0	88.7
Credit losses during the period, net	-0.7	-1.1

Currency analysis of loan receivables and trade and other receivables

	31 December 2013	31 December 2012
EUR	58.0	50.8
GBP	12.8	10.1
SEK	11.1	13.0
NOK	7.1	9.0
PLN	6.9	6.9
UAH	4.2	4.8
Other	10.8	11.2
Total	110.9	105.8

Credit quality of other receivables is based on the debtors' payment history. Other receivables are not past due nor impaired.

Allowance account of trade receivables is used when an estimate of impairment losses arising from trade receivables is recognised. These impairment losses are recognised in profit or loss. If the impairment loss recognised in the allowance account becomes final, trade receivables are decreased with the amount of the impairment loss and allowance account is adjusted respectively.

The counterparties of trade receivables normally have an external credit valuation or credit rating. The credit quality of customers who do not have credit valuations or credit rating is assessed based on internal information including payment history of the customers. In addition, the Group uses credit insurances to secure the trade receivables.

If the counterparty of a trade receivable is insolvent, the trade receivable is individually determined to be impaired even though the trade receivable were not past due. Otherwise the trade receivables not past due are not determined to be impaired.

Note 15 Cash and cash equivalents

Cash and cash equivalents	31 December 2013	31 December 2012
Cash and bank	99.4	209.9
Short-term deposits	–	5.8
Total	99.4	215.7

Money market investments included in cash and cash equivalents are certificates of deposits and commercial papers issued by banks and companies with a remaining maturity less than three months.

Note 16 Total comprehensive income included in equity

	Fair value reserve	Exchange differences	Retained earnings	Non- controlling interests	Total
Total other comprehensive income 2013					
Exchange differences	–	-2.0	–	0.0	-2.0
Cash flow hedges, recognised in other comprehensive income	0.5	–	–	–	0.5
Cash flow hedges, recognised in other comprehensive income, income tax	0.1	–	–	–	0.1
Cash flow hedges, reclassified to profit or loss	-0.6	–	–	–	-0.6
Cash flow hedges, reclassified to profit or loss, income tax	-0.1	–	–	–	-0.1
Defined benefit plans, remeasurement	–	–	-1.5	–	-1.5
Defined benefit plans, remeasurement, income tax	–	–	0.1	–	0.1
Total other comprehensive income	-0.1	-2.0	-1.3	0.0	-3.4
Profit for the period	–	–	42.4	0.0	42.5
Total comprehensive income 2013	-0.1	-2.0	41.1	0.0	39.0
Total other comprehensive income 2012					
Exchange differences	–	5.0	-0.3	0.0	4.7
Cash flow hedges, recognised in other comprehensive income	0.1	–	–	–	0.1
Cash flow hedges, recognised in other comprehensive income, income tax	0.0	–	0.0	–	0.0
Cash flow hedges, reclassified to profit or loss	0.1	–	–	–	0.1
Cash flow hedges, reclassified to profit or loss, income tax	0.0	–	0.0	–	0.0
Defined benefit plans, remeasurement	–	–	-0.9	–	-0.9
Defined benefit plans, remeasurement, income tax	–	–	0.1	–	0.1
Total other comprehensive income	0.3	5.0	-1.2	0.0	4.2
Profit for the period	–	–	71.7	0.0	71.7
Total comprehensive income 2012	0.3	5.0	70.5	0.1	75.9

Note 17 Interest-bearing liabilities

	31 December 2013	31 December 2012
Non-current interest-bearing liabilities		
Senior secured floating rate notes	241.5	–
Other interest-bearing liabilities	0.0	0.1
Related party loans	–	148.4
Total	241.5	148.5
Current interest-bearing liabilities		
Loans from financial institutions	–	24.3
Other interest-bearing liabilities	0.0	0.0
Related party loans	–	0.0
Total	0.0	24.3
Total interest-bearing liabilities	241.6	172.9

Senior secured floating rate notes, with nominal value of EUR 250 million and maturity date in May 2018, were issued in May 2013. The notes bear an interest margin of 4.75% over 3-month euribor. Their carrying amount in the statement of financial position has been adjusted with the transaction costs related to the issuance of the notes. The costs are amortised over the loan period with effective interest method. The floating rate notes are listed in the Luxembourg Stock Exchange and traded on the Euro MTF Market.

Related party loans, taken from Sanitec Corporation's parent company Sofia IV S.à r.l. (parent company before listing in December 2013), were prepaid in connection with the refinancing in May 2013. The refinancing also led to the prepayment of all of the senior facility loans and cancellation of the EUR 50 million revolving facility agreement of Sofia III S.à r.l., which is the parent company of Sofia IV S.à r.l.. The senior facility agreement and revolving credit facility agreement were contractually tied to the related party loans imposing certain restrictions to Sanitec Group, including but not limited to, financial covenants. Following the prepayment and cancellation of the loans of Sofia III S.à r.l. those contractual ties and restrictions no longer exist, and similarly also there is no longer access by Sanitec Group to that revolving credit facility.

In connection with the refinancing in May 2013 a new committed super senior revolving credit facility agreement of EUR 50 million, with maturity date in January 2018, was concluded by Sanitec. This facility was undrawn as of 31 December 2013. The facility includes a financial covenant on maximum leverage.

At the end of 2013, the other interest-bearing liabilities consisted of minor local loans. Previously the loans from financial institutions included the loans taken by the Ukrainian subsidiary PJSC Slavuta Plant "Budfarfor". These loans were prepaid during the third quarter of 2013. These Ukrainian loans were classified as current liabilities at year end 2012 as some financial covenants of those loans were not met and the waiver on the covenant breaches was received only in the second quarter of 2013. An overdraft facility of EUR 0.5 million of PJSC Slavuta Plant "Budfarfor" was terminated during the fourth quarter of 2013.

	31 December 2013	31 December 2012
Maturity of interest-bearing liabilities		
Due in less than one year	0.0	24.3
Due between 1–3 years	0.0	0.1
Due between 3–5 years	241.5	148.4
Due after 5 years	–	–
Total	241.6	172.9
Interest-bearing liabilities by currency¹⁾		
EUR	250.0	170.8
USD	–	1.9
UAH	0.0	0.2
Other	–	0.0
Total	250.0	172.9

¹⁾ At nominal value

Average interest rates for interest-bearing loans was 4.97% (4.11) at 31 December 2013.

Note 18 Financial risk management

Sanitec Group's financial risk management is conducted in accordance with the Treasury Policy, which is approved by the Board of Directors, and also in accordance with other relevant risk management guidelines, e.g. the Group's credit policy. The objective of the Group's Treasury function is to secure sufficient funding for operational needs, to provide financial services to Group companies, to minimise the costs of financing, to manage financial risks (currency, interest rate, liquidity and funding, credit and operational treasury risks) and to provide to the management relevant information on the financial position and financial risk exposures of Sanitec. The Group companies are responsible for hedging their financial risks in accordance with the Treasury Policy, instructions from the Group Treasury, and other relevant risk management guidelines.

LIQUIDITY RISK

Sanitec aims to maintain an optimal amount of liquidity to fund the business operations of the Group at all times while minimising interest costs. Liquidity is considered to be the sum of cash and cash equivalents and available committed credit facilities. As of the end of 2013, cash and cash equivalents amounted to EUR 99.4 million (EUR 215.7 million) and

the unutilised credit facilities were EUR 50.0 million (EUR 0.3 million). Further information on credit facilities is presented in Note 17 Interest-bearing liabilities.

Under certain circumstances, Sanitec may be required to do a mandatory prepayment, i.e. to offer to purchase the senior secured floating rate notes (at 101% of their nominal amount, plus accrued and unpaid interest) prior to the maturity date, and/or prepay the amounts outstanding (and in certain circumstances, cancel the commitments) under the revolving credit facility in full or in part. This may take place e.g. if certain assets are sold (e.g. if substantially all of Sanitec assets or certain material subsidiaries are sold) or certain change of control events occurs (e.g. if some other party than EQT becomes the beneficial owner of more than 50% of the total voting power of Sanitec's voting stock). Further, the revolving credit facility requires that if more than 50% of the original aggregate principal amount of the senior secured floating rate notes is repurchased, the revolving credit facility will be repaid and cancelled in the same proportion as that by which the senior secured floating rate notes are reduced by such repurchase. These mandatory prepayment conditions are defined in more detail in the terms of the senior secured floating rate notes and in the revolving credit facility agreement.

31 December 2013	Carrying amount	Contractual cash flows	Maturing in			
			Less than one year	Between 1–3 years	Between 3–5 years	After 5 years
Contractual maturity of financial liabilities						
Senior secured floating rate notes ¹⁾	243.2	306.6	12.7	25.2	268.8	–
Super senior revolving credit facility ²⁾	–	1.6	0.4	0.8	0.4	–
Other interest-bearing liabilities	–	0.0	0.0	–	–	–
Derivatives settled as gross amounts, inflows ³⁾	–	61.1	-61.1	–	–	–
Derivatives settled as gross amounts, outflows ³⁾	–	60.7	60.7	–	–	–
Other commitments ⁴⁾	–	2.6	–	–	2.6	–
Trade payables	64.7	64.7	64.7	–	–	–
Other liabilities	9.3	9.3	9.3	–	–	–
Total	317.1	384.5	86.7	26.0	271.9	–

¹⁾ Includes both capital and interest

²⁾ Commitment fee

³⁾ Both legs of each forward contract are shown separately as gross inflow and gross outflow. Please see Note 19 Derivative instruments for details.

⁴⁾ "Other commitments" is a contractual commitment in Ukraine. Detailed information is presented in Note 24 Contingent liabilities.

31 December 2012	Carrying amount	Contractual cash flows	Maturing in			
			Less than one year	Between 1–3 years	Between 3–5 years	After 5 years
Contractual maturity of financial liabilities						
Related party loans ¹⁾	148.5	167.5	5.4	10.9	151.2	–
Loans from financial institutions ¹⁾	24.6	24.7	24.7	–	–	–
Other interest-bearing liabilities	0.1	0.1	0.1	–	–	–
Derivatives settled as gross amounts, inflows ²⁾	–	-59.5	-59.5	–	–	–
Derivatives settled as gross amounts, outflows ²⁾	–	59.1	59.1	–	–	–
Other commitments ³⁾	–	3.0	–	–	–	3.0
Trade payables	64.8	64.8	64.8	–	–	–
Other liabilities	8.2	8.2	8.2	–	–	–
Total	246.2	268.0	102.8	10.9	151.2	3.0

¹⁾ Includes both capital and interest

²⁾ Both legs of each forward contract are shown separately as gross inflow and gross outflow. Please see Note 19 Derivative instruments for details.

³⁾ "Other commitments" is a contractual commitment in Ukraine. Detailed information is presented in Note 24 Contingent liabilities.

CREDIT RISK

Credit risk is principally associated with the probability of a financial loss to Sanitec arising from the inability of counterparties to meet contractual obligations arising from financial transactions or instruments.

The Group Treasury evaluates and monitors counterparty risk related to banks and other financial institutions. The Group aims to minimise this risk by limiting the counterparties to a limited number of major banks and financial institutions, by monitoring their performance and by working within agreed counterparty limits.

The Group has general derivative agreements with its derivative trading counterparties, according to which agreements the outstanding fair values would be settled with net values, in case of a default. Further analysis on derivatives is presented under Note 19 Derivative instruments.

The Group companies reduce counterparty risk related to customers by applying Sanitec's credit policy. In addition, the Group companies constantly monitor ageing of trade receivables and maintain a credit insurance, which covers the majority of Sanitec's trade receivables. Further analysis on ageing of trade receivables is presented under Note 14 Receivables. The carrying amounts of trade receivables equal their maximum credit risk exposure.

CURRENCY RISK

Foreign exchange risk is regarded as uncertainty of cash flows and earnings that arises from fluctuations in currency rates. The Group monitors the foreign exchange risks from three angles: transaction risk related to cash flows in other than functional currencies of each Group company, translation risk related to foreign exchange risk arising from converting the statements of profit or loss and the statements of

financial position of non-euro subsidiaries into the Group's functional currency (euro), and the economic risk related to changes in competitive environment as a result of changes in foreign exchange rates.

Transaction exposure comprises of those foreign exchange exposures that are identified and that would be affected by future exchange rate changes and would have an effect on profit or loss. Transaction exposure is defined as all anticipated other than functional currency cash flows during the next 12 months. The Group hedges itself against these risks by matching the foreign currency cash flows to the extent possible and by hedging the remaining part of currency cash flows with currency derivatives in accordance with the Treasury Policy. The Group aims to protect operative cash flows with hedging.

Transaction exposure is spread in about 10 currencies, and at the end of the reporting period the largest open exposures were in UAH, GBP, PLN, SEK, DKK, and CHF.

The foreign exchange risk sensitivity analysis in accordance with IFRS 7 has been calculated for the Group's foreign currency denominated financial assets and liabilities, including foreign exchange forward contracts outstanding at the end of the reporting period. The largest currency pair exposures are presented in the table below. The foreign exchange risk sensitivity analysis represents the impact of a change in the foreign exchange rates of 10% on profit or loss and on equity at the end of the reporting period. Changes in the equity, in the calculations below, arise only from foreign exchange forwards designated as cash flow hedges. The effects on profit or loss and equity arising from a 10% strengthening / weakening in the most significant currency pairs are presented in the tables below. The sensitivity analysis is based on the assumption that two months of the 12 months forecasted foreign exchange exposure have been recognised in the statement of financial position.

31 December 2013	against	Effect on profit or loss (strengthening / weakening)	Effect on equity from cash flow hedges (strengthening / weakening)
10% strengthening / weakening of			
EUR	UAH	-3.9 / 3.9	-
EUR	GBP	2.7 / -2.7	0.9 / -0.9
SEK	EUR	-1.8 / 1.8	-0.3 / 0.3
EUR	PLN	-0.7 / 0.7	-1.0 / 1.0
EUR	CHF	0.6 / -0.6	0.2 / -0.2
DKK	SEK	0.4 / -0.4	-1.1 / 1.1

31 December 2012	against	Effect on profit or loss (strengthening / weakening)	Effect on equity from cash flow hedges (strengthening / weakening)
10% strengthening / weakening of			
EUR	UAH	-3.3 / 3.3	-
EUR	GBP	1.8 / -1.8	1.2 / -1.2
SEK	PLN	-1.4 / 1.4	-0.9 / 0.9
EUR	EUR	-1.0 / 1.0	0.0 / 0.0
EUR	SEK	0.3 / -0.3	-1.1 / 1.1
DKK	CHF	0.5 / -0.5	0.1 / -0.1

Foreign exchange translation exposure arises when the functional currency of a subsidiary is denominated in currency other than the functional currency of the Group (euro). Sanitec is not applying hedge accounting to net investments in foreign operations nor other exposures arising from translation risk. The translation of subsidiaries' statements of financial position into euro caused exchange differences of EUR -2.0 million from year 2012 to 2013 and EUR 4.7 million from year 2011 to 2012. These exchange differences have been recognised in other comprehensive income.

Economic exposure related to foreign exchange rates means the risk of deteriorating competitive situation due to exchange rate changes, or in other words, the economic effect of the currency changes in expenses and revenues affecting both Sanitec and its competitors. The Group is currently not hedging itself against these risks with currency derivatives.

INTEREST RATE RISK

Interest rate risks arise from fluctuations of interest rates, which may increase the interest expenses of the Group. Sanitec may enter into derivative contracts to reduce these risks. At the end of the reporting period, the Group held no interest rate derivative contracts.

At the end of the reporting period, the interest rate profile of the Group's interest-bearing receivables, cash and cash equivalents and interest-bearing liabilities is presented in the following table:

	31 December 2013	31 December 2012
Floating rate		
Non-current interest-bearing liabilities, nominal value	-250.0	-148.6
Current interest-bearing liabilities	0.0	-24.3
Cash and cash equivalents	99.4	215.7
Interest-bearing receivables	4.6	4.1
Total	-146.0	46.9
Fixed rate		
Non-current interest-bearing liabilities	-	-
Current interest-bearing liabilities	-	-
Cash and cash equivalents	-	-
Interest-bearing receivables	-	-
Total	-	-

The basis for the Group level interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, which is derived from the amount of interest-bearing receivables, cash and cash equivalents and interest-bearing liabilities. Sensitivity analysis for interest rate risk is calculated for all interest-bearing liabilities, cash and cash equivalents and interest-bearing receivables, taking into account their next interest

fixing time. In the sensitivity analysis it is determined how much a change of one percentage point upwards or downwards in interest rates of these liabilities and receivables during the next 12 months, with all other variables being constant, would have effect on result before income taxes. The result of this analysis is presented in the table below:

	31 December 2013	31 December 2012
Effect on result before income taxes (increase in interests / decrease in interests)	-1.1/+1.1	+0.5 / -0.5

COMMODITY RISK

Sanitec is exposed to fluctuations in the prices of major raw material commodities used in manufacturing. Risks related to price fluctuations are primarily managed contractually e.g., by using different contract periods with fixed prices. Sanitec may also use derivatives to hedge the exposure to commodity price fluctuations and may sometimes enter into slightly longer raw material commodity contracts to manage such risks. As of 31 December 2013, Sanitec had not entered into commodity derivative contracts.

MANAGEMENT OF CAPITAL

Sanitec's capital structure should enable flexibility and allow Sanitec to capture strategic opportunities while maintaining a sound financial position even when the market conditions are less favorable.

The Group has defined that one of its long-term financial target is to have a ratio of net debt in relation to adjusted EBITDA below 2.5. As of 31 December 2013, the ratio was 1.5 (-0.4).

Sanitec's main financing agreements, i.e. the senior secured floating rate notes and the revolving credit facility agreement, contain negative covenants restricting, among other things, Sanitec's ability to incur additional indebtedness and issue certain preferred shares, pay dividends above certain amounts, or repurchase shares, make certain investments, make certain other restricted payments, create certain liens, merge or consolidate with other entities, and sell, lease or transfer certain assets.

In addition, the revolving credit facility requires Sanitec to comply with certain affirmative covenants, including a financial covenant, which requires Sanitec to ensure that the Consolidated Net Leverage Ratio (as defined in the revolving credit facility agreement) does not exceed 5:1. If the senior secured floating rate notes attain an investment grade rating from both of the pre-agreed rating agencies and no default or event of default under the senior secured floating rate notes has occurred and is continuing, some of the covenants and the related default provisions of the senior secured floating rate notes cease to apply as long as the investment grade ratings are applicable to Sanitec.

Note 19 Derivative instruments

Foreign currency forward contracts

31 December 2013	Nominal value		Fair value		Net
		Positive	Negative		
Cash flow hedges	48.7	0.5	-0.3		0.2
Fair value hedges	9.8	0.1	-0.1		0.1
Other currency forward contracts	2.4	0.0	0.0		0.0
Total	60.9	0.6	-0.3		0.3

31 December 2012	Nominal value		Fair value		Net
		Positive	Negative		
Cash flow hedges	50.7	0.4	-0.1		0.3
Fair value hedges	8.6	0.0	0.0		0.0
Total	59.3	0.4	-0.1		0.3

As at 31 December 2013 EUR 0.2 million was recognised as cash flow hedges in fair value reserve in equity. During 2013, EUR 0.7 million arising from currency hedges was recognised in profit or loss in operating profit. In 2013 and 2012 Sanitec had forward currency forward contracts that were used to hedge foreign exchange transaction exposure. The Group

has applied hedge accounting in reporting periods of 2013 and 2012.

As at 31 December 2012 EUR 0.3 million was recognised as cash flow hedges in fair value reserve in equity. During 2012, EUR -0.1 million arising from currency hedges was recognised in profit or loss in operating profit.

Note 20 Financial assets and liabilities

31 December 2013	Note	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amount	Fair value
Long-term investments ¹⁾		0.0	-	-	-	-	0.0
Non-current loan receivables	14	-	4.2	-	-	4.2	4.2
Trade receivables	14	-	88.0	-	-	88.0	88.0
Loan receivables	14	-	0.3	-	-	0.3	0.3
Other receivables	14	-	18.7	-	-	18.7	18.7
Interest receivables and receivables related to financial items	14	-	0.2	-	-	0.2	0.2
Derivative assets	14	-	0.0	-	0.8	0.8	0.8
Cash and cash equivalents	15	-	99.4	-	-	99.4	99.4
Senior secured floating rate notes	17	-	-	-241.5	-	-241.5	-255.0
Other non-current interest-bearing liabilities	17	-	-	-64.7	-	-64.7	-64.7
Trade payables	23	-	-	0.0	-	0.0	0.0
Derivative liabilities	23	-	-	-	-0.5	-0.5	-0.5
Current interest-bearing liabilities	17	-	-	0.0	-	0.0	0.0
Interest and other payables related to financial items	23	-	-	-1.9	-	-1.9	-1.9
Advances received	23	-	-	-0.1	-	-0.1	-0.1
Other liabilities	23	-	-	-9.3	-	-9.3	-9.3
Total		0.0	210.9	-317.4	0.3	-106.3	-119.7

As Sanitec's senior secured floating rate notes are listed in the Luxembourg Stock Exchange and traded on the Euro MTF Market, the fair value of the notes is based on quotation on the MTF Market. Fair

value of the senior secured floating rate notes is calculated from the nominal value of the notes (EUR 250.0 million).

31 December 2012	Note	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amount	Fair value
Long-term investments ¹⁾		0.0	–	–	–	–	0.0
Non-current loan receivables	14	–	3.8	–	–	3.8	3.8
Trade receivables	14	–	88.7	–	–	88.7	88.7
Loan receivables	14	–	0.3	–	–	0.3	0.3
Other receivables	14	–	13.3	–	–	13.3	13.3
Interest receivables and receivables related to financial items	14	–	0.2	–	–	0.2	0.2
Derivative assets	14	–	–	–	0.4	0.4	0.4
Cash and cash equivalents	15	–	215.7	–	–	215.7	215.7
Related party loans	17	–	–	-148.4	–	-148.4	-148.4
Other non-current interest-bearing liabilities	17	–	–	-0.1	–	-0.1	-0.1
Trade payables	23	–	–	-64.8	–	-64.8	-64.8
Derivative liabilities	23	–	–	–	-0.1	-0.1	-0.1
Current interest-bearing liabilities	17	–	–	-24.3	–	-24.3	-24.3
Interest and other payables related to financial items	23	–	–	-0.3	–	-0.3	-0.3
Advances received	23	–	–	-0.1	–	-0.1	-0.1
Other liabilities	23	–	–	-8.2	–	-8.2	-8.2
Total		0.0	321.9	-246.3	0.3	76.0	76.0

¹⁾ Sanitec has some long-term investments which are classified as available-for-sale financial assets. They consist of minor unlisted equities, for which fair values cannot be measured reliably, and they are reported at cost or at cost less impairment.

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The valuation of derivatives is according to Level 2.

The valuation of long-term investments (available-for-sale assets) is according to Level 3. There were no changes in 2013 or 2012.

The valuation of all other financial assets and liabilities, not specifically mentioned above to be valued in accordance with Level 1 or Level 3, are valued in accordance with Level 2.

No transfers between levels were recognised during the reporting period.

Note 21 Provisions

31 December 2013

Non-current provisions	Restructuring provisions	Income tax provisions	Other provisions	Total
Opening balance	2.2	4.6	3.0	9.8
Exchange differences	0.0	–	–	0.0
Additions during the period	0.0	0.0	0.4	0.4
Reversals during the period	-0.3	-0.5	-0.6	-1.5
Usage during the period	-0.5	-0.1	0.0	-0.6
Reclassifications	0.9	-0.1	-0.9	-0.1
Carrying amount 31 December	2.3	4.0	1.8	8.1

Current provisions	Restructuring provisions	Income tax provisions	Other provisions	Total
Opening balance	4.2	0.0	0.2	4.4
Exchange differences	0.0	–	0.0	0.0
Additions during the period	0.7	0.2	1.0	2.0
Reversals during the period	0.0	0.0	0.0	0.0
Usage during the period	-1.8	0.0	-0.3	-2.2
Reclassifications	-0.9	0.3	0.2	-0.4
Carrying amount 31 December	2.2	0.5	1.0	3.7

31 December 2012

Non-current provisions	Restructuring provisions	Income tax provisions	Other provisions	Total
Opening balance	4.7	17.1	3.6	25.4
Exchange differences	0.0	–	0.0	0.0
Additions during the period	0.0	0.0	0.6	0.6
Reversals during the period	0.0	-1.2	-1.2	-2.4
Usage during the period	-2.5	-11.3	0.0	-13.7
Reclassifications	0.0	0.0	-0.1	-0.1
Carrying amount 31 December	2.2	4.6	3.0	9.8

Current provisions	Restructuring provisions	Income tax provisions	Other provisions	Total
Opening balance	6.0	–	0.9	6.9
Exchange differences	0.0	–	–	0.0
Additions during the period	2.0	0.0	0.1	2.1
Reversals during the period	-0.2	–	0.0	-0.2
Usage during the period	-3.6	–	-0.9	-4.5
Reclassifications	0.0	–	0.0	0.0
Carrying amount 31 December	4.2	0.0	0.2	4.4

RESTRUCTURING PROVISIONS

Sanitec provides for the estimated future costs related to restructuring programs. Restructuring provisions include only expenses that are necessarily entailed by the restructuring, and which are not associated with the on-going activities. The restructuring provision includes, but is not limited to, estimated provisions for employee benefits related to personnel whose employment has been terminated. For some of the provisions it is not possible to estimate timing of the outflow of economic benefits, for example due to the timing of such outflows are dependent on the actions of an external party.

INCOME TAX PROVISIONS

Tax provisions are recognised based on estimates and assumptions when, despite of management's belief that tax return positions are supportable, it is more likely than not that certain positions will be challenged and may not be fully sustained upon review by tax authorities. Furthermore, the Group has ongoing tax audits in certain jurisdictions.

Note 22 Defined benefit plans

Sanitec has several defined benefit plans in accordance with local conditions and practices in the countries where it operates. The most significant defined benefit plans are in Germany, the United Kingdom, Sweden, France and Italy. Most of the Group's defined benefit plans are pension plans.

The defined benefit assets and liabilities presented in the statement of financial position consist of the present value of the defined benefit obligations less the fair value of plan assets at the end of the reporting period. If the net of the plan obligation and assets results in a surplus, the plan is presented as a defined benefit asset in the statement of financial position. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related post-employment benefit.

Sanitec's most significant funded defined benefit plan is in the United Kingdom. Individual benefits are generally dependent on eligible compensation levels and years of service. Defined benefit plans are funded by Sanitec to satisfy local statutory funding requirements. The assets are managed by external fund managers. The funds are allocated between equity instruments and fixed income instruments in order to provide return at target level and with a limited risk profile.

Sanitec's main unfunded defined benefit plans are in Germany, Italy and in Sweden. The TFR plan (Trattamento di Fine Rapporto, termination indemnity plan) in Italy is closed for new entrants. In Sweden, the pension cover is organised through both defined contribution plans as well as unfunded defined benefit plans (ITP system, Industrins och Handels tilläggs pension).

Defined benefit obligations expose Sanitec to various risks. As corporate bond yields are used as a reference in determining the discount rates used for defined benefit obligations, a decrease in corporate bond yields will hence increase the present value of the defined benefit obligation. A plan deficit can occur if the performance of the plan assets is below the above mentioned yield. These potential deficits may require further contributions to the plan by the Group. In some of the Group's defined benefit plans the defined benefit obligation is linked to general inflation and salary level development. Higher level of inflation and salary level will result in a higher present value of the defined benefit liability. Also some of the defined benefit plans obligate Sanitec to provide benefits to plan members for a lifetime. Therefore any increase in life expectancy will increase defined benefit obligation of these plans.

Defined benefit plans	31 December 2013	31 December 2012
Charged to profit or loss		
Current service costs	-0.6	-0.7
Net interest costs	-1.1	-1.0
Curtailements and settlements	-	2.0
Remeasurements recognised in other comprehensive income loss (-) / gain (+)	-1.5	-0.9
Total in total comprehensive income	-3.2	-0.6

	31 December 2013	31 December 2012
Defined benefit liabilities in statement of financial position	31.0	30.2
Defined benefit assets in statement of financial position	1.1	2.1
Present value of defined benefit obligations	67.5	55.9
Fair value of plan assets	-37.6	-27.8
Deficit in the plans, net	29.9	28.1

Defined benefit liabilities in statement of financial position	31 December 2013	31 December 2012
Present value of funded obligations	13.8	3.6
Fair value of plan assets	-9.5	-1.2
Deficit in the plans	4.3	2.4
Present value of unfunded obligations	26.7	27.8
Defined benefit liabilities in statement of financial position	31.0	30.2

Reconciliation of defined benefit liability:	31 December 2013	31 December 2012
Defined benefit liability at the beginning of the year	30.2	28.6
Charged to profit or loss	1.8	1.5
Remeasurements	0.2	1.0
Employer contributions	-0.3	-0.6
Benefits paid	-1.6	-1.2
Exchange differences	0.7	0.9
Defined benefit liability at the end of the year	31.0	30.2

Defined benefit assets in statement of financial position	31 December 2013	31 December 2012
Present value of funded obligations	-27.0	-24.5
Fair value of plan assets	28.1	26.6
Defined benefit assets in statement of financial position	1.1	2.1

Reconciliation of defined benefit assets:	31 December 2013	31 December 2012
Defined benefit assets at the beginning of the year	2.1	0.4
Charged to profit or loss	0.0	2.0
Remeasurements	-1.3	0.1
Employer contributions	0.3	0.0
Benefits paid	0.0	0.0
Exchange differences	-0.1	-0.3
Defined benefit assets at the end of the year	1.1	2.1

Reconciliation of the present value of defined benefit obligations:	31 December 2013	31 December 2012
Defined benefit obligation at the beginning of the year	55.9	184.3
Adjustments to opening balance ¹⁾	9.4	–
Other adjustments to obligation ²⁾	0.0	-130.8
Current service costs	0.6	0.7
Interest expenses	2.4	2.4
Gain (-) / loss (+) on curtailment and settlements	–	-2.0
Effect of business combinations/disposals	–	-0.6
Remeasurements: ³⁾		
Gain (-) / loss (+) from change in demographic assumptions	-0.5	-0.1
Gain (-) / loss (+) from change in financial assumptions	1.2	2.9
Experience gains (-) / losses (+)	-0.4	0.1
Benefits paid	-0.9	-1.7
Exchange differences	-0.2	0.7
Defined benefit obligation at the end of the year	67.5	55.9

¹⁾ As at 31 December 2013 adjustments of obligations relate to the reclassification of a defined contribution plan to a defined benefit plan of the Swiss subsidiary Bekon Koralle AG.

²⁾ As at 31 December 2012 the other adjustment of obligation relates to the transfer of the defined benefit obligation of the Dutch subsidiary B.V. de Sphinx Maastricht. All the assets and liabilities of the pension plan were transferred to an independent external insurance company.

³⁾ At the end of the reporting period 2013, the net defined benefit liability of the Swiss subsidiary Bekon Koralle AG was recognised through other comprehensive income. The net defined benefit liability amounted to EUR 2.1 million. In addition, another minor correction of EUR 0.2 million was recognised through other comprehensive income. Due to these corrections the remeasurements shown in this reconciliation do not equal with the remeasurements presented in other comprehensive income.

Reconciliation of the fair value of the defined benefit assets:	31 December 2013	31 December 2012
Defined benefit assets at the beginning of the year	27.8	156.1
Adjustments to opening balance ⁴⁾	7.0	–
Other adjustments of the assets ⁵⁾	0.0	-132.0
Interest income	1.3	1.4
Remeasurements:		
Return on plan assets, excluding amounts included in interest income	1.1	2.0
Employee contributions	1.3	0.1
Employer contributions	0.6	1.5
Benefits paid	-0.7	-1.7
Exchange differences	-0.8	0.4
Defined benefit assets at the end of the year	37.6	27.8

⁴⁾ As at 31 December 2013 adjustments of assets relate to the reclassification of a defined contribution plan to a defined benefit plan of the Swiss subsidiary Bekon Koralle AG.

⁵⁾ As at 31 December 2012 the other adjustment of assets relates to the transfer of the defined benefit obligation of the Dutch subsidiary B.V. de Sphinx Maastricht. All the assets and liabilities of the pension plan were transferred to an independent external insurance company.

The most significant actuarial assumptions used

	UK	GER	SWE	Other
31 December 2013				
Discount rate, %	4.4	3.5	4.0	2.2 – 4.1
Salary growth rate, %	0.0	0.0	0.0	2.0 – 3.8
Pension growth rate, %	3.4	2.0	2.0	0.0 – 2.0

31 December 2012

Discount rate, %	4.5	3.8	3.5	2.3 – 3.8
Salary growth rate, %	0.0	0.0	0.0	2.0 – 3.5
Pension growth rate, %	3.0	1.8	2.0	0.0 – 2.0

	2013	2012
Average life expectancy (years) for persons retiring at the end of the reporting period ⁶⁾ :		
Male	19.3	19.1
Female	23.2	23.0
Average life expectancy (years) for persons retiring 20 years after the end of the reporting period ⁶⁾ :		
Male	19.9	19.5
Female	23.1	22.7

⁶⁾ Based on the assumption that employees retire at the age of 65.

As the Group has defined benefit plans in different countries with variations in the key assumptions, a quantitative sensitivity analysis for significant assumptions is presented as the consolidated effect on the defined benefit obligations.

Change in assumption	Discount rate		Salary growth rate		Pension growth rate	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	1% increase	1% decrease
Impact on defined benefit obligation, EUR million	-5.8	4.7	0.1	-0.1	1.1	-0.7

Change in assumption	Average life expectancy	
	Increase by 1 year	Decrease by 1 year
Impact on defined benefit obligation, EUR million	1,7	-1,7

The major categories of plan assets	31 December 2013				31 December 2012			
	Quoted	Unquoted	Total	%	Quoted	Unquoted	Total	%
Equity instruments	12.3	-	12.3	33	16.2	-	16.2	58
Equity funds	12.3	-	12.3		16.2	-	16.2	
Debt instruments	14.1	-	14.1	37	8.5	-	8.5	30
Fixed income funds	14.1	-	14.1		8.5	-	8.5	
Money market instruments	-	0.3	0.3	1	-	0.2	0.2	1
Insurance contracts⁷⁾	0.0	10.9	10.9	29	0.0	2.9	2.9	10
Total plan assets	26.4	11.2	37.6	100	24.7	3.2	27.8	100

⁷⁾ As the insurance contracts are managed by insurance companies, the allocation of the assets by category is not available.

Expected payments to plan participants in the future years from the defined benefit obligation, EUR million	Within one year	Between 1–2 years	Between 2–5 years	Later than 5 years	Total
		1.4	3.1	3.5	23.5

The expected employer contributions in the plans in year 2014 are EUR 0.7 million.
The weighted average remaining duration of the defined benefit plans is 14.2 years.

Note 23 Current interest-free liabilities

Current liabilities	31 December 2013	31 December 2012
Trade payables	64.7	64.8
Customer bonus accruals	56.6	55.3
Personnel costs accruals	31.9	30.0
Warranty costs accruals	5.5	6.5
Other tax payable	1.4	1.1
Financial accruals	1.9	0.3
Advances received	0.1	0.1
Other accruals	16.5	17.8
Other liabilities	9.3	8.2
Derivative liabilities	0.4	0.1
Total	188.3	184.3

The Group's warranty policy provides for coverage of certain products at the date the sale is recognised. The estimated warranty accrual is recognised as an accrual and changes in the accrued warranty costs are recognised in profit or loss.

Note 24 Contingent liabilities

	31 December 2013	31 December 2012
Mortgages and pledged assets		
Mortgages		
On behalf of own commitments	0.0	0.0
Carrying amount of pledged assets		
On behalf of own commitments	5.5	6.0
Total	5.6	6.1
Guarantees and other commitments		
Other commitments		
On behalf of own commitments	2.6	3.0
Guarantees		
On behalf of own commitments	0.3	2.6
On behalf of others	0.1	0.1
Total	3.0	5.7
Total guarantees, mortgages, pledged assets and other commitments¹⁾	8.6	11.8

¹⁾ This table does not include the value of guarantees, mortgages, liens on chattel and pledged assets that secure loans. The nominal value of all collateral granted by the Group exceeds the combined carrying amount of the loans for which they have been given as a security.

In connection with the refinancing which took place in May 2013, the main pledges, mortgages and guarantees of the Group were replaced and renewed. Prior to the refinancing substantially all of the assets of the Group were pledged on behalf of the loans taken by Sanitec's former indirect parent Sofia III S.à r.l.. Following the refinancing similar securities have now been given on own behalf to secure the issued EUR 250 million senior secured floating rate notes and the new EUR 50 million undrawn super senior revolving credit facility.

First ranking guarantees and security pledge over the assets of Sanitec Corporation and certain of the Group subsidiaries have been granted as collateral for the senior secured floating rate notes and the super senior revolving credit facility. As of 31 December 2013 the majority of Sanitec Group's property, plant and equipment, major brands, shares in key subsidiaries, receivables, inventory and bank accounts were pledged. The pledge includes also real estate mortgages of Sanitec Kolo Sp.z o.o (Poland), Sanitec Europe Oy (Finland), Ifö Sanitär Aktiebolag (Sweden) and PJSC Slavuta Plant "Budfarfor" (Ukraine) for their real estates. The nominal value of all collateral granted by the Group exceeds the combined carrying amount of the loans for which they have been given as a security.

During the third quarter of 2013, the loans from financial institutions taken by PJSC Slavuta Plant "Budfarfor", a Ukrainian subsidiary of Sanitec,

were prepaid. In connection with the prepayments the related collaterals were released. The collateral securing the loans prepaid by PJSC Slavuta Plant "Budfarfor" consisted of certain assets of PJSC Slavuta Plant "Budfarfor", including real estate mortgages. In addition, PJSC Slavuta Plant "Budfarfor's" parent Slavuta Holding LLC had guaranteed the local credit facility and pledged the shares of PJSC Slavuta Plant "Budfarfor". Following the refinancing similar securities were given during the fourth quarter of 2013 on behalf of Sanitec Group to secure the issued EUR 250 million senior secured floating rate notes and the super senior revolving credit facility. An EUR 0.5 million Ukrainian overdraft facility was terminated by Sanitec during the fourth quarter of 2013. The related inventory pledge with value of EUR 0.7 million was released in connection with the termination of the facility. Total secured loans of PJSC Slavuta Plant "Budfarfor" amounted to EUR 24.1 million at the end of 2012.

As of 31 December 2013, the Group had additionally some other commitments including a contractual commitment in Ukraine totalling to EUR 2.6 million for acquisition of property, plant and equipment relating to leased assets.

Note 25 Operating leases

Operating leases as a lessee

Sanitec has various non-cancellable operating leases. The minimum future payments of these leasing contracts are presented in the table below.

Minimum future payments of operating lease commitments	31 December 2013	31 December 2012
Maturing		
Within one year	12.4	13.6
Later than one year and not later than five years	22.1	26.2
Later than five years	16.6	1.5
Total	51.1	41.4

Operating leases as a lessor

Sanitec has some operating lease agreements in which the Group acts as a lessor. The minimum future payments to be received from non-cancellable operating lease agreements are presented in the table below.

Minimum future payments of operating leases	31 December 2013	31 December 2012
Maturing		
Within one year	0.4	0.5
Later than one year and not later than five years	0.4	0.8
Later than five years	0.2	0.3
Total	1.1	1.5

Note 26 Related party disclosures

Related parties of Sanitec Group include the parent, Sanitec Corporation, and all Sanitec group companies, the members of the Board of Directors of Sanitec Corporation, their close members of family as well as their controlled entities, members of the Top Management Team and their close members of family as well as their controlled entities and shareholders having significant influence over Sanitec through ownership. Sofia IV S.à r.l., which was the parent of the Group before Sanitec's listing in NASDAQ OMX Stockholm, still owns 40% of the shares and votes in Sanitec and is thus considered to be a related party to Sanitec.

Remuneration of the Board of Directors (EUR)

	2013	2012
Fredrik Cappelen (chairman)	50,000	50,000
Adrian Barden	25,000	25,000
Caspar Callerström	–	–
Pekka Lettijeffer	25,000	25,000
Ulf Mattsson	25,000	25,000
Johan Bygge	–	–
Margareta Lehmann	4,167	–
Total	129,167	125,000

Johan Bygge has been a member of the Board of Directors since 27 September 2013, and Margareta Lehmann since 29 October 2013.

Pursuant to the Finnish Companies Act, the amount of compensation for the members Board of Directors is approved by the general meeting of shareholders. At the annual general meeting on 4 April 2013, it was resolved that the annual compensation of the Chairman would amount to EUR 50,000 and the other members of the Board of Directors would be paid an annual remuneration of EUR 25,000, except that members of Board of Directors employed by EQT Partners AB and the other EQT Partners advisory entities are not entitled to any remuneration from the duties on Board of Directors.

The members of the Board of Directors are not entitled to any benefits upon ceasing to serve as a member of the Board of Directors.

Remuneration of Top Management Team (EUR)

Peter Nilsson (CEO)	2013	2012
Basic salary	582,473	572,181
Variable compensation	446,918	334,338
Other benefits (fringe benefits)	–	–
Total	1,029,391	906,519
Pension	383,840	327,470
Total	1,413,231	1,233,989

CEO's remuneration is paid in SEK and converted to EUR using the average exchange rate of the period. The amounts shown in EUR are subject to currency fluctuations.

Other Top Management Team members (EUR)	2013	2012
Basic salary	1,545,695	1,362,575
Variable compensation	220,683	117,478
Redundancy compensations	631,631	–
Other benefits (fringe benefits)	51,310	160,958
Total	2,449,318	1,641,011
Pension	500,043	552,998
Total	2,949,361	2,194,009

Some Top Management Team members receive their remuneration in other currencies than EUR. These are converted to EUR using the average exchange rate of the period. The amounts shown in EUR are subject to currency fluctuations.

The remuneration for the President & CEO shall be determined by the Board of Directors. The remuneration for other members of the top management or other direct reports to the President & CEO shall be proposed by the President & CEO or the Remuneration Committee and approved by the Board of Directors. All share or share price related remunerations and incentives shall be decided exclusively by the general shareholders meeting.

In addition to a monthly salary, the President & CEO and other members of the top management are generally entitled to an annual bonus of a maximum of 50 to 75% of their annual salary in accordance with the Sanitec bonus scheme, annual pension premiums equal to 15 to 27.5% of their annual salary, sickness benefits equal to 75 to 100% of their monthly salary for the first 3 to 6 months of any period of illness, and a company car.

The CEO's period of notice is six months. In the event the company would give notice to the CEO, he will receive an additional remuneration equaling 12 months' salary. The CEO will receive no special compensation if his employment is terminated due to a public tender offer.

In the event their employment agreements are terminated by Sanitec, a majority of the Top Management Team members are entitled to 12 months' severance pay (the notice period is six months). Three of the Top Management Team members are bound by non-competition and non-solicitation (with respect to customers and other employees) provisions during 12 months after the termination of their employment. The non-compete provisions do not contain any provision for compensation during the non-compete period. Other than as set out above, the members of the Top Management Team members are not entitled to any benefits upon termination of their employment.

The CEO of Sanitec Corporation is entitled to retire at the age of 65. The retirement age of other members of the Top Management Team is 65 years.

Board of Directors, share ownership in Sanitec, number of shares	31 December 2013	31 December 2012
Fredrik Cappelen (chairman) ¹⁾	50,820	–
Adrian Barden	18,033	–
Caspar Callerström	–	–
Pekka Lettijeffer	13,115	–
Ulf Mattsson ²⁾	32,787	–
Johan Bygge	8,197	–
Margareta Lehmann	–	–
Total	122,952	–

¹⁾ Shares held via endowment insurance

Top Management Team, share ownership in Sanitec, number of shares	31 December 2013	31 December 2012
Peter Nilsson ²⁾	163,934	–
Krister Boëthius	10,000	–
Miguel Definti	–	–
Gun Nilsson	49,180	–
Anders Spetz	1,000	–
Magnus Terrvik ²⁾	98,360	–
Harald Treml	–	–
Total	322,474	–

²⁾ Shares held via a related party and / or endowment insurance

In addition, as at 31 December 2013, the following members of the Board of Directors and the Top Management Team (the "Sofia LP Investors") were indirect shareholders of Sanitec via their participation in Sofia LP, an English limited partnership that in turn is an indirect shareholder of Sofia IV S.à r.l. which holds 40% of shares in Sanitec Corporation: Fredrik Cappelen, Adrian Barden, Johan Bygge, Pekka Lettijeff, Ulf Mattsson, Caspar Callerström, Peter Nilsson, Gun Nilsson, Magnus Terrvik, Harald Treml and Krister Boëthius.

The total participation of Sofia LP Investors in Sofia LP equals to 0.44% of indirect ownership in Sanitec Corporation as at 31 December 2013.

TRANSACTIONS WITH OTHER RELATED PARTIES

Sanitec prepaid the related party loans amounting to EUR 148.4 million to the parent, Sofia IV S.à r.l., in the second quarter of 2013. Sofia IV S.à r.l. was the parent of Sanitec Group before listing in NASDAQ OMX Stockholm. The loans were paid in full. Interest paid in cash in January - December amounted to EUR 1.9 million (6.2), excluding withholding taxes.

Receivables from and liabilities to other related parties

	31 December 2013	31 December 2012
Receivables from Sofia IV S.à r.l. and Sofia III S.à r.l.	0.1	0.0
Liabilities to Sofia IV S.à r.l.	–	148.4
Liabilities to Caesar Holding Ltd., former ultimate parent owned by EQT fund IV.	–	0.4

Note 27 Subsidiary shares

Name	Country of incorporation	Ownership (%)
Lincoln Land Fünfte B.V.	The Netherlands	100
Sanitec Europe Oy	Finland	100
Sanitec Russia Oy	Finland	100
Sanitec LLC	Russia	100
Leda Holdings S.A.S.	France	100
IDO Kylpyhuone Oy	Finland	100
Sanitec Holdings Norway A/S	Norway	100
Porsgrund Bad AS	Norway	100
Ifö Sanitär AB	Sweden	100
Contura Steel AB	Sweden	100
Allia International S.A.	France	100 ¹⁾
Allia Holding GmbH	Germany	100
Sanitec Beteiligungs- und Servicegesellschaft mbH	Germany	100
Varicor S.A.S.	France	100
Varicor GmbH	Germany	100
Allia S.A.S.	France	100
Produits Céramiques de Touraine S.A.	France	100 ²⁾
Alliages Céramiques S.A.S.	France	100
B.V. de Sphinx Maastricht	The Netherlands	100
Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft mbH	Austria	100
Bekon Koralle AG	Switzerland	100
Koralle International GmbH	Germany	94.8 ³⁾
Koralle Sanitärprodukte GmbH	Germany	100
SERVICO-Gesellschaft für Sanitärtechnik mbH	Germany	100
Ceravid GmbH	Germany	100
Keramag Keramische Werke AG ⁴⁾	Germany	100
Sanitec S.R.O.	Czech Republic	100
Eurocer Industria de Sanitarios S.A.	Portugal	100
Sanitec Kolo Sp. z o.o.	Poland	100
Scan Aqua Sp. z o.o.	Poland	100
Sanitec Ukraine LLC	Ukraine	100
Slavuta Holdings LLC	Ukraine	100
PJSC Slavuta Plant "Budfarfor"	Ukraine	99.5 ⁵⁾
Sanitec Trading LLC	Ukraine	100
Sanitec Holding Italy S.p.A.	Italy	100
Pozzi Ginori S.p.A.	Italy	100
Royal Sanitec AB	Sweden	100
Sanitec UK Ltd	United Kingdom	100
Twyford Pension Trustees Ltd	United Kingdom	100
Twyford Holdings Ltd	United Kingdom	100
Twyford Bathrooms	United Kingdom	100
Twyford Ltd	United Kingdom	100
Twyford's Ltd	United Kingdom	100
Sanitec Trading (Zhongshan) Co. Ltd.	China	100
Sanitec Holdings Sweden AB	Sweden	100
Sanitec Trading LLC	Russia	100

¹⁾ <0.01% of the shares are held by three local Sanitec management employees.

²⁾ <0.01% of the shares are held by local Sanitec management employees and 0.01% of the shares are held by third-party individuals not affiliated with Sanitec.

³⁾ 5.20% of the shares are held by DP Deutsche Pool Beteiligungs GmbH (a non-Sanitec entity).

⁴⁾ Keramag AG's legal form was changed in January 2014 to GmbH.

⁵⁾ <0.5% of the shares are held by minority shareholders. Redemption proceedings are currently pending.

Note 28 Legal and regulatory proceedings

Sanitec is involved in and exposed to various legal actions or claims and other legal and administrative, including tax and environmental, investigations and proceedings that arise out of or are incidental to the ordinary course of business. It is Sanitec's policy to provide for amounts related to the proceedings if liability is probable and the amount thereof can be estimated with a reasonable certainty.

EU COMPETITION PROCEEDINGS – THE COURT OF JUSTICE OF THE EUROPEAN UNION

The European Commission announced in June 2010 its decision to impose a fine of EUR 57.7 million on Sanitec for the alleged participation, between the years 1994 and 2004, in a price fixing cartel and anticompetitive practices by 17 European bathroom fittings and fixtures manufacturers. The company appealed the decision to the General Court of European Union in Luxembourg in 2010 which issued its decision on the appeal in September 2013, in which the court partially annulled the Commission's decision in respect of findings regarding France and Italy and reduced the fine by EUR 7.1 million. The reimbursed amount was paid to Sanitec at the end of October 2013. In the beginning of December 2013, Sanitec was notified that the Commission has appealed against the judgement of the General Court. In case the Commission is successful with its appeal, Sanitec may be obligated to repay the EUR 7.1 million amount received in October 2013. Sanitec filed its defence with the Court of Justice of the European Union in the beginning of February 2014 together with a cross appeal.

CLAIMS BROUGHT BY FORMER PCT EMPLOYEES

84 cases initiated in 2011 by former employees of Produit Céramiques de Touraine S.A. ("PCT") disputing their termination compensation were ruled against Sanitec by the French labor court of first instance in December 2013.

According to the decisions, additional compensation of approximately EUR 6.5 million in total is then to be paid to the former employees. No immediate payment was ordered and PCT filed appeals against all 84 individual decisions at the year end 2013. No provision is recorded in the consolidated accounts as the evidence available to the company does not support any material change in its original view. The risk of further negative outcome cannot however be excluded.

TAX PROCEEDINGS

Eurocer Industria de Sanitarios S.A., a production facility located in Portugal and two members of the local company's management, are currently the subject of an investigation by the Portuguese tax and customs authorities as a result of actions taken by a former subcontractor that provided part of local workforce from 2007 to 2011. The investigation is so far secret and no further details are available to the company. No provision is recognised in the consolidated financial statements.

Sanitec is subject to local tax audits, re-assessment and related proceedings from time to time. A tax audit covering years 2007-2011 began in 2012 in Germany. In October 2013, an agreement was made with the tax auditors in which most of the issues were settled. Sanitec has recognised provisions for the remaining tax issues in the consolidated financial statements.

In Italy, the Group is in the process of appealing against various material reassessments issued by the local tax authorities for the financial years 2004–2008. It may take several years to resolve the Italian tax litigations.

In Ukraine, decisions and assessments of local tax authorities are contested and appealed by the Group continuously as a part of the ordinary course of business.

Note 29 Restatement of previous periods

Sanitec adopted the revised IAS 19 Employee Benefits standard on 1 January 2013. Sanitec has applied the revised IAS 19 Employee Benefits retrospectively and consolidated financial information as of and for the years ended 31 December 2012 and 2011 have been restated. The amendment of IAS 19 has mainly affected reclassification between items

presented in the statement of financial position (reclassification from defined benefit obligation to defined benefit asset).

Sanitec has retrospectively reclassified certain interest-bearing receivables from current receivables to non-current receivables in 2011 and 2012 in order to correct classification made earlier.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2012	restatement	31 December 2012
ASSETS			
Non-current assets			
Intangible assets	7.2	–	7.2
Property, plant and equipment	185.0	–	185.0
Long-term investments	0.0	–	0.0
Deferred tax assets	25.2	–	25.2
Interest-bearing receivables	0.1	3.7	3.8
Defined benefit assets	1.8	0.3	2.1
Total non-current assets	219.3	4.0	223.2
Current assets			
Inventories	102.0	–	102.0
Other current receivables	114.1	-3.7	110.5
Assets for current tax	6.4	–	6.4
Cash and cash equivalents	215.7	–	215.7
Total current assets	438.2	-3.7	434.6
TOTAL ASSETS	657.6	0.4	657.8
EQUITY AND LIABILITIES			
Equity			
Share capital	2.8	–	2.8
Share premium	43.7	–	43.7
Fair value reserve	0.3	–	0.3
Reserve for invested unrestricted equity	585.2	–	585.2
Exchange differences	-9.3	–	-9.3
Retained earnings	-379.1	–	-379.1
Total equity attributable to owners of the parent	243.6	–	243.6
Non-controlling interests	0.2	–	0.2
Total equity	243.7	–	243.7
Non-current liabilities			
Deferred tax liabilities	8.1	–	8.1
Defined benefit obligations	29.9	0.4	30.2
Provisions	9.8	–	9.8
Interest-bearing liabilities	148.6	–	148.5
Total non-current liabilities	196.4	0.4	196.7
Current liabilities			
Interest-bearing liabilities	24.3	–	24.3
Provisions	4.4	–	4.4
Other current liabilities	184.3	–	184.3
Liabilities for current tax	4.4	–	4.4
Total current liabilities	217.4	–	217.4
TOTAL EQUITY AND LIABILITIES	657.6	0.4	657.8

	31 December 2011	restatement	1 January 2012
ASSETS			
Non-current assets			
Intangible assets	8.4	–	8.4
Property, plant and equipment	195.0	–	195.0
Long-term investments	0.0	–	0.0
Deferred tax assets	19.1	–	19.1
Interest-bearing receivables	0.7	3.5	4.2
Defined benefit assets	0.0	0.4	0.4
Total non-current assets	223.3	3.9	227.2
Current assets			
Inventories	106.3	–	106.3
Other current receivables	133.1	-3.5	129.6
Assets for current tax	5.8	–	5.8
Cash and cash equivalents	161.3	–	161.3
Total current assets	406.5	-3.5	403.0
TOTAL ASSETS	629.8	0.4	630.2
EQUITY AND LIABILITIES			
Equity			
Share capital	2.8	–	2.8
Share premium	43.7	–	43.7
Fair value reserve	0.0	–	0.0
Reserve for invested unrestricted equity	585.2	–	585.2
Exchange differences	-14.3	–	-14.3
Retained earnings	-449.8	–	-449.8
Total equity attributable to owners of the parent	167.7	–	167.7
Non-controlling interests	0.2	–	0.2
Total equity	167.9	–	167.9
Non-current liabilities			
Deferred tax liabilities	7.8	–	7.8
Defined benefit obligations	28.2	0.4	28.6
Provisions	25.4	–	25.4
Interest-bearing liabilities	168.1	–	168.1
Total non-current liabilities	229.5	0.4	229.8
Current liabilities			
Interest-bearing liabilities	26.0	–	26.0
Provisions	6.9	–	6.9
Other current liabilities	195.1	–	195.1
Liabilities for current tax	4.4	–	4.4
Total current liabilities	232.4	–	232.4
TOTAL EQUITY AND LIABILITIES	629.8	0.4	630.2

Key ratios

(All amounts in EUR millions)

	2013	2012	2011
Net sales	701.8	752.8	770.8
Operating profit	67.9	73.0	67.1
Operating margin, %	9.7	9.7	8.7
Items affecting comparability	-6.5	-4.9	-8.9
Operating profit, adjusted	74.4	77.9	75.9
Operating margin, %, adjusted	10.6	10.4	9.9
EBITDA, adjusted	102.7	107.7	105.6
EBITDA margin, %, adjusted	14.6	14.3	13.7
Profit before taxes	48.2	67.0	51.2
Profit for the period	42.5	71.7	47.7
As percentage of net sales, %	6.1	9.5	6.2
Cash flow from operating activities	74.7	87.9	54.5
Total assets	531.0	657.8	630.2
Total equity	44.4	243.7	167.9
Net debt	150.6	-42.9	32.7
Net debt / EBITDA, adjusted	1.5	-0.4	0.3
Equity ratio, %	8.4	37.1	26.6
Net gearing, %	339.7	-17.6	19.5
Return on capital employed (ROCE), %, rolling 12 months	19.4	19.3	19.3
Return on equity, %, rolling 12 months	35.7	34.5	29.3
Cash conversion	82	88	78
Average number of employees	6,516	7,004	7,391
Number of employees at the end of period	6,211	6,688	7,096
Investments in property, plant and equipment and intangible assets	19.3	13.1	23.0
Investments in shares in subsidiaries	0.0	0.0	13.1
Total gross capital expenditure	19.3	13.1	36.1
Gross capital expenditure as percentage of net sales, %	2.8	1.7	4.7
Research and development expenses, total	-9.6	-8.3	-8.7
As percentage of net sales, %	1.4	1.1	1.1

Share related figures

	2013	2012	2011
Number of shares, end of period, share issue adjusted	100,000,000	100,000,000	100,000,000
Number of shares, average, share issue adjusted	100,000,000	100,000,000	100,000,000
Share price, end of period, SEK	67.50	–	–
Share price, end of period, EUR ¹⁾	7.62	–	–
Share price, year high, SEK	67.50	–	–
Share price, year high, EUR ¹⁾	7.62	–	–
Share price, year low, SEK	62.00	–	–
Share price, year low, EUR ¹⁾	7.00	–	–
Share price, volume-weighted average, SEK	64.10	–	–
Share price, volume-weighted average, EUR ²⁾	7.41	–	–
Market capitalisation, SEK million	6,750.0	–	–
Market capitalisation, EUR million ¹⁾	761.9	–	–
Number of shares traded during the period, million shares	19.7	–	–
Share turnover, %	19.7	–	–
Earnings per share (EPS), basic and diluted, EUR	0.42	0.72	0.48
Earnings per share (EPS), basic and diluted, SEK ¹⁾	3.76	6.15	4.25
Equity attributable to owners of the parent per share, EUR	0.44	2.44	1.68
Dividend / distribution per share, EUR ³⁾	0.22	2.38	–
Dividend / distribution payout ratio, %	51.8	332.3	–
Dividend / distribution yield, %	2.9	–	–
Price / earnings per share (P/E)	17.9	–	–
Price / equity per share	17.2	–	–

Sanitec's share was listed in NASDAQ OMX Stockholm on 10 December 2013. Shares are quoted in SEK.

¹⁾ Converted to EUR or SEK with closing rate of the period

²⁾ Converted to EUR with average rate of the period

³⁾ 2013 distribution is a refund of capital and the proposal of the Board of Directors. 2012 distribution was a refund of capital from reserve for invested unrestricted equity paid in May 2013.

Exchange rates

	2013	2012	2011
Closing			
EUR/NOK	8.3630	7.3483	7.7540
EUR/PLN	4.1543	4.0740	4.4580
EUR/GBP	0.8337	0.8161	0.8353
EUR/SEK	8.8591	8.5820	8.9120
Average			
EUR/NOK	7.8067	7.4751	7.7934
EUR/PLN	4.1975	4.1847	4.1206
EUR/GBP	0.8493	0.8109	0.8679
EUR/SEK	8.6515	8.7041	9.0298

Definitions of key ratios

Key figure	Calculation
Operating profit (EBIT)	Profit before interest and taxes
Operating profit (EBIT), adjusted	Profit before interest and taxes adjusted with items affecting comparability
EBITDA	Operating profit adjusted with depreciation, amortisation and impairment losses
EBITDA, adjusted	Operating profit adjusted with depreciation, amortisation and impairment losses and items affecting comparability
Items affecting comparability	Losses and gains on divestments of businesses, restructuring costs, costs for executive management dismissal, costs related to EU cartel fine, other costs considered to be non-recurring
Net debt	(Non-current interest-bearing liabilities + current interest-bearing liabilities at nominal value) - cash and cash equivalents
Net debt / EBITDA, adjusted	Net debt / EBITDA, adjusted, rolling 12 months
Equity ratio, %	Total equity / (total assets - advance payments received) x 100
Net gearing, %	Net debt (at nominal value) / total equity x 100
Financial expenses	Interest and other financial expenses from financial liabilities, including foreign currency differences from financial liabilities
Return on capital employed (ROCE), %, rolling 12 months	(Profit before income taxes + financial expenses, rolling 12 months) / (Total equity + interest-bearing liabilities, quarterly average) x 100
Return on equity, %, rolling 12 months	(Profit for the period, rolling 12 months) / (Total equity, quarterly average) x 100
Cash conversion	(EBITDA, adjusted, less paid investments in tangible and intangible assets) / EBITDA, adjusted
Earnings per share, EUR	Profit for the period / Weighted share issue adjusted average number of shares during the period
Market capitalisation	Number of shares at the end of period x share price at the end of period
Share turnover, %	Number of shares traded during the period / weighted average number of shares x 100
Equity attributable to owners of the parent per share	Equity attributable to owners of the parent at the end of period / adjusted number of shares at the end of period
Dividend / distribution per share	Dividends or other equity distribution paid / adjusted number of issued shares at the end of period
Dividend / distribution payout ratio, %	(Dividend / distribution per share) / (earnings per share) x 100
Dividend / distribution yield, %	(Dividend / distribution per share) / (share price at the end of period) x 100
Price / earnings per share (P/E)	Share price at the end of period / earnings per share
Price / equity per share	Share price at the end of period / equity attributable to owners of the parent per share

Sanitec Corporation

Income Statement

(All amounts in EUR thousands)

	Note	1 January – 31 December 2013	1 January – 31 December 2012
NET SALES	2	17,828.7	16,295.0
Personnel expenses	3	-1,480.9	-1,763.5
Amortisation and impairment	4	-1,481.3	-1,481.0
Other operating expenses	5	-19,981.7	-17,643.3
OPERATING PROFIT/LOSS		-5,115.2	-4,592.8
Financial income and expenses			
Dividend income	6	8,582.4	3,733.5
Interest income and financial income	6	6,867.1	11,462.3
Impairment losses of non-current assets	7	70,683.2	15,770.1
Interest expenses and other financial expenses	6	-9,964.1	-512.8
		76,168.5	30,453.1
PROFIT BEFORE EXTRAORDINARY ITEMS, APPROPRIATIONS AND TAXES		71,053.4	25,860.3
PROFIT FOR THE FINANCIAL YEAR		71,053.4	25,860.3

Sanitec Corporation

Balance Sheet

(All amounts in EUR thousands)

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets	8		
Intangible rights		11,859.0	13,329.0
Advance payments and construction in progress		140.3	10.6
Investments			
Shares in group companies	8	550,019.6	479,431.0
Total non-current assets		562,018.9	492,770.5
Current assets			
Non-current receivables			
Receivables from group companies	9	87,419.7	80,619.9
Other receivables	9	11,240.5	3,077.1
Current receivables			
Receivables from group companies		19,098.4	17,157.8
Other receivables	9	193.0	170.7
Prepaid expenses and accrued income	10	299.3	146.4
Cash and bank		72.1	369.7
Total current assets		118,323.0	101,541.5
TOTAL ASSETS		680,341.8	594,312.1
EQUITY AND LIABILITIES			
Equity			
Share capital		2,813.1	2,813.1
Share premium		43,708.0	43,708.0
Fair value reserve		-1.0	3.2
Reserve for invested unrestricted equity		347,116.5	585,449.8
Retained earnings		-44,144.8	-70,005.1
Net profit for the period		71,053.4	25,860.3
Total equity	11	420,545.1	587,829.3
Liabilities			
Non-current liabilities			
Senior secured floating rate notes		250,000.0	-
Current liabilities			
Trade payables		372.1	140.2
Current liabilities to group companies	12	5,867.0	4,837.1
Other current liabilities	13	221.4	293.3
Accrued expenses and deferred income	14	3,336.2	1,212.1
Total current liabilities		9,796.7	6,482.7
Total liabilities		259,796.7	6,482.7
TOTAL EQUITY AND LIABILITIES		680,341.8	594,312.1

Sanitec Corporation

Cash Flow Statement

(All amounts in EUR thousands)

	1 January– 31 December 2013	1 January – 31 December 2012
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	-5,115.2	-4,592.8
Adjustments to operating profit		
Amortisation and impairment losses	1,481.3	1,481.0
Cash flow before change in working capital	-3,633.9	-3,111.8
Change in working capital		
Increase (-) / decrease (+) in current interest-free receivables	-1,808.9	245.9
Increase (+) / decrease (-) in current interest-free liabilities	1,482.8	-148.4
Cash flow from change in working capital	-326.1	97.5
Interest expenses paid	-6,598.2	-298.9
Dividends received	8,582.4	3,733.5
Interest income received	6,862.2	11,298.4
Other financial items received and paid	-79.6	-218.3
CASH FLOW FROM OPERATING ACTIVITIES	4,806.8	11,500.4
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in shares in subsidiaries	-70,588.6	-70.0
Investments intangible assets	-141.1	–
Proceeds from sale of intangible assets	–	22.5
CASH FLOW FROM INVESTING ACTIVITIES	-70,729.7	-47.5
CASH FLOW FROM FINANCING ACTIVITIES		
Distribution from the reserve for invested unrestricted equity	-238,333.3	–
Drawdown of non-current interest-bearing liabilities	240,435.0	–
Change in current interest-bearing liabilities, increase (+) / decrease (-)	–	-15,831.3
Change in loan receivables, increase (-) / decrease (+)	63,523.7	4,646.3
CASH FLOW FROM FINANCING ACTIVITIES	65,625.3	-11,184.9
CHANGE IN CASH AND CASH EQUIVALENTS, INCREASE (+) / DECREASE (-)	-297.6	268.1
Cash and cash equivalents at the beginning of period	369.7	101.6
Cash and cash equivalents at the end of period	72.1	369.7
Change in cash and cash equivalents	-297.6	268.1

Note 1 Accounting principles

Sanitec Corporation is a public limited liability company organised under the laws of the Republic of Finland. Sanitec's share is publicly traded in the NASDAQ OMX Stockholm since 10 December 2013. Sanitec Corporation is domiciled in Helsinki, Finland and its registered address is Kaupintie 2, 00440 Helsinki, Finland. Sanitec Corporation is the parent of Sanitec Group.

The financial statements of Sanitec Corporation are prepared in accordance with Finnish Accounting Standards (FAS). The consolidated financial statements of Sanitec Group are prepared in accordance with International Financial Reporting Standards (IFRS), and Sanitec Corporation applies in its separate financial statements the same accounting principles as Sanitec Group to the extent it is possible within the framework of the Finnish accounting practice. The accounting principles of Sanitec Group are presented in the Notes to the Consolidated Financial Statements (Note 1).

The main differences in the accounting principles between Sanitec Corporation's separate financial statements and Sanitec Group's consolidated financial statement are presented below.

FINANCIAL ASSETS AND LIABILITIES AND DERIVATIVE INSTRUMENTS

Financial assets and liabilities with the exception of derivative instruments are recorded at cost or at cost less impairment losses. Valuation methods of derivatives are presented in the accounting policies of Sanitec Group.

FINANCE LEASING

Lease payments are recognised as lease expenses. Leasing obligations, if any, are presented as contingent liabilities

EXTRAORDINARY INCOME AND EXPENSES

The parent's extraordinary income and expenses consist of group contributions received from and given to subsidiaries

Note 2 Net sales

Net sales by geographical region	2013	2012
Central Europe	5,229.9	4,028.5
East Europe	3,327.1	2,692.3
North Europe	4,330.9	4,176.8
South Europe	3,713.1	3,721.8
United Kingdom & Ireland	1,227.8	1,354.8
Rest of the World	-	320.7
Total	17,828.7	16,295.0

Net sales consist of the sale of the service activities of headquarter operations to Sanitec Group companies.

Note 3 Personnel costs

	2013	2012
Wages and salaries	-1,143.2	-1,391.1
Pension costs	-181.4	-180.4
Other personnel costs	-156.2	-192.0
Total	-1,480.9	-1,763.5

Average number of personnel	3	4
-----------------------------	---	---

Management remuneration

Management remuneration is presented in Note 26 of the Consolidated Financial Statements.

Note 4 Amortisations

	2013	2012
Intangible rights	-1,481.3	-1,481.0

Note 5 Other operating expenses

	2013	2012
Administration costs	-19,981.7	-17,643.3
Includes fees for auditor:		
Audit fee	-78.0	-75.0
Other audit related fees	-329.1	-4.0
Total	-407.1	-79.0

Note 6 Financial income and expenses

	2013	2012
Dividend income		
From group companies	8,582.4	3,733.5
Interest and other financial income		
From group companies	6,807.1	11,216.7
From external parties	55.1	81.5
Realised currency exchange differences, net	4.9	0.2
Unrealised currency exchange differences, net	-	163.8
Total	6,867.1	11,462.3
Interest and other financial expenses		
From group companies	-82.1	-298.7
To external parties	-9,504.3	-214.1
Unrealised currency exchange differences, net	-377.1	-
Total	-9,964.1	-512.8
Total financial income and expenses	5,485.4	14,683.0

Note 7 Impairment losses and reversal of impairment losses of financial items

	2013	2012
Reversal of impairment losses of receivables from group companies	70,683.2	15,770.1

Note 8 Non-current assets

	2013	2012
Intangible assets		
Immaterial rights		
Acquisition cost at the beginning of the period	14,810.0	14,810.0
Additions	–	–
Reclassifications	11.3	–
Acquisition cost at the end the period	14,821.3	14,810.0
Accumulated amortisation at the beginning of the period	-1,481.0	–
Amortisation for the financial period	-1,481.3	-1,481.0
Accumulated amortisation at the end of the period	-2,962.3	-1,481.0
Carrying amount at the end of the period	11,859.0	13,329.0

	2013	2012
Intangible assets		
Advance payments and construction in progress		
Acquisition cost at beginning of the period	10.6	33.1
Additions	141.1	10.6
Disposals	–	-33.1
Reclassifications	-11.3	–
Carrying amount at the end of the period	140.3	10.6
Investments		
Shares in group companies		
Carrying amount at the beginning of the period	479,431.0	479,361.0
Impairment losses	–	–
Additions	70,588.6	70.0
Carrying amount at the end of the period	550,019.6	479,431.0

Subsidiaries	Number of shares	Currency of the subsidiary	Nominal value of the share capital (in thousand)	Ownership, %	Carrying amount	
					2013	2012
Sanitec Holding Italy S.p.a.	12,000	EUR	120	100	5,595.0	5,595.0
Sanitec Holdings Norway A/S	2,000	NOK	200	100	2,936.7	2,936.7
Sanitec Kolo Sp. z o.o.	200,000	PLN	10,000	100	31,324.1	31,324.1
Royal Sanitec AB	101,001	EUR	14,140	15	2,175.4	2,175.4
Lincoln Land Fünfte B.V.	1,200	EUR	24	100	435,960.0	435,960.0
Sanitec Trading Co Ltd	n/a	EUR	300	100	326.7	326.7
Sanitec Trading LLC	n/a	RUB	9,910	99	1,169.5	247.8
Slavuta Holdings LLC	n/a	UAH	56,629	1	265.3	265.3
Allia Holding GmbH	3	EUR	65	100	600.0	600.0
Sanitec UK Ltd	86,087,108	GBP	86,087	100	69,666.8	–
Total shares in subsidiaries					550,019.6	479,431.0

Shares in subsidiaries are also presented in Note 27 of the Consolidated Financial Statements.

Note 9 Receivables

	2013	2012
Receivables from group companies		
Non-current receivables		
Loan receivables from group companies	87,419.7	80,619.9
Total	87,419.7	80,619.9
Current receivables		
Trade receivables	18,046.0	16,685.8
Group's in-house bank account receivable	305.2	0.0
Other receivables	401.0	20.0
Prepaid expenses and accrued income	346.1	452.0
Total	19,098.4	17,157.8
Total receivables from group companies	106,518.1	97,777.7
Other non-current receivables		
Capitalised fee of senior secured floating rate notes	8,486.0	–
Other non-current receivables	2,754.4	3,077.1
Total	11,240.5	3,077.1
Other current receivables		
VAT receivable	192.8	–
Receivables from employees	–	145.2
Other current receivables	0.3	25.5
Total	193.0	170.7

Note 10 Major items included in accrued receivables

	2013	2012
Other financial items	6.7	0.0
Other accruals	292.6	146.4
Total	299.3	146.4

Note 11 Shareholders' equity

	2013	2012
Share capital at the beginning of the period	2,813.1	2,813.1
Share capital at the end of the period	2,813.1	2,813.1
Share premium at the beginning of the period	43,708.0	43,708.0
Share premium at the end of the period	43,708.0	43,708.0
Fair value reserve at the beginning of the period	3.2	0.0
Change during the period	-4.2	3.2
Fair value reserve at the end of the period	-1.0	3.2
Total restricted equity	46,520.1	46,524.3
Reserve for invested unrestricted equity at the beginning of period	585,449.8	585,449.8
Distribution from reserve for invested unrestricted equity	-238,333.3	–
Reserve for invested unrestricted equity at the end the period	347,116.5	585,449.8
Retained earnings at the beginning of the period	-44,144.8	-70,005.1
Net profit / loss for the period	71,053.4	25,860.3
Retained earnings at the end of the period	26,908.6	-44,144.8
Total equity	420,545.1	587,829.3

Note 12 Current liabilities to group companies

	2013	2012
Current liabilities to group companies		
Trade payables	4,692.2	2,114.9
Accrued expenses and deferred income	1,174.8	2,722.3
Total	5,867.0	4,837.1

Note 13 Other current liabilities

	2013	2012
Employee withholding taxes	221.4	222.0
VAT payable	0.0	71.3
Total	221.4	293.3

Note 14 Major items included in accrued expenses and deferred income

	2013	2012
Personnel expenses	274.4	447.2
Interest expenses	1,587.0	0.0
Other financial items	239.8	0.0
Other operating expenses	1,235.0	764.9
Total	3,336.2	1,212.1

Note 15 Contingent liabilities

	2013	2012
Pledged assets		
Carrying amount of pledged assets		
On behalf of group companies	2,690.4	3,061.9
Total	2,690.4	3,061.9
Guarantees and other commitments		
Guarantees		
On behalf of group companies	6,151.9	6,350.5
Total	6,151.9	6,350.5
Total contingent liabilities¹⁾	8,842.3	9,412.4

¹⁾In addition to the above, Sanitec Corporation has given liens on chattel as well as pledged subsidiary shares and other assets, and given a guarantee for the security of its loans. The total nominal value of these secured loans was EUR 300.0 million, out of which EUR 250.0 million was outstanding as of 31 December 2013.

As of 31 December 2012 Sanitec Corporation had pledged subsidiary shares and other assets, and given a guarantee as security for related party loans. The total nominal value of these secured loans was EUR 292.0 million, out of which EUR 242.0 million was outstanding as of 31 December 2012.

Note 16 Derivative instruments

	2013	2012
Foreign currency forward contracts, with group companies		
December 31		
Positive		
Fair value	0.5	5.4
Nominal value	55.8	552.2
Negative		
Fair value	-1.1	-0.9
Nominal value	102.6	93.9

Board of Directors' proposal on the distribution of funds

The distributable funds of Sanitec Corporation, the parent of Sanitec Group, total to EUR 374,024,004.24, of which the profit for the review period is EUR 71,053,369.95. The funds available for dividend distribution are EUR 26,907,519.53, and the funds available for refund of capital are EUR 347,116,484.71.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed from the result for the year nor from retained earnings, and that EUR 22,000,000, i.e. EUR 0.22 per share, is paid as refund of capital from the reserve for invested unrestricted equity. EUR 352,024,004.24 will be left in distributable funds.

Helsinki, 18 February 2014

Fredrik Cappelen
Chairman of the Board

Adrian Barden

Caspar Callerström

Pekka Lettijeff

Ulf Mattsson

Johan Bygge

Margareta Lehmann

Peter Nilsson
President and CEO

Auditor's report

This document is an English translation of the Swedish auditor's report. Only the Swedish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF SANITEC CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Sanitec Corporation for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial period audited by us.

Helsinki, 18 February 2014

KPMG Oy Ab

Virpi Halonen
Authorised Public Accountant